CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST – DECEMBER 31ST 2019**

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

	Note	Year ended Dec 31 2019	Year ended Dec 31 2018
Revenue from sale of finished goods and services		442,956	511,580
Revenue from sale of merchandise and materials		8,580	11,926
Revenue	1	**451,536**	**523,506**
Cost of finished goods sold and services rendered		-332,712	-394,414
Cost of merchandise and materials sold		-7,816	-12,107
Cost of sales	3	**-340,528**	**-406,520**
Gross profit/(loss)		**111,008**	**116,986**
Other income	4	4,324	6,622
Distribution costs	3	-31,990	-30,727
Administrative expenses	3	-52,858	-51,998
Impairment of receivables and contract assets	4	-3,056	-7,437
Other expenses	4	-4,544	-3,941
Operating profit/(loss)		**22,885**	**29,504**
Finance income	5	722	1,930
Finance costs	5	-3,350	-5,927
Share of net profit/(loss) of equity-accounted associates		-	144
Profit/(loss) before tax		**20,257**	**25,651**
Income tax	6	-4,531	-4,519
Net profit/(loss) from continuing operations		15,726	21,132
Profit/(loss) from discontinued operations	30	-	-1,906
Net profit/(loss)		**15,726**	**19,226**
Net profit/(loss) attributable to			
Owners of the parent		**15,295**	**19,054**
Non-controlling interests		432	172
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on a defined benefit pension plan		944	192
Items that may be reclassified to profit or loss:			
Valuation of cash flow hedging derivatives		525	-3,323
Exchange differences on translating foreign operations		456	3,575
Actuarial gains/(losses)		-176	-
Income tax on other comprehensive income		-66	631
Total other comprehensive income, net		**1,682**	**1,075**
Total comprehensive income		**17,409**	**20,301**
Total comprehensive income attributable to			

Non-controlling interests		529	4
EARNINGS PER SHARE:	7		
- basic earnings/(loss) per share attributable to owners of the parent		1.55	1.96
- diluted earnings/(loss) per share attributable to owners of the parent		1.54	1.93
- basic earnings/(loss) per share from continuing operations attributable to owners of the parent		1.55	2.05
- diluted earnings/(loss) per share from continuing operations attributable to owners of the parent		1.54	2.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2019	Dec 31 2018
ASSETS			
Non-current assets			
Property, plant and equipment	9	65,823	80,338
Right-of-use assets	9	13,508	-
Investment property		334	358
Goodwill	11	39,174	38,816
Intangible assets	10	55,984	50,201
Long-term receivables	15	2,104	5,313
Other financial assets	16	155	30
Deferred tax assets	6	95	87
		177,177	**175,143**
Current assets			
Inventories	13	64,401	67,259
Trade receivables	15	56,687	54,994
Income tax assets	15	386	323
Other short-term receivables	15	12,776	14,927
Cash and cash equivalents	18	36,595	53,602
Other financial assets	16	695	1,354
Other non-financial assets	17	4,880	3,316
Contract assets	14	101,984	102,524
		278,404	**298,298**
TOTAL ASSETS		**455,581**	**473,441**

CONSOLIDOTED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2019	Dec 31 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	19	3,616	3,616
Statutory reserve funds	19	205,773	193,449
Other components of equity	19	13,811	12,067
Hedging reserve		-161	-586
Translation reserve		21,541	21,182
Retained earnings / accumulated losses		-55,461	-55,357
Equity attributable to owners of the parent		**189,118**	**174,371**
Non-controlling interests		**475**	**-54**
		189,593	**174,317**
Non-current liabilities			
Borrowings	20	155	1,719
Lease liabilities	21	7,638	4,955
Derivative financial instruments	20	287	178
Deferred tax liabilities	6	14,689	11,409
Provision for retirement and similar benefits	23	2,503	2,808
Grants for development projects		15,698	14,932
Contract liabilities	14	2,186	1,537
		43,156	**37,538**
Current liabilities			
Borrowings	20	32,858	67,794
Lease liabilities	20	3,577	1,504
Derivative financial instruments	20	719	1,019
Other financial liabilities	20	419	425
Trade payables	22	47,647	45,989
Other current liabilities	22	12,047	11,065
Provision for retirement and similar benefits	23	9,140	9,773
Other provisions	24	10,940	12,947
Grants for development projects		760	1,127
Contract liabilities	14	104,724	109,944
		222,831	**261,586**
TOTAL EQUITY AND LIABILITIES		**455,581**	**473,441**

CONSOLIDATED STATEMENT OF CASH FLOWS

(PLN '000)

	Note	Year ended Dec 31 2019	Year ended Dec 31 2018
OPERATING ACTIVITIES			
Profit/(loss) before tax		**20,257**	**25,651**
Total adjustments:	25	**17,786**	**9,127**
Share of net profit of associates		-	-107
Depreciation and amortisation		11,998	10,744
Foreign exchange gains/(losses)		100	679
Interest and profit distributions (dividends)		2,116	2,413
Gain/(loss) on investing activities		-295	-1,416
Change in provisions		-2,305	-6,569
Change in inventories		5,764	-14,831
Change in receivables		6,069	17,143
Change in current liabilities (other than financial liabilities)		469	-8,874
Change in grants for development projects		-669	-994
Change in accruals, deferrals and contracts		-6,990	5,885
Change in currency forward contracts		681	3,817
Management stock options		1,688	1,979
Other adjustments		-842	-743
Income tax (paid)/refunded		**-1,411**	**-667**
Net cash from operating activities		**36,632**	**34,112**
INVESTING ACTIVITIES			
Cash provided by investing activities		**2,008**	**2,553**
Proceeds from disposal of intangible assets and property, plant and equipment		1,911	1419
Other proceeds from financial assets		97	1,134
Cash used in investing activities		**12,061**	**24,352**
Investments in intangible assets, property, plant and equipment, and investment property		12,061	24,352
Acquisition of financial assets		-	-
Net cash from investing activities		**-10,053**	**-21,799**
FINANCING ACTIVITIES			
Cash provided by investing activities		**8,356**	**9,970**
Borrowings		7,033	6,816
Sale of treasury shares under the incentive scheme		198	-

Grants	1,125	3,154
Cash used in investing activities	**51,848**	**21,308**
Dividends and other distributions to owners	4,019	-
Repayment of borrowings	42,419	16,711
Payment of lease liabilities	3,363	2,258
Payments of interest	2,048	2,335
Other cash used in financing activities	-	3
Net cash from financing activities	**-43,492**	**-11,337**
Total net cash flows	**-16,914**	**975**
Net change in cash, including:	**-17,007**	**1,525**
- effect of exchange rate fluctuations on cash held	-93	550
Cash at beginning of period	**53,602**	**52,369**
Cash at end of period	**36,595**	**53,602**

SECO/WARWICK
INVENTION MEETS RELIABILITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Hedging reserve	Other components of equity	Translation reserve	Retained earnings / accumulated losses	**Equity attributable to owners of the parent**	Equity attributable to non-controlling interests	Total equity
Equity as at Jan 1 2019	**3,616**	**193,449**	**-586**	**12,067**	**21,182**	**-55,358**	**174,372**	**-54**	**174,317**
Profit/(loss) for period	-	-	-	-	-	15,223	**15,223**	503	15,726
Other comprehensive income	-	-	425	-142	359	944	**1,585**	97	1,682
Total comprehensive income for the year	**-**	**-**	**425**	**-142**	**359**	**16,167**	**16,808**	**600**	**17,409**
Allocation of profit to dividend payment	-	-	-	-	-	-4,019	-4,019	-	-4,019
Management stock options	-	-	-	1,688	-	-	1,688	-	1,688
Sale of treasury shares	-	-	-	198	-	-	198	-	198
Coverage of loss brought forward	-	12,323	-	-	-	-12,323	-	-	-
Equity as at Dec 31 2019	**3,616**	**205,773**	**-161**	**13,811**	**21,541**	**-55,533**	**189,047**	**546**	**189,593**
Equity as at Jan 1 2018	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-58,144**	**151,248**	**-58**	**151,190**
Effect of IFRS 15	**-**	**-**	**-**	**-**	**-**	**1,712**	**1,712**	**-**	**1,712**
Effect of IFRS 9	**-**	**-**	**-**	**-**	**-**	**-865**	**-865**	**-**	**-865**
Equity as at Jan 1 2018 following the adoption of IFRS 15 and IFRS 9	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-57,297**	**152,095**	**-58**	**152,037**
Profit/(loss) for period	-	-	-	-	-	19,054	**19,054**	172	19,226
Other comprehensive income	-	-	-2,692	-	3,743	192	**1,244**	-169	1,075
Total comprehensive income for the year	**-**	**-**	**-2,692**	**-**	**3,743**	**19,246**	**20,297**	**4**	**20,301**
Management stock options	-	-	-	1,979	-	-	1,979	-	1,979
Coverage of loss brought forward	-	17,307	-	-	-	-17,307	-	-	-
Equity as at Dec 31 2018	**3,616**	**193,449**	**-586**	**12,067**	**21,182**	**-55,358**	**174,372**	**-54**	**174,317**

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2019

I. General information

1. Parent

The Parent of the SECO/WARWICK Group is SECO/WARWICK Spółka Akcyjna of Świebodzin. The Company was incorporated on January 2nd 2007 and registered by the District Court for Zielona Góra, 8th Commercial Division of the National Court Register in the Register of Businesses of the National Court Register under No. KRS 0000271014.

Name:	**SECO/WARWICK S.A.**
Legal form:	Joint-stock company (spółka akcyjna)
Registered offices:	ul. Sobieskiego 8, 66-200 Świebodzin, Poland

Principal business activity according to the Polish Classification of Business Activities (PKD):

64.20,Z	Activities of financial holding companies
25	Manufacture of fabricated metal products, except machinery and equipment
28	Manufacture of machinery and equipment n.e.c.
33	Repair, maintenance, and assembly of machinery and equipment
46	Wholesale trade, except motor vehicles and motorcycles
49	Land transport and transport via pipelines
52	Warehousing and support activities for transportation
62	Computer programming, consultancy and related activities
71	Architectural and engineering activities; technical testing and analysis
72	Scientific research and development.

National Court Register No.	KRS 0000271014
Industry Identification Number (REGON)	970011679

2. Duration of the Group

SECO/WARWICK S.A. and other companies of the SECO/WARWICK Group were incorporated to operate for an unlimited period of time, except SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd., which was established to operate for 27 years, i.e. until May 5th 2037.
The financial statements of all subordinates have been prepared for the same period as the Parent's financial statements, using uniform accounting policies.

The financial year of the Parent and the Group companies is the calendar year.

The SECO/WARWICK Group is one of the world's leading producers of heat processing equipment, and a technological leader in its field. Thanks to its innovative industrial furnace facilities, research and development centre, and cooperation with technical universities in Europe, the Group provides pioneering and globally unique solutions.

The SECO/WARWICK Group comprises nine companies based on three continents. These companies operate and implement technological processes for manufacturers involved with steel, titanium and aluminium production, aluminium recycling, forging, automotive, aerospace, commercial heat treating, HVAC/R, electronics, wind energy, medical equipment, nuclear and other industries.

3. Presented periods

These consolidated financial statements contain data for the period January 1st–December 31st 2019. The comparative data is presented as at December 31st 2018 (statement of financial position) and for the period January 1st–December 31st 2018 (statement of comprehensive income, statement of cash flows, and statement of changes in equity).

4. Composition of SECO/WARWICK S.A.'s governing bodies

As at the date of issue of these financial statements and as at December 31st 2019, the Management Board of SECO/WARWICK S.A. was composed of:

- Sławomir Woźniak – President of the Management Board
- Jarosław Talerzak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board
- Earl Good – Member of the Management Board
- Piotr Walasek – Member of the Management Board

As at December 31st 2018, the composition of the Management Board of SECO/WARWICK S.A. was as follows:

- Paweł Wyrzykowski – President of the Management Board
- Sławomir Woźniak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board

As at the date of issue of these financial statements and as at December 31st 2019 and December 31st 2018, the Supervisory Board of SECO/WARWICK S.A. was composed of:

- Andrzej Zawistowski – Chairman of the Supervisory Board
- Henryk Pilarski – Deputy Chairman of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- Marcin Murawski – Member of the Supervisory Board
- Jacek Tucharz – Member of the Supervisory Board

Changes in the composition of the Management Board:

On December 13th 2018, Mr Earl Good was appointed Member of the Management Board, with effect from January 2nd 2019.

During the financial year:

On May 24th 2019, the Group was notified that Paweł Wyrzykowski, President of the Management Board, decided not to stand for re-election to the Management Board.

On June 5th 2019, the following members of the Management Board were appointed for a new joint term of office:

- Sławomir Woźniak – President of the Management Board
- Jarosław Talerzak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board
- Earl Good – Member of the Management Board
- Piotr Walasek – Member of the Management Board

Changes in the composition of the Supervisory Board:

During the financial year:

In 2019, the composition of the Supervisory Board did not change.

Changes that occurred subsequent to the reporting date and by the date of issue of these financial statements:

After the reporting date and by the date of issue of these financial statements, there were no changes in the composition of the Management and Supervisory Boards.

5. Audit firm

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa
Rondo ONZ 1
00-124 Warsaw, Poland

6. Major holdings of shares

Shareholders holding over 5% of total voting rights at the Company's General Meeting as at December 31st 2019 are listed in the table below.

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
SW Holding	3,387,139	32.89%	3,387,139	32.89%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	10.91%
Aviva Otwarty Fundusz Emerytalny Aviva Santander	1,046,573	10.16%	1,046,573	10.16%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.19%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	5.83%
Metlife OFE	577,470	5.61%	577,470	5.61%

The information presented in the table is based on notifications received by the Group from the shareholders under Art. 69 of the Public Offering Act.

As at the date of issue of these financial statements, there were no changes in the list of shareholders holding more than 5% of total voting rights at the Company's General Meeting.

SECO/WARWICK S.A. holds 364,277 treasury shares, representing 3.54% of the share capital. The Company does not exercise voting rights in respect of its treasury shares.

7. Subsidiaries

As at December 31st 2019, SECO/WARWICK S.A. was the direct or indirect parent of the following companies:

- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.,
- SECO/WARWICK Germany GmbH,
- SECO/WARWICK Services Sp. z o.o.,
- SECO/WARWICK of Delaware, Inc.,
- Retech Tianjin Holdings LLC,
- SECO WARWICK USA HOLDING LLC,
- SECO VACUUM TECHNOLOGIES LLC,

- SECO/WARWICK Systems and Services India PVT. Ltd.

Changes in the composition of the Group:

On December 23rd 2019, the liquidation of SECO/WARWICK France of France was completed.

Composition of the Group as at December 31st 2019:

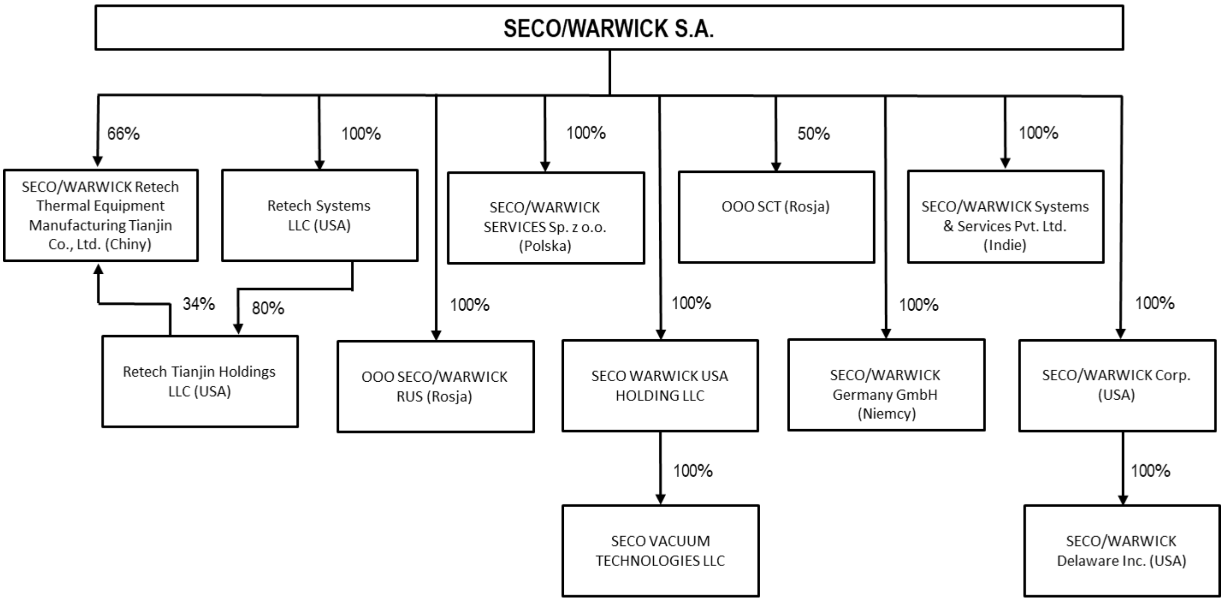
Company	Registered office	Principal business activity	Group's ownership interest
Parent			
SECO/WARWICK S.A.	Świebodzin (Poland)	Holding company of the SECO/WARWICK Group; holding equity interests and providing strategic management services; manufacture of equipment for metal heat treatment	N.A.
Direct and indirect subsidiaries			
SECO/WARWICK Corp.	Meadville (USA)	Manufacture of equipment for metal heat treatment	100%
SECO/WARWICK of Delaware, Inc	Wilmington (USA)	Holding company; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	100%
SECO/WARWICK Rus	Moscow (Russia)	Distribution of the Group's products	100%
Retech Systems LLC	Ukiah (USA)	Trade and services; manufacture of metallurgy equipment used for melting and vacuum casting of metals and specialty alloys	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	Tianjin (China)	Manufacture of equipment for metal heat treatment	93%
Retech Tianjin Holdings LLC	(USA)	Holding company	80%
OOO SCT	Solnechnogorsk (Russia)	Provision of metal heat treatment services in Russia	50%
SECO/WARWICK Germany GmbH	Bedburg-Hau (Germany)	Provision of metal heat treatment services in Germany	100%
SECO/WARWICK Services Sp. z o.o.	Świebodzin (Poland)	Repair and maintenance services	100%
SECO WARWICK USA HOLDING LLC	Wilmington (USA)	Holding company	100%
SECO VACUUM TECHNOLOGIES LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces	100%

SECO/WARWICK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	100%

8. Jointly controlled entities

- OOO SCT (Solnechnogorsk) Russia, in which SECO/WARWICK S.A. holds a 50% interest, conferring the right to 50% of total voting rights in the company.

9. Organisation of the Group:



II. Authorisation of the financial statements

The Parent's Management Board authorised these consolidated financial statements for issue on April 22nd 2020.

III. Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union ((“EU IFRS”). As at the date of authorisation of these financial statements for issue, given the ongoing process of implementing the IFRS standards in the EU and the Group's business, within the scope of accounting policies applied by the Group there were no differences between the IFRS which were in effect and the IFRS endorsed by the EU.

IV. Going concern basis

These financial statements have been prepared on the assumption that the Group will continue as a going concern for the 12 months after the end of the reporting period, i.e. December 31st 2019.

In connection with the spread of SARS-CoV-2 in Poland, the Polish government announced a state of epidemic threat as of March 14th 2020, and then a state of epidemic as of March 20th 2020, and introduced far-reaching restrictions aimed at limiting the pace and extent of the epidemic. The restrictions have strongly affected the Polish businesses' ability to operate and have a material bearing on the current economic situation in Poland. For information on the impact of the COVID-19 pandemic on the Company's position, see Note 32 'Events subsequent to the reporting date'.

Taking into account the COVID-19 issues, the Company's current order pipeline, cash held and current debt level, projected cash flows, available credit facilities, reduced working hours of employees at some of the Group companies and their pay cut to 80%, the funds received as part of the 'anti-crisis shield' package, and the direct cost saving initiatives undertaken by the Group, the Management Board has performed relevant analyses and concluded that despite those risks and limitations it identified no threat to the Group's ability to continue as a going concern for at least 12 months from the reporting date.

V. Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries.

a) Subsidiaries

An entity is the Group's subsidiary if the Group has:

- power over the entity,

- exposure, or rights, to its variable returns,

- the ability to use its power over the entity to affect the amount of its own returns.

The acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

a) the aggregate of:

(i) the payment transferred,

(ii) the amount of any non-controlling interest in the acquiree, and

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

b) over net identifiable assets acquired, liabilities assumed and contingent liabilities as at the acquisition date.

Following initial recognition, goodwill is recognised at cost less any cumulative impairment losses. Goodwill is not amortised.

Subsidiaries sold during a financial year are consolidated from the beginning of the financial year to the date of disposal. Financial results of entities acquired during a year are recognised in the financial statements from the date of acquisition.

Income and expenses, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, but only to the extent there is no evidence of impairment of the asset transferred in the transaction. The accounting policies of the subsidiaries have been changed whenever it was deemed necessary to align them with the accounting policies applied by the Group.

b) Equity and transactions related to non-controlling interests

Non-controlling interests are initially recognised at the non-controlling interests' share of the acquired entity's net identifiable assets. In subsequent periods, losses attributable to non-controlling interests are attributed to owners of the parent and the non-controlling interests even if this results in a negative value of the non-controlling interests.

Non-controlling interests include interests in consolidated companies which are not owned by the Group. Equity attributable to non-controlling interests is determined as the amount of the related entity's net assets which are attributable as at the acquisition date to shareholders from outside the Group. This amount is reduced/increased by any increase/decrease in equity attributable to non-controlling interests.

c) Associates and jointly controlled entities

Associates and jointly controlled entities are entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of total voting rights in an entity's governing bodies. Investments in associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost.

The Group's share in an associate's or jointly controlled entity's net profit/(loss) is recognised in the statement of comprehensive income, and the Group's share of the movements in the entity's other components of equity after the acquisition date is recognised under other components of equity. The carrying amount of the investment is increased/reduced by the amount of cumulative changes from the acquisition date.

d) Companies included in the consolidated financial statements

The following Group entities are included in these consolidated financial statements for the periods ended December 31st 2019 and December 31st 2018:

Item	% of total voting rights	
	Dec 31 2019	**Dec 31 2018**
SECO/WARWICK S.A.	Parent	
SECO/WARWICK Corp.	100%	100%
SECO/WARWICK Rus	100%	100%
Retech Systems LLC	100%	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	93%	93%
SECO/WARWICK Germany GmbH	100%	100%
SECO/WARWICK Systems and Services India PVT Ltd	100%	100%
SECO/WARWICK France	-	100%
SECO/WARWICK Services Sp. z o.o.	100%	100%
SECO/WARWICK of Delaware, Inc	100%	100%
Retech Tianjin Holdings LLC	80%	80%
SECO WARWICK USA HOLDING LLC	100%	100%
SECO VACUUM TECHNOLOGIES LLC	100%	100%
Jointly controlled entity:		
OOO SCT	50%	50%

VI. Applied accounting policies, including methods of measurement of assets, equity and liabilities, revenue and expenses

These consolidated financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value.

Historical cost is generally determined on the basis of fair value of the consideration paid for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. When measuring an asset or liability at fair value, the Group takes into account the characteristics of the asset or liability if market participants take these characteristics into account when measuring the assets or liabilities at the measurement date.

These financial statements are presented in the złoty ("PLN"), and unless stated otherwise, all amounts are given in thousands of PLN. Any differences between the total amounts and the sum of their components are due to rounding.

Summary of significant accounting policies

Presentation of the statement of financial position

In accordance with IAS 1 *Presentation of Financial Statements*, assets and liabilities are presented in the statement of financial position as current and non-current.

Presentation of the statement of comprehensive income

In accordance with IAS 1 *Presentation of Financial Statements*, in the statement of comprehensive income expenses are presented by function.

Earnings per share

Earnings per share for each period are determined by dividing net profit for the period by the weighted average number of shares outstanding in the period, taking into account treasury shares. Diluted earnings per share reflect the effect of the Company's incentive scheme whereby treasury shares held by SECO/WARWICK S.A. are to be delivered to the scheme beneficiaries.

Intangible assets

Under intangible assets the Group recognises assets which are identifiable (separable or saleable), are controlled by the Group and are highly probable to bring future economic benefits to the Group.
Intangible assets comprise mainly software and development costs and are initially measured at cost including purchase price, import duties, non-refundable purchase taxes, after deducting trade discounts and rebates, plus any directly attributable cost of preparing the asset for its intended use. To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into:

- a research phase,
- a development phase.

All expenditure incurred in the research phase is charged directly to expenses of the period.

Intangible assets created as a result of development work are capitalised only if the following criteria are met:

- It is certain that the intangible asset will be completed,

- It is possible to demonstrate that the asset can be used or sold,

- The expenditure incurred can be measured reliably.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite 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 definite 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 definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

The table below summarises the Group's accounting policies with respect to intangible assets:

Item	Capitalised development costs	Patents and licences	Software
Useful life	5–20 years	5–20 years	5–15 years
Amortisation method	Amortised using straight-line method after completion of work	Amortised over contract term using straight-line method	Amortised using straight-line method
Origin	Generated	Acquired	Acquired
Impairment testing/measuring recoverable amount	Annual assessment of whether there are indications of impairment and annual impairment testing of expenditures on ongoing development work	Annual assessment of whether there are indications of impairment	Annual assessment of whether there are indications of impairment

Property, plant and equipment

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation charges are calculated using the straight-line method by estimating the useful lives of given assets, which are as follows:

Buildings and structures	from 10 to 40 years
Machinery and equipment	from 5 to 30 years
Vehicles	from 5 to 10 years
Other property, plant and equipment	from 5 to 15 years

Any gains and losses arising on sale or retirement of an asset are determined as the difference between net proceeds from the disposal, if any, and the carrying amount of the asset, and are recognised in the statement of comprehensive income.

Property, plant and equipment under construction

Property, plant and equipment under construction include expenditures on items of property, plant and equipment that are not yet ready for use and are highly probable to be completed. Property, plant and equipment under construction are presented in the statement of financial position at cost less impairment losses, if any. Property, plant and equipment under construction are not depreciated.

Investment property

The Group classifies as investment property all property which is considered a source of income (earns rentals) and/or is held for capital appreciation.

Investment property is carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged over the estimated useful life of investment property using the straight-line method. Land is not depreciated.

Financial assets and liabilities

Classification of financial assets

Financial assets are classified into the following categories:

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

The Group classifies a financial asset based on its business model of financial asset management and the asset's 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 related to that 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 at amortised cost,
- Debt instruments at fair value through other comprehensive income,
- Equity instruments at fair value through other comprehensive income,
- Financial assets at fair value through profit or loss.

Debt instruments – financial assets at amortised cost

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

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows, and
- 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.

In the category of financial assets at amortised cost, the Group classifies:

- 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.

Recognition and measurement of financial liabilities

<u>Liabilities under bank borrowings and other financial liabilities</u>

Liabilities under bank borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Transaction costs directly attributable to the acquisition or issue of a financial liability are added to the carrying amount of the liability because the liability is initially recognised at fair value of consideration paid or received to settle the liability. Subsequently, these costs are amortised over the life of the liability using the effective interest method.

Trade payables

Short-term trade payables are recognised at amounts due.

Hedge accounting

In accordance with IFRS 9 *Financial Instruments*, there are three types of hedging relationships:

a) Fair value hedge: a hedge of the exposure to changes in the fair value of a recognised asset or liability, or a component of an asset, liability or a firm commitment, that is attributable to a particular risk and could affect the statement of comprehensive income,

b) Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability and (ii) could affect the statement of comprehensive income;

c) Hedge of a net investment in a foreign operation as defined in IAS 21.

The valuation of derivative instruments representing cash flow hedges as at the reporting date is recognised in equity. If a transaction hedged with a currency forward affects the statement of comprehensive income, any valuation previously recognised in equity is reclassified to the statement of comprehensive income.

As derivative instrument transactions are executed to hedge cash flows under sale contracts for which revenue is recognised with the percentage of completion method, measurement of the derivative instruments affects profit or loss pro rata to the percentage of completion of a given contract, and is disclosed in finance income or finance costs in the amount equal to the effective portion of the hedge.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

e) The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Inventories

Inventories are measured at the lower of cost and net realisable value. Any downward adjustment of the value of inventories to the net selling price is made by writing it down to net realisable value.

Furthermore, slow-moving inventory, obsolete inventory or inventory whose usability has been impaired in any way are revalued as at the end of each financial year. If the circumstances which caused the decrease in the value of inventories cease to exist, the write-down is reversed.

The effects of measurement at net selling price are charged to other expenses. An inventory decrease is accounted for with the FIFO method, i.e. at cost, starting from the item of materials that was accepted in the warehouse the earliest.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that does not affect profit/loss before tax nor taxable income/tax loss. In addition, no deferred tax is recognised if the temporary differences arise on initial recognition of goodwill.

A deferred tax liability is recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets resulting from negative temporary differences related to such investments and shares are recognised only to the extent that it is probable that there will be sufficient taxable profits, on the basis of which it will be possible to use tax benefits resulting from temporary differences and that it is expected that the temporary differences will be reversed in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be realised. An unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be recovered.

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.

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.

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 differences in opinions and diverse interpretations of tax regulations, 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, 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, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the 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 that operate 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 judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause 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. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

The Group discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects that the costs covered by the provision will be reimbursed, e.g. under an insurance agreement, then such reimbursement is recognised as a separate asset, but only when it is practically certain that such reimbursement will actually take place.

Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements. If the effect of the time value of money is material, the amount of provision is determined by discounting the projected future cash flows to their present value using a gross discount rate reflecting current market estimates of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Estimates of the financial result and impact are based on the judgement of the management of the companies, supported by their past experience with similar transactions and, in some cases, by reports of independent experts.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group recognises the following provisions:

- Provision for warranty repairs – on the basis of the estimated future cost of warranty repairs, by reference to the stage of contract completion;
- Provisions for probable costs related to the current financial year which will not be invoiced until the following year (trade payables). Depending on the type of accrued expenses, they are charged to cost of sales, distribution costs or administrative expenses;

Assumptions underlying the estimates and the provision amounts are reviewed as at each reporting date.

Employee benefits

Employee benefit obligations include obligations in respect of current salaries and wages, estimated employee bonuses, and accrued holiday entitlements – in an amount equivalent to the number of days of accrued unused holidays multiplied by average gross daily pay.

The Group also incurs costs related to the operation of Employee Capital Plans (PPKs) by making contributions to the investment fund. 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. Liabilities under PPKs are presented under other liabilities.

Employee benefit obligations also include defined benefit plans. In the case of such plans, the Group pays fixed contributions to a separate entity (a fund), as a consequence of which the actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested will be insufficient to meet the expected benefits) are borne by the Group.

Share-based payments

Group’s employees (including management board members) receive awards in the form of shares.

Share-based payment transactions are measured by reference to the fair value of the equity instruments as at the grant date, and the fair value is measured by an independent expert using a binomial model. When measuring equity-settled transactions, market vesting conditions (related to the Group’s share price) and non-vesting conditions are taken into account.

The cost of equity-settled share-based payment transactions is recognised with a corresponding increase in equity in the period in which the performance conditions and/or service conditions are satisfied and which ends on the date when the rights are fully vested in eligible employees (the “‘vesting date”). The accumulated cost recognised under equity-settled transactions as at each reporting date until the vesting date reflects the passage of the vesting period and the number of awards which, in the opinion of the Group’s Management Board as at that date, based on best estimate of the number of equity instruments, will finally vest.

No costs are recognised in respect of awards which do not finally vest, except for the awards where the rights are vested depending on market vesting conditions or non-vesting conditions. Such rights are treated as acquired regardless of whether such market vesting conditions or non-vesting conditions are satisfied, provided that all other performance conditions or service conditions are met.

If the terms on which equity-settled awards were granted are modified, the Company recognises, at a minimum, the cost of the original award as if they were not modified. Furthermore, costs of any increase in the value of a share-based payment transaction as a result of such modifications, measured as at the modification date, are recognised.

When an equity-settled award is cancelled, it receives the same treatment as if it vested on the date of cancellation and any unrecognised award-related costs are recognised immediately. It also applies to awards where the non-vesting conditions under the control of the Group or the employee are not met. However, if the cancelled award is replaced with a new one, both the new award, which is identified as a replacement award on the grant date, as well as the cancelled award are accounted for as if they were a modification of the original award (as described in the above paragraph).

Contractual assets, liabilities and costs

Contract assets include any excess of estimated revenue related to the stage of completion of a long-term contract, in accordance with IFRS 15, over advance payments received and the aggregate amount invoiced under the contract.

Contract liabilities reflect the Group’s obligations to transfer services or equipment to a customer for which the Group has already received consideration in the form of an advance payment or for which consideration is due based an invoice issued.

Contract costs include incremental costs of obtaining a contract with a customer, that is costs that the Company would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract include sales commissions. Contract costs are amortised on a systematic basis, taking into account the stage of completion of the contract to which they relate, if they relate to a contract from which revenue is recognised over time, or on a one-off basis at the time of revenue recognition in the case of a contract from which revenue is recognised at a point in time.

Grants for development projects

Grants for development projects include in particular government grants to finance assets.

Grants for development projects are disclosed in the statement of financial position at the amount of the funds received, and then recognised on a systematic basis as revenue over the periods necessary to match them with the related costs they are intended to compensate. Grants are not credited directly to equity.

Revenue

If one of the following criteria specified in IFRS 15.35 is met:
a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or
b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
Revenue is recognised by measuring progress towards complete satisfaction of a performance obligation, and in other cases revenue is recognised when control of the product is transferred to the customer. The progress towards satisfaction of a performance obligation is measured by reference to incurred costs in comparison with total contract costs (input method).

The Company recognises only documented revenue, I.e. revenue which is guaranteed under the original contract, adjusted to account for any subsequent contract modifications (annexes). Changes in contract revenue are recognised when it is certain (a contract or annex has been signed) or at least when it is probable (a contract or annex has been initialled) that the customer will accept the changes and the amounts of revenue resulting from those changes, and when the amount of such revenue can be measured reliably.

Any excess of advance payments (prepayments) received under a contract over the estimated revenue attributable to a given reporting period is recognised as contract liabilities. Up to the amount of the estimated contract revenue, advance payments reduce the receivables under settlement of long-term contracts.

Any excess of invoiced revenue is recognised under contract liabilities.

Revenue as at the end of the reporting period is determined based on the percentage of contract completion, net of any revenue which affected the financial result in previous reporting periods. For contracts denominated in a currency other than the functional currency, the revenue at the end of the reporting period is calculated first of all based on the exchange rate used for partial invoicing, pro rata to the percentage of contract completion. In order to determine the exchange rate applicable to advance payments, the transaction date is the date of initial recognition of the advance payment as an asset or liability. If there are multiple advance payments or receipts, the transaction date is determined for each such payment or receipt. Estimated contract revenue attributable to a given reporting period is recognised as revenue from sale of finished goods and services for the period, and as contract assets in the statement of financial position.

Consideration under contracts concluded by the Company is fixed and includes no variable components. The contracts contain a single performance obligation as the nature of the delivery requires the Company to provide a comprehensive service, that is delivery and installation. Given the complexity of equipment installation, the contract covers not only the purchase of the equipment, but also the supplier's supervision over its installation and the training needed for the equipment to be properly started and operated.
Leases

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. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term. A right-of-use asset is tested for impairment if there is any indication of 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 payments that depend on an index or rate, and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payment of financial 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 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 short-term exemption to its short-term lease contracts (i.e. contracts with a lease term of 12 months or less from the commencement date, containing no purchase options). The Group also applies the low value lease exemption. Lease payments under short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Significant judgements and estimates in determining the lease term of contracts with extension options

The Group determines the lease term as a non-cancellable lease term, including periods covered by an option to extend the lease, if 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.g. a change in the business strategy).

Functional currency and presentation currency

Functional currency and presentation currency

The Group’s consolidated financial statements are presented in the Polish złoty, which is also the functional currency of the Parent. The functional currency is determined for each subsidiary, and the subsidiary’s assets and liabilities are measured in that functional currency. The Group applies the direct consolidation method and has selected the method of accounting for translation gains or losses which is consistent with that method.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as from changes in the carrying amounts of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

VII. Material judgements and assumptions

When preparing the consolidated financial statements of the Group, the Management Board of the Parent has to make certain judgements, assumptions and estimates which affect the presented revenue, costs, assets, liabilities, as well as related notes and disclosures concerning contingent liabilities. Uncertainties related to these assumptions and estimates may result in material changes to carrying amounts of assets and liabilities in the future.

Depreciation/amortisation charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Depreciation rates for property, plant and equipment used under lease contracts

Depreciation charges for leased items of property, plant and equipment are determined based on their expected useful lives, which is consistent with the depreciation policy applied with respect to assets owned by the Company. If a lease includes an option to purchase the leased asset and the Group assumes that it will exercise this option, it does not apply useful lives equal to the contract term.

Recognition of development costs

The Group recognises development costs if, and only if, it can demonstrate:

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

Impairment of development costs

The Group carries out annual impairment tests for expenditure on ongoing development work in the case of intangible assets with indefinite useful lives and intangible assets that are not in use. The tests were based on forecast future economic benefits, such as lower operating expenses and revenue from sale of new equipment.

Goodwill impairment

The Group carried out goodwill impairment tests, which required estimation of the value in use of a cash-generating unit. 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. The underlying assumptions are presented in Note 12.

Deferred tax assets

Deferred tax assets are recognised in respect of all temporary differences to the extent it is probable that taxable profit will be available which will enable these differences to be utilised.

Pension benefit obligations

Disability severance payments and retirement bonuses are paid to employees of the Group's subsidiaries operating under Polish law in accordance with the provisions of Art. 92 of the Polish Labour Code, whereas at foreign companies such payments or bonuses are paid in accordance with the local laws pr agreements with employee groups. Actuarial valuation of long- and short-term benefits is performed at the end of each financial year.

Provision for warranty repairs

The Group provides guarantees for sold products, assuring the customer that the product conforms to the specifications agreed upon by the parties. Since the guarantees are not a separate service under IFRS 15, the Group recognises such guarantees in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The provision for warranty repairs is calculated on the basis of the historical costs of manufacturing of the equipment sold and of the warranty repairs made in the previous years.

Provision for disputes concerning exposure to asbestos

According to the Company's Management Board's judgment, disputes concerning exposure to asbestos do not meet the requirements for recognition of the provision and are recognised as contingent liabilities. The related disclosures are presented in Note 35 to these financial statements. Cash outflows are not sufficiently probable, as historically all payments under settlements were made directly by insurers.

Long-term contracts

In the case of contracts accounted for over time, revenue is recognised by measuring progress towards complete satisfaction of a performance obligation, and in other cases revenue is recognised when control of the product is transferred to the customer.

The progress towards satisfaction of a performance obligation is measured by reference to incurred costs in comparison with the planned total contract costs estimated based on the Group's best knowledge (input method).

At the end of each reporting period, the Group estimates the result on each contract. When a loss on a contract is expected, it is immediately recognised in the statement of profit or loss as a provision for future costs of contract performance. The provision for loss on a contract is recognised at the end of the period if the expected margin on the contract is lower than the margin recognised at that time. It is recognised as the difference between the forecast contract margin and the margin recognised on the contract as at the end of the reporting period.

The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of contract completion, or the amount of profits expected to arise on other contracts.
Revenue recognised over time is revenue guaranteed under the original contract, adjusted to account for any subsequent contract mdifications (annexes). Changes in contract revenue are recognised when it is certain or at least when it is highly probable that the customer will accept the changes and the amounts of revenue resulting from those changes, and when the value of that revenue can be measured reliably.

Derivative financial instruments

Derivative instruments are initially recognised at fair value as at the relevant contract date, and subsequently they are remeasured at fair value as at the end of each reporting period. The resulting gains or losses are recognised directly in profit or loss, unless the instrument is used as a hedging instrument. In such a case, the moment of recognition depends on the nature of the hedging relationship.

VIII. Changes in accounting policies

Save for the changes described below and resulting from the introduction of new standards effective for reporting periods beginning on or after January 1st 2019, in the preparation of these financial statements the Company applied the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2018.

IFRS 16 *Leases*

IFRS 16 *Leases* was published on January 13th 2016 and was endorsed by the European Union on October 31st 2017. As a result of the analyses carried out by the Group, three main categories of lease contracts have been identified:

- Perpetual usufruct of land,
- Property: office and warehouse buildings,
- Other leases: vehicles and technical equipment.

As of January 1st 2019, the Group, as a lessee, recognises all identified lease contracts under a single model in which the lease assets (the right-of-use assets) are recognised in the statement of financial position in correspondence with the liability under lease contracts. Lease liabilities comprise future discounted lease payments for identified contracts.
The accounting treatment of those items in the statement of financial position depends on:

- Duration of lease contracts adopted for each contract type: the period includes the non-cancellable lease term, periods covered by an option to extend the lease – if the lessee (customer) is reasonably certain to exercise that option, and periods covered by an option to terminate the lease – if the lessee (customer) is reasonably certain not to exercise that option. The lease term is also determined based on the legal and customary regulations effective in Poland, as well as the nature of the Group's contracts;
- The structure of fixed and variable payments in the contract;
- The determined incremental borrowing rate where the interest rate on the lease cannot be easily determined. The discount rates adopted by the Company for the purpose of measurement in accordance with IFRS 16 were based on the interest rate on Polish treasury bonds, adjusted for the margin applied to borrowings incurred by companies with a similar credit rating. The discount rates take into account the maturity of contracts and are not differentiated by asset type.

The Group decided to apply two exemptions provided for in the standard on leases and to recognise the following types of contracts under costs:

- All contracts except car leases where the lease term is less than 12 months;
- Contracts for which the underlying asset is worth less than PLN 18 thousand.

In addition to the changes in the statement of financial position, the adoption of IFRS 16 had an effect on:

a) The statement of profit or loss, in the following way:
- Depreciation of the right-of-use asset and interest expense on the lease liability were recognised instead of operating expenses;

b) The statement of cash flows, in the following way:
- Net cash from investing activities did not change;
- Payment of lease liabilities is recognised under financing activities.

As at January 1st 2019, the Group applied the "modified retrospective method" without restating the comparative data. The effect of application of the standard on total assets and liabilities as at January 1st 2019 was PLN 3,442 thousand (of which PLN 712 thousand are current liabilities and PLN 2,730 thousand are non-current liabilities), and results from the recognition of lease liabilities in correspondence with the right-of-use asset. To calculate the discount rate for the purposes of IFRS 16, the Group assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset. The weighted average discount rate used at the initial application of the standard was 7%. Implementation of the standard had no effect on equity at January 1st 2019, as the Group decided to measure the right-of-use assets in the amount equal to the lease liability (the effect of prepaid lease payments was negligible). Therefore, no deferred tax was recognised.

	Dec 31 2018 (audited)	**effect of IFRS 16**	**Jan 1 2019 (restated)**
Non-current assets			
Property, plant and equipment	80,338	-8,077	72,261

Right-of-use assets	-	11,520	11,520
Investment property	358	-	358
Goodwill	38,816	-	38,816
Intangible assets	50,201	-	50,201
Long-term receivables	5,313	-	5,313
Other financial assets	30	-	30
Deferred tax assets	87	-	87
	175,141	**3,443**	**178,584**
Current assets			
Inventories	67,259	-	67,259
Trade receivables	54,994	-	54,994
Income tax assets	323	-	323
Other short-term receivables	14,927	-	14,927
Cash and cash equivalents	53,602	-	53,602
Other financial assets	1,354	-	1,354
Other non-financial assets	3,316	-	3,316
Contract assets	102,524	-	102,524
	298,300	**-**	**298,300**
Assets held for sale	**-**		**-**
TOTAL ASSETS	**473,441**	**3,443**	**476,884**

	Dec 31 2018 (audited)	effect of IFRS 16	Jan 1 2019 (restated)
Equity			
Share capital	3,616	-	3,616
Statutory reserve funds	193,449	-	193,449
Other components of equity	12,067	-	12,067
Hedging reserve	-586	-	-586
Translation reserve	21,182	-	21,182
Retained earnings / accumulated losses	-55,357	-	-55,357
Equity attributable to owners of the parent	**174,371**		**174,371**
Non-controlling interests	**-54**	**-**	**-54**
	174,317	**-**	**174,317**
Non-current liabilities			
Borrowings	1,719	-	1,719
Other financial liabilities	178	-	178
Lease liabilities	4,954	2,731	7,685
Deferred tax liabilities	11,409	-	11,409
Provision for retirement and similar benefits	2,808	-	2,808
Deferred income	14,932	-	14,932
Contract liabilities	1,537	-	1,537
	37,538	**2,731**	**40,268**
Current liabilities			
Borrowings	67,794	-	67,794
Other financial liabilities	1,019	-	1,019
Lease liabilities	1,929	712	2,641
Trade payables	45,989	-	45,989
Other current liabilities	11,065	-	11,065
Provision for retirement and similar benefits	9,773	-	9,773
Other provisions	12,947	-	12,947
Deferred income	1,127	-	1,127
Contract liabilities	109,943	-	109,943

	261,586	**712**	**262,297**
Liabilities directly related to discontinued operations	-		-
TOTAL EQUITY AND LIABILITIES	**473,441**	**3,443**	**476,884**

Implementation and application of IFRS 16 required the Group to make various estimates and use professional judgement, in particular with respect to reviewing the lease term under contracts concluded for an indefinite period and under contracts which granted the Group an extension option. When determining the lease term, the Group had to consider all facts and circumstances, including the existence of economic incentives to use or not to use the option to extend or terminate the contract. In determining the lease term, the Group also took into account the costs incurred to adapt the leased asset to individual needs, and in the case of lease of property – the size of the local market and the features of the leased property.

Below is presented a reconciliation of the difference between minimum future lease payments under non-cancellable operating leases disclosed under IAS 17 as at the end of 2018 and lease liabilities recognised as at the date of initial application of IFRS 16.

Minimum lease payments under operating leases as at Jan 1 2019	**2,122**
Discount	-149
Other*	1,469
Additional lease liability recognised as at Jan 1 2019	**3,443**
Finance lease liabilities in accordance with IAS 17 as at Dec 31 2018	6,883
Lease liability as at January 1st 2019	**10,326**

* Applicable mainly to perpetual usufruct of land not classified as leases as at December 31st 2018

Other

a) IFRIC 23 *Uncertainty over Income Tax Treatments*

b) Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

c) Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

d) Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*

e) Amendments to IFRS Standards 2015–2017 Cycle

• IFRS 3 *Business Combinations*

• IFRS 11 *Joint Arrangements*

• IAS 12 *Income Taxes*

• IAS 23 *Borrowing Costs*

The amendments have no material effect on the Company's financial statements.

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

IX. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but are not yet effective:

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; 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 the publication of its final version − not yet endorsed by the EU as at the date of authorisation of these financial statements;

- 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) – effective for annual periods beginning on or after January 1st 2021 − not endorsed by the EU by the date of authorisation of these financial statements for issue;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business combinations* (issued on October 22nd 2018) − effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of 'Material'* (issued on October 31st 2018) – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest Rates Benchmark Reform* (issued on September 26th 2019) − effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (issued on January 23rd 2020) – 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 2022.

Effective dates are the dates resulting from the content of the standards announced by the International Financial Reporting Board. The dates of application of the standards in the European Union may differ from the dates of application resulting from the content of the standards and are published at the time of approval for application by the European Union.

According to the Company's estimates, the new standards, interpretations and amendments to the existing standards awaiting endorsement by the EU will have no material effect on the Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2019

Note 1. REVENUE

Contracts with customers provide for the design, manufacture and installation of metal heat treatment equipment, as well as sale of spare parts and maintenance services.

Equipment of this type is often dependent on the customer's infrastructure, such as existing units and foundations. Furthermore, the design process of a unit is highly complex given the need to set up the equipment parameters in line with the customer's expectations.

Revenue and total revenue and income of the Group:

Item	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Revenue from sale of finished goods and services	442,956	511,580
including revenue recognised over time	*353,969*	*457,608*
Revenue from sale of merchandise and materials	8,580	11,926
TOTAL revenue	**451,536**	**523,506**
Other income	4,324	6,622
Finance income	722	1,930
TOTAL revenue and income	**456,582**	**532,058**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
European Union	181,377	170,070
Commonwealth of Independent States	18,761	20,725
USA	133,289	199,192
Asia	96,553	98,929
Other	21,556	34,590
TOTAL revenue	**451,536**	**523,506**

All revenue is recognised by the Group in accordance with IFRS 15.

In 2019, the Group also recognised revenue under a licence agreement in accordance with IFRS 15. The revenue amounted to PLN 413 thousand and was recognised under other income.

Note 2. OPERATING SEGMENTS

The Group's principal business activity consists in manufacture of five key groups of products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment systems and metallurgy equipment used for melting, and vacuum casting of metals and specialty alloys. In accordance with the Company's management accounts, a separate aftersales segment has also been established. The SECO/WARWICK Group's operations are divided into five core business segments corresponding to the product groups:

Vacuum furnaces (Vacuum)

Vacuum furnaces have multiple applications in a number of industries, including machine tool, aviation, power, electrical engineering, medical equipment, automotive and specialised industries. Vacuum furnaces are used in a wide variety of processes, such as heat treatment of steel and alloys, brazing, sintering, and degassing.

Melting furnaces

Vacuum melting furnaces are used in the metallurgical industry for consolidation, smelting and refining of specialty metals, including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Their physical properties require processing in technologically advanced equipment and in high vacuum conditions.

A separate group of melting furnaces are melting and holding furnaces used for the manufacture of precision castings (such as components of jet engines, power turbines and medical implants).

Thermal

Atmosphere furnaces are widely used in the process of thermal and thermochemical treatment of steel and metals in protective atmospheres for improved hardness. Atmosphere furnaces designed for thermochemical treatment are used for gas carburising, gas nitriding and in other processes. Such furnaces are used chiefly in the automotive and metal industries, including for the manufacturing of roller bearings, as well as in commercial hardening plants and specialty industries.

Aluminium heat treatment systems (Aluminium Process)

The Aluminium Process solutions offered by the Group are used in the manufacturing of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. Aluminium Process systems are also used to heat treat aluminium castings. CAB systems are used primarily in the automotive industry for brazing of heat exchangers mounted in passenger cars and heavy goods vehicles (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive industry, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.

Aftersales

The Aftersales Segment offers conversion, upgrades and modification of customer-owned equipment, including equipment manufactured by third parties. This segment also includes sale of spare parts and all aftersale services.

In the case of the business lines (vacuum furnaces, melting furnaces, atmosphere furnaces, aluminium heat treatment lines), contracts with customers provide for the design, manufacture and installation of metal heat treatment equipment, as well as sale of spare parts and maintenance services.

Equipment of this type is often dependent on the customer's infrastructure, such as existing units and foundations. Furthermore, the design process of a unit is highly complex given the need to set up the equipment parameters in line with the customer's expectations.

Therefore, the vast majority of the segments' revenue is recognised throughout contract performance. In the case of aftersales, revenue is recognised upon service completion or product transfer.

OPERATING SEGMENTS – 2019

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Total		
Total segment revenue	**126,161**	**103,218**	**55,540**	**74,523**	**92,018**	**451,461**	**75**	**451,536**
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	**-**	-	**-**
Segment's cost of sales	**-98,892**	**-89,308**	**-46,772**	**-48,037**	**-56,170**	**-339,179**	**-1,349**	**-340,528**
Gross profit/(loss)	**27,269**	**13,910**	**8,768**	**26,487**	**35,848**	**112,282**	**-1,274**	**111,008**

OPERATING SEGMENTS – 2018

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Total		
Total segment revenue	**138,131**	**153,320**	**53,417**	**90,041**	**88,428**	**523,338**	**169**	**523,506**
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	**-**	-	**-**
Total segment expenses	**-106,506**	**-125,758**	**-46,441**	**-64,402**	**-59,928**	**-403,035**	**-3,485**	**-406,520**
Gross profit/(loss)	**31,625**	**27,562**	**6,976**	**25,639**	**28,500**	**120,303**	**-3,317**	**116,986**

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Depreciation and amortisation	11,974	10,744
Raw materials and consumables used	208,382	232,842
Services	86,825	105,083
Taxes and charges	2,348	2,949
Salaries and wages	87,172	101,438
Social security and other benefits	20,430	22,141
Other expenses	23,776	27,067
Total operating expenses, including:	**440,908**	**502,264**
Distribution costs	-31,989	-30,727
Administrative expenses	-52,858	-51,998
Change in products	-8,379	-10,961
Cost of work performed by entity and capitalised	-14,969	-14,164
Cost of products sold and services rendered	**332,712**	**394,413**

DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Items recognised as cost of sales	**8,549**	**6,816**
Depreciation of property, plant and equipment	4,030	5,034
Depreciation of right-of-use assets	2,237	-
Amortisation of intangible assets	2,282	1,782
Items recognised as distribution costs	**1,706**	**1,711**
Depreciation of property, plant and equipment	1,000	1,363
Depreciation of right-of-use assets	56	-
Amortisation of intangible assets	651	348
Items recognised as administrative expenses	**1,719**	**2,205**
Depreciation of property, plant and equipment	759	1,052
Depreciation of right-of-use assets	482	-
Amortisation of intangible assets	478	1,153
Items recognised as other expenses	**24**	**12**
Depreciation of investment property	24	12

EMPLOYEE BENEFITS EXPENSE

PERSONNEL COSTS	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Salaries and wages	87,172	101,438
Social security and other benefits	20,430	22,141
Retirement benefits	-	-
Other employee benefits	-	-
Total employee benefits expense, including:	**107,602**	**123,579**
Items recognised as cost of sales	59,082	73,866

Items recognised as distribution costs	15,928	13,273
Items recognised as administrative expenses	32,592	36,440

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Reversal of provision for contractual penalties	811	2,019
Gain on disposal of property, plant and equipment	516	770
Penalties and compensation received	383	704
Income from lease of property, plant and equipment and investment property	785	1,175
Grant for development work	683	1,116
Licences	413	-
Other	733	838
Total other income	**4,324**	**6,622**

OTHER EXPENSES	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Inventory write-downs	1,779	810
Loss on disposal of property, plant and equipment	39	23
Court expenses, compensation/damages, penalties	577	596
Impairment losses on an item of property, plant and equipment	730	1,087
Cost of lease of property, plant and equipment	355	168
Retirement of property, plant and equipment	323	614
Other	740	644
Total other expenses	**4,544**	**3,942**

Impairment of receivables and contract assets	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Impairment of receivables	3,056	7,437
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**3,056**	**7,437**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Interest income	491	116
Net foreign exchange gains	231	1,768
Other	1	45
Total finance income	**722**	**1,930**

FINANCE COSTS	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Interest on bank borrowings	2,120	2,920
Interest on leases	543	
Net gain/(loss) on derivative instruments	75	2,567
Impairment losses on shares in OOO SCT	241	-
Other	371	440
Total finance costs	**3,350**	**5,926**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2019 and December 31st 2018 were as follows:

INCOME TAX DISCLOSED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Current income tax	**1,270**	**666**
Current income tax expense	1,270	666
Adjustments for prior years	91	143
Deferred income tax	**3,261**	**3,852**
Related to recognition and reversal of temporary differences	3,261	3,852
Income tax expense disclosed in the statement of profit or loss	**4,531**	**4,519**

Deferred income tax disclosed in the statement of profit or loss equals the difference between the balances of deferred tax liabilities and deferred tax assets as at the end and as at the beginning of the reporting periods, excluding items charged or credited to equity.

Item	Dec 31 2019			Dec 31 2018			
	deferred income tax base	*other comprehensive income*	*amount recognised in the statement of comprehensive income*	*deferred income tax base*	*amount recognised in equity (effect of IFRS 15)*	*other comprehensive income*	*amount recognised in the statement of comprehensive income*
			Deferred tax liabilities				
Property, plant and equipment and intangible assets	6,690	-	-1,414	8,104	-	-	1,392
Contract assets	10,092	-	3,123	8,717	567	-	2,235
Foreign exchange gains	-	-	-	56	-	-	431
Measurement of forward contracts	197	-52	-132	381	8	-344	-523
Right-of-use assets	455	-	1,526	-	-	-	-
Tax goodwill on acquisition of RETECH	7,794	-	-	7,794	-	-	-
Other	320	-	247	73	-	-	-24
Deferred tax liabilities	**25,548**	**-52**	**3,348**	**25,126**	**575**	**-344**	**3,511**
			Deferred tax assets				
Provision for disability severance payments and retirement bonuses	240	33	43	164	-	-	-
Provision for length-of-service awards and bonuses	919	-	-222	1,141	-	-	253
Provision for accrued holiday entitlements	366	-	-15	380	-	-	-23
Provision for losses on contracts	32	-	-163	195	-23	-	-424
Provision for warranty repairs	1,231	-	301	1,042	1,296	-	-254
Other provisions	246	-	15	231	25	-	-46
Tax loss carryforwards	2,627	-	-3,043	5,670	-	-	-515
Contract liabilities	2,086	-	2,400	1,529	-967	-	-616
Foreign exchange losses	43	-	104	-5	-	-	-17
Salaries, wages and social security contributions payable in subsequent periods	322	-	13	309	-	-	12
Inventory write-downs	950	-	143	-	-	-	-
Lease liabilities	136	-	52	1,154	-	-	450
Impairment losses on receivables	1,145	-	748	1,155	-	-	51
R&D relief	236	-	-342	579	-	-	579
Measurement of forward contracts	191	-40	5	227	-8	138	93
Other	184	-	51	33	-	-	49
Deferred tax assets	**10,954**	**-7**	**88**	**13,804**	**323**	**138**	**-408**

Note 7. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding in the period less treasury shares.

Diluted earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

Item	Dec 31 2019	Dec 31 2018
Net profit/(loss) from continuing operations attributable to owners of the parent	15,223	20,960
Loss from discontinued operations attributable to owners of the parent	-	-1,906
Net profit/(loss) attributable to owners of the parent	15,223	19,054
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**15,223**	**19,054**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	9,858,453	9,728,683
Earnings per share	**1.54**	**1.96**
Dilutive effect:		
Number of potential shares to be issued under the Incentive Scheme	102,318	119,875
Number of potential shares to be issued at market price	11,007	12,182
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	9,960,771	9,848,558
Diluted earnings per share	**1.53**	**1.93**

Note 8. DIVIDENDS PROPOSED OR APPROVED BY THE DATE OF AUTHORISATION OF THESE FINANCIAL STATEMENTS

Pursuant to Resolution No. 19, the General Meeting of the Parent resolved to distribute a portion of the net profit of PLN 4,018,910.20 (four million, eighteen thousand, nine hundred and ten złoty, twenty grosz) as dividend to the Company’s shareholders, Dividend per share was PLN 0.41. The dividend record date (D) was July 4th 2019, while the dividend payment date (W) was July 18th 2019.

Note 9. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2019

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Jan 1 2019	**1,671**	**45,190**	**65,227**	**10,755**	**8,553**	**131,397**
Identification of rights of use in connection with the adoption of IFRS 16	-1,022	-	-3,133	-5,625	-	-9,781
Gross carrying amount as at Jan 1 2019 following the adoption of IFRS 16	**649**	**45,190**	**62,093**	**5,130**	**8,553**	**121,616**
Increase, including:	**-**	**1,791**	**2,465**	**564**	**294**	**5,114**
acquisitions	-	1,791	2,348	494	294	4,927
assets generated internally	-	-	117	-	-	117
other	-	-	-	70	-	70
Decrease, including:	**-**	**9**	**1,330**	**1,539**	**68**	**2,946**
sale	-	9	1,210	1,360	68	2,647
retirement	-	-	120	179	-	299
other	-	-	-	-	-	-
Gross carrying amount as at Dec 31 2019	**649**	**46,973**	**63,228**	**4,154**	**8,779**	**123,784**
Cumulative depreciation as at Jan 1 2019	**-**	**11,656**	**36,590**	**6,087**	**5,302**	**59,636**
Identification of rights of use in connection with the adoption of IFRS 16	-	-	-19	-1,960	-	-1,979
Cumulative depreciation as at Jan 1 2019 following the adoption of IFRS 16		**11,656**	**36,572**	**4,127**	**5,302**	**57,657**
Increase, including:	**-**	**1,265**	**3,394**	**271**	**858**	**5,788**
depreciation	-	1,265	3,394	271	858	5,788
Decrease, including:	**-**	**37**	**798**	**948**	**-**	**1,783**
sale	-	37	678	944	-	1,659
retirement	-	-	120	3	-	124
revaluation	-	-	-	-	-	-
Cumulative depreciation as at Dec 31 2019	**-**	**12,884**	**39,168**	**3,451**	**6,160**	**61,663**
Impairment losses as at Jan 1 2019	**-**	**1,087**	**1,005**	**3**	**-**	**2,094**
Increase, including:	**63**	**441**	**227**	**-**	**-**	**730**
impairment loss recognition	63	441	227	-	-	730
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss reversal	-	-	-	-	-	-

Impairment losses as at Dec 31 2019	**63**	**1,527**	**1,232**	**3**	**-**	**2,824**
Net exchange differences on translating financial statements into presentation currency	94	2,693	2,120	191	404	5,502
Net carrying amount as at Dec 31 2019	**680**	**35,255**	**24,948**	**892**	**3,023**	**64,799**

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2018

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Jan 1 2018	**1,671**	**42,038**	**62,040**	**11,354**	**6,228**	**123,331**
Increase, including:	**-**	**3,152**	**5,639**	**1,478**	**1,013**	**11,282**
acquisitions	-	3,152	1,572	195	1,013	5,933
assets generated internally	-	-	933	-	-	933
concluded lease contracts	-	-	3,133	1,214	-	4,347
other		-	-	68	-	68
Decrease, including:	**-**	**-**	**2,452**	**2,077**	**-1,313**	**3,216**
sale	-	-	787	1,687	22	2,495
retirement	-	-	288	390	38	716
other	-	-	1,377	-	- 1,372	5
Gross carrying amount as at Dec 31 2018	**1,671**	**45,190**	**65,227**	**10,755**	**8,553**	**131,397**
Cumulative depreciation as at Jan 1 2018	**-**	**10,673**	**33,867**	**6,215**	**3,721**	**54,476**
Increase, including:	**-**	**983**	**4,051**	**1,368**	**900**	**7,303**
depreciation	-	983	4,051	1,368	900	7,303
Decrease, including:	**-**	**-**	**1,328**	**1,496**	**-681**	**2,144**
sale	-	-	371	1,357	19	1,747
retirement	-	-	227	139	22	389
reclassification – assets held for sale	-	-	730	-	- 722	8
Cumulative depreciation as at Dec 31 2018	**-**	**11,656**	**36,590**	**6,087**	**5,302**	**59,636**
Impairment losses as at Jan 1 2018	**-**	**-**	**1,005**	**3**	**-**	**1,007**
Increase, including:	**-**	**1,087**	**-**	**-**	**-**	**1,087**
impairment loss recognition	-	1,087	-	-	-	1,087
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss reversal	-	-	-	-	-	-
Impairment losses as at Dec 31	**-**	**1,087**	**1,005**	**3**	**-**	**2,095**

2018						
Net exchange differences on translating financial statements into presentation currency	86	2,896	2,056	308	417	5,762
Net carrying amount as at Dec 31 2018	**1,757**	**35,344**	**29,687**	**4,973**	**3,668**	**75,428**

Property, plant and equipment under construction:

Property, plant and equipment under construction as at Jan 1 2019	*Expenditure incurred in the financial year*	*Allocation of the expenditure*				*As at Dec 31 2019*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	
4,909	**3,766**	1,514	3,414	70	2,652	**1,026**

Property, plant and equipment under construction as at Jan 1 2018	*Expenditure incurred in the financial year*	*Allocation of the expenditure*				*As at Dec 31 2018*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	
5,697	**9,398**	3,132	5,281	1,079	692	**4,909**

RIGHT-OF-USE ASSETS

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Total
Gross carrying amount as at Dec 31 2018	**-**	**-**	**-**	**-**	**-**
Identification of rights of use in connection with the adoption of IFRS 16	2,625	1,829	3,133	5,891	13,478
Gross carrying amount as at Jan 1 2019 following the adoption of IFRS 16	**2,625**	**1,829**	**3,133**	**5,891**	**13,478**
Increase, including:	-	**2,258**	**1,011**	**1,566**	**4,834**
new lease contracts	-	1,817	1,011	1,566	4,394
modification of contracts	-	440	-	-	440
Decrease, including:	-	-	-	**297**	**297**
retirement	-	-	-	297	297
Gross carrying amount as at Dec 31 2019	**2,625**	**4,087**	**4,144**	**7,159**	**18,015**
Cumulative depreciation as at Dec 31 2018	**-**	**-**	**-**	**-**	**-**
Identification of rights of use in connection with the adoption of IFRS 16	-	-	19	1,960	1,979
Cumulative depreciation as at Jan 1 2019 following the adoption of IFRS 16	**-**	**-**	19	**1,960**	**1,979**
Increase, including:	23	**1,474**	**97**	**1,182**	**2,775**
depreciation	23	1,474	97	1,182	2,775
Decrease, including:	**-**	**-**	**-**	**247**	**247**
retirement	-	-	-	247	247
Cumulative depreciation as at Dec 31 2019	**23**	**1,474**	**115**	**2,895**	**4,507**

On February 3rd 2015, SECO/WARWICK S.A. executed a PLN 41,250,000 investment credit facility agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 1,500,000 Group shares under the share buyback programme established pursuant to Resolution No. 5 of the Group's Extraordinary General Meeting of October 30th 2014. As at December 31st 2019, the total amount drawn under the facility was PLN 1,565 thousand.

The facility is secured by a contractual mortgage created over a property owned by the State Treasury and comprising the following plots of land:

- Nos. 94/6, 951/1, 951/2, situated at ul. Sobieskiego 8, Świebodzin
- No. 95/7, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/94, situated at ul. Świerczewskiego 76, Świebodzin
- Nos. 94/16, 94/22, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/4, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/19, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/25, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/80, situated at ul. Świerczewskiego 76, Świebodzin
- No. 94/14, situated at ul. Sobieskiego 8, Świebodzin.

Note 10. INTANGIBLE ASSETS

Changes in intangible assets (by type) in the period January 1st–December 31st 2019

Item	*Patents and licences, software*	*Development costs*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2019	**13,599**	**48,363**	**5,093**	**67,055**
Increase, including:	**1 753**	**7,601**	-	**9,355**
acquisitions	1,753	6,670	-	8,424
other	-	931	-	931
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-
Gross carrying amount as at Dec 31 2019	**15,352**	**55,964**	**5,093**	**76,409**
Cumulative amortisation as at Jan 1 2019	**6,406**	**7,025**	**3,503**	**16,934**
Increase, including:	**1,962**	**1,157**	**356**	**3,474**
amortisation	1,899	1,157	356	3,411
other	63	-	-	63
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-
Cumulative amortisation as at Dec 31 2019	**8,368**	**8,182**	**3,859**	**20,408**
Impairment losses as at Jan 1 2019	-	-	-	-
Impairment losses as at Dec 31 2019	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	-23	8	-	-15

Net carrying amount as at Dec 31 2019	**6,961**	**47,791**	**1,232**	**55,984**

Changes in intangible assets (by type) in the period January 1st–December 31st 2018

Item	*Patents and licences, software*	*Costs of completed development work*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2018	**9,481**	**35,693**	**5,093**	**50,267**
Increase, including:	**4,118**	**13,745**	**-**	**17,863**
acquisitions	3,043	11,184	-	14,227
other	1,075	2,561	-	3,636
Decrease, including:	**-**	**1,075**	**-**	**-**
other	-	1,075	-	1,075
Gross carrying amount as at Dec 31 2018	**13,599**	**48,363**	**5,093**	**67,055**
Cumulative amortisation as at Jan 1 2018	**4,387**	**5,561**	**3,083**	**13,541**
Increase, including:	**1,509**	**1,463**	**421**	**3,393**
amortisation	1,476	1,463	421	3,359
other	34	-	-	34
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-
Cumulative amortisation as at Dec 31 2018	**6,406**	**7,025**	**3,503**	**16,934**
Impairment losses as at Jan 1 2018	-	-	-	-
Impairment losses as at Dec 31 2018	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	72	8	-	80
Net carrying amount as at Dec 31 2018	**7,265**	**41,346**	**1,589**	**50,202**

No intangible assets are pledged as security for liabilities.

As at December 31st 2019 and December 31st 2018, the Group had no intangible assets held for sale.

In 2019, the research costs recognised in the statement of comprehensive income were PLN 3,047 thousand (2018: PLN 3,613 thousand).

As at December 31st 2019, PLN 17,393 thousand of costs of completed development work and PLN 30,398 thousand of costs of ongoing development work were recognised. Those costs include the development of innovative equipment for metal heat treatment and vacuum metallurgy.

Work related to ongoing development projects involves development of new equipment prototypes and new thermal treatment technologies, as well as improvement of the existing products by enhancing their technical parameters.

Costs of completed development work include:

- PLN 10,279 thousand allocated to the vacuum furnace segments;
- PLN 5,125 thousand allocated to the atmosphere furnace segments;
- PLN 1,077 thousand allocated to the aluminium furnace segments;
- PLN 604 thousand allocated to the melting furnace segments;
- PLN 308 thousand in other costs.

Costs of ongoing development work include:
- PLN 17,448 thousand allocated to the vacuum furnace segments;
- PLN 5,759 thousand allocated to the atmosphere furnace segments;
- PLN 513 thousand allocated to the aluminium furnace segments;
- PLN 5,397 thousand allocated to the melting furnace segments;
- PLN 1,281 thousand in other costs.

The Company tested expenditure on ongoing development work for impairment. To this end, each development project was analysed in terms of its progress status against the project schedule and budget, as well as confirmation of the project's business objectives. In addition, ongoing development work was analysed at the level of the operating segment of Seco/ Warwick S.A., which incurs expenditure on development work.

The total recoverable amount of segment assets was determined by reference to their value in use, calculated on the basis of cash flow projections based on financial budgets approved by the senior management and covering a five-year period, and additionally the residual value after the end of the five-year period, taking into account the expected long-term use of the technologies being developed, as anticipated from the Company's past experience.

Kay assumptions for the calculation of value in use

The calculation of value in use is most sensitive to the following assumptions:

- The segment's sales,
- Gross margin based on the average percentage margins realised by the segment;
- Discount rates estimated based on the risk level for the segment.

Sensitivity to changes of assumptions

With regard to the value in use estimation, the management believes that no reasonably possible change to any of the key assumptions referred to above will result in the cash generating unit's carrying amount exceeding significantly its recoverable amount.

Note 11. GOODWILL

Item	Dec 31 2019	Dec 31 2018
Consolidation goodwill at beginning of period	38,817	36,019
Decrease in goodwill due to impairment losses on SECO/WARWICK Corporation	-	-
Decrease in goodwill due to impairment losses on Retech Systems	-	-
Exchange differences on translation of goodwill	358	2,798
Total goodwill at end of period	**39,175**	**38,817**

In 2019, no increase/decrease in goodwill was recognised.

The Parent carried out impairment tests on goodwill in the subsidiaries Retech Systems LLC and SECO/WARWICK Germany GmbH. The tests revealed no goodwill impairment. The recoverable amounts attributable to individual cash-generating units were determined based on their calculated value in use.

The recoverable amount was determined based on future cash flow projections according to the 2020 budget and projections covering the next four years. The projections reflect the management's business experience to date and analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH (Germany)*
Average discount rate (pre-tax)	11.93%	13.90%
Average revenue growth rate	-9.01%	13.19%
Growth rate after the forecast period	2.00%	2.00%
Goodwill	37,445	1,729
Net assets	26,826	-8,129
Value of cash generating unit	64,271	-6,400
Recoverable amount	69,226	-4,431
Goodwill impairment (PLN '000)	NO	NO

Other important assumptions for the calculation of the value in use:

Estimates of the value in use of a cash-generating unit are sensitive to changes of the following variables:

• Free cash flows,

• Discount rates,

• Market share in the forecast period.

Free cash flows are estimated based on historical data concerning individual cash-generating units and forecast operating profit, depreciation and amortisation, replacement capital expenditure, changes in non-cash current assets and non-financial liabilities.

Discount rate – the weighted average cost of capital (WACC) was used as a discount rate for the purposes of the impairment tests; WACC was adjusted on a case-by-case basis for premiums and discounts related to risks specific to a given tested asset (as well as for country risk and differences in the inflation rates expected in the countries in which the individual companies of the Seco/Warwick Group operate).

Growth rates are estimated based on the published findings of industry research.

Market assumptions – these assumptions are important because, in addition to the use of industry data for growth rates, the management assesses how the assets and financial position of individual cash-generating units may change during the financial period against competitors. The management expects the market share to remain stable over the forecast period.

Sensitivity to changes of assumptions

In testing goodwill for impairment, a projection was made of the recoverable amount for different discount rate levels in the years 2020–2024, for each company covered by the impairment test.

Item	*Recoverable amount SWG (Germany)*	
Discount rates assumed in the test	-4,431	
+1/-1% change in discount rate	-433	510
change in average revenue growth rate: +10/-10%	6,876	-5,023
change in growth rate after forecast period +1/-1%	356	-300

Item	Recoverable amount	
	Retech (USA)	
Discount rates assumed in the test	69,226	
+1/-1% change in discount rate	-6,253	+7,571
change in average revenue growth rate: +10/-10%	19,273	-15,404
change in growth rate after forecast period +1/-1%	5,086	-4,156

In 2018, the recoverable amount was determined based on future cash flow projections according to the 2019 budget and projections covering the next four years. The projections reflect the management's business experience to date and analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH (Germany)*
Average discount rate (pre-tax)	11.05%	13.02%
Average revenue growth rate	-0.96%	21.56%
Growth rate after the forecast period	2.00%	1.00%
Goodwill	37,070	1,746
Net assets	25,050	-10,119
Value of cash generating unit	62,120	-8,373
Recoverable amount	63,787	3,181
Goodwill impairment (PLN '000)	NO	NO

Sensitivity to changes of assumptions

In testing goodwill for impairment, a projection was made of the recoverable amount for different discount rate levels in the years 2019–2023, for each company covered by the impairment test.

Item	Recoverable amount	
	SWG (Germany)	
Discount rates assumed in the test	3,181	
+1/-1% change in discount rate	-742	+891
change in average revenue growth rate: +10/-10%	+1,260	-1,166
change in growth rate after forecast period +1/-1%	+598	-499

As at December 31st 2018, the value-in-use of the investment in Retech Systems LLC exceeded its carrying amount by PLN 1,667 thousand.

The following changes in any of the key assumptions:

- a 0.3% growth in the average pre-tax discount rate, or
- a 1.5% decline in the average revenue growth rate, or
- a 0.45% decline in growth rate after the forecast period

will bring the value-in-use of the investment to Retech to the level equal to its carrying amount.

Note 12. EQUITY-ACCOUNTED INVESTEES

OOO SCT

The Group holds 50% of ordinary shares in OOO SCT (a company operating under Russian law), representing 50% of total voting rights in the company. The Russian shareholder holds the other 50% of the voting rights.

The investment in OOO SCT is measured with the equity method in accordance with IAS 28.

Carrying amount of investment	
As at Dec 31 2018	**-**
Share of profit of jointly controlled entity 2019	-
Exchange differences on translating foreign operations	241
Impairment losses	-241
As at Dec 31 2019	**-**

Following an impairment test, impairment losses were recognised for the the full amount of the investment in jointly controlled entity.

As prescribed by IAS 12.44, the Group recognises deferred tax for temporary differences arising from investments in associates only to the extent it is probable that the temporary difference will reverse in the foreseeable future.

The Parent's Management Board considers the investment in OOO SCT to be a long-term investment (currently there are no plans to sell the shares). Therefore, in accordance with IAS 12.44, no deferred tax was recognised in respect of the temporary differences arising from investments in associates.

Note 13. INVENTORIES

Item	**Dec 31 2019**	**Dec 31 2018**
Materials	26,303	34,508
Semi-finished products and work in progress	32,996	29,133
Finished goods	4,339	2,928
Merchandise	763	690
Total inventories (carrying amount)	**64,401**	**67,259**
Inventory write-downs	7,714	6,273
Gross inventories	**72,115**	**73,532**

CHANGE IN WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	**Total**
Jan 1 2018	**-107**	**6,742**	**178**	**5**	**6,817**
Increase, including:	**386**	**424**	**-**	**-**	**810**

- write-downs recognised in correspondence with other expenses	386	424	-	-	810
Decrease, including:	**-**	**1,176**	**178**	**-**	**1,354**
- use	-	1,070	178	-	1,248
Net exchange differences on translating financial statements into presentation currency	-	105	-	-	105
Dec 31 2018	**279**	**5,990**	**-**	**5**	**6,273**
Increase, including:	**1,779**	**-**	-	-	**1,779**
- write-downs recognised in correspondence with other expenses	1,779	-	-	-	1,779
Decrease, including:	**-**	**338**	**-**	**-**	**338**
- use	-	323	-	-	323
Net exchange differences on translating financial statements into presentation currency	-	15	-	-	15
Dec 31 2019	**2,058**	**5,652**	**-**	**5**	**7,714**

Note 14. CONTRACT ASSETS/LIABILITIES

Contract assets

Contract assets reflect the amounts payable by customers in connection with provision of services or delivery of equipment.

In the Company's opinion, there is no concentration of credit risk related to contract assets due to a large and diversified asset base. The Group's maximum exposure to credit risk at the end of the reporting period corresponds to the carrying amount of these assets.

Changes in contract assets in the twelve months ended December 31st 2019 were as follows:

	2019	**2018**
Opening balance	**102,524**	103,780
Effect of IFRS 15	-	6,977
Effect of IFRS 9	-	-577
Increase	334,806	356,795
Invoiced amounts transferred to trade receivables	-335,543	-364,451
Change in impairment losses, net	-	-
Exchange differences	197	-
Closing balance	**101,984**	**102,524**

As at December 31st 2019, expected credit losses for contract assets were at 0.26%. As the amount of expected credit losses did not change materially, the impairment losses as at December 31st 2019 remained unchanged.

Contract liabilities

The balance of contract liabilities of approximately PLN 91,915 thousand as at January 1st 2019 was recognised as revenue generated in the 12 months ended December 31st 2019.
The significant amounts of contract assets and liabilities result from the payment schedules agreed with the customers and are recognised at the level of individual contracts.

As at December 31st 2019, the transaction price allocated to unsatisfied performance obligations under contracts with customers was PLN 106,910 thousand. The following table shows the time periods during which the Company expects to satisfy those performance obligations and recognise related revenue.

	Dec 31 2019	Dec 31 2018
Up to 1 year	104,724	109,944
1–2 years	2,186	1,536
Over 2 years	-	-
Total unsatisfied performance obligations	**106,910**	**111,480**

Note 15. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2019	Dec 31 2018
Trade receivables (net)	**57,532**	**57,098**
long-term	**845**	**2,104**
- from related entities	-	-
- from other entities	845	2,104
short-term	**56,687**	**54,994**
- from related entities	-	-
- from other entities	56,687	54,994
Impairment losses (positive value)	**15,174**	**12,376**
Trade receivables (gross)	**72,706**	**69,474**
Other receivables:		
long-term	**1,259**	**3,209**
short-term	**13,162**	**15,250**
taxes, customs duties and social security receivable	5,063	7,500
sale of S/W Brasil shares	1,534	1,518
prepayments	6,061	5,545
other receivables:	504	687
Other receivables (gross)	**14,421**	**18,458**

As at December 31st 2019, trade receivables of PLN 15,174 thousand (2018: PLN 12,376 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised. Impairment losses recognised following an individual analysis of balances amounted to PLN 6,343 thousand. Expected credit losses recognised for all receivables stood at PLN 8,831 thousand.

Changes in impairment losses on receivables were as follows:

Item	Dec 31 2019	Dec 31 2018
As at beginning of period	**12,376**	**4,502**
Increase	3,141	7,610
Effect of IFRS 9	-	288
Reversal (-)	-85	-173
Net exchange differences on translating financial statements into presentation currency	-258	149
As at end of period	**15,174**	**12,376**

Aging of trade receivables (gross) as from the end of the reporting period:

Item	Dec 31 2019	Dec 31 2018
up to 1 month	30,014	31,441
more than 1 month, up to 6 months	17,714	14,819
more than 6 months, up to 1 year	5,928	3,171
more than 1 year	845	2,104
past due	3,031	5,564
Total trade receivables (net)	**57,532**	**57,098**
Long-term receivables	845	2,104
Short-term receivables	56,687	54,994
Impairment losses on trade receivables	15,174	12,376
Total trade receivables (gross)	**72,706**	**69,474**

Note 16. OTHER FINANCIAL ASSETS AND LIABILITIES

Financial assets

Item	Dec 31 2019	Dec 31 2018
Loans	-	41
Other	3	3
Derivative financial instruments	846	1,340
Total financial assets, including:	**849**	**1,384**
- non-current	155	30
- current	695	1,354

Financial liabilities

Item	**Dec 31 2019**	**Dec 31 2018**
Bank borrowings	33,013	69,513
Other financial liabilities	12,641	8,081
- derivative financial instruments	1,005	1,197
- lease liabilities	11,216	6,395
- other	420	488
Total financial liabilities, including:	**45,653**	**77,594**
- non-current	8,080	6,852
- current	37,573	70,742

	Dec 31 2019		**Dec 31 2018**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivative financial instruments	849	1,005	1,340	1,197
Total financial assets and liabilities at fair value through profit or loss				
- non-current	-	-	-	-
- current	-	-	-	-
Total hedging instruments				
- non-current	154	287	27	-
- current	695	719	1,313	1,197

Disclosures of derivative financial instruments which qualify for hedge accounting

In 2019, SECO/WARWICK S.A. used currency forwards to hedge on average 60% of its export cash flows denominated in EUR and 70% of its cash flows denominated in USD. The purpose was to hedge the budgeted exchange rates for contracts. Any changes in the amount of EUR- or USD-denominated cash flows are offset by changes in the fair value of the hedging instrument. Hedge accounting is applied by the Company if the criteria provided for in IAS 9 are met.

The valuation of derivative instruments as at the reporting date is recognised in equity. If a transaction which has been hedged with a currency forward affects profit or loss, the valuation previously recognised in equity is reclassified to profit or loss. Given that transactions in derivative instruments are entered into to hedge concluded long-term contracts (accounted for based on the stage of completion measured by reference to contract costs incurred), the Group assumed that the transactions affect profit or loss in proportion to the percentage of completion of a given contract. The Group further assumed that the measurement of derivative instruments as at the reporting date provided by partner banks reliably reflect the fair value of its currency forwards, and so this amount was disclosed in its accounting records. The effectiveness of a transaction is assessed by comparing the maturity dates and notional amounts of the hedged item and the hedging instrument.

The table below presents total values of hedging relationships open as at December 31st 2019.

Dec 31 2019	Notional amount of contract (EUR '000)	Initial notional amount of hedging instrument	Outstanding notional amount of hedging instrument as at Dec 31 2019	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	53,839	20,368	13,618	258	167	91	Jan 31 2020 – Jan 31 2022
Dec 31 2019	**Notional amount of contract (USD '000)**	**Initial notional amount of hedging instrument**	**Outstanding notional amount of hedging instrument as at Dec 31 2019**	**Fair value of instrument (PLN '000)**	**Amount recognised in profit or loss (PLN '000)**	**Amount recognised in equity (PLN '000)**	**Date of final settlement of hedging instrument**
TOTAL	43,406	24,502	10,579	-417	-368	-49	Jan 31 2020 – Mar 15 2021

The table below presents total values of hedging relationships open as at December 31st 2018.

Dec 31 2018	Notional amount of contract (EUR '000)	Initial notional amount of hedging instrument	Outstanding notional amount of hedging instrument as at Dec 31 2018	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	49,781	29,282	20,612	439	364	75	Jan 10 2019 – Mar 31 2020
Dec 31 2018	**Notional amount of contract (USD '000)**	**Initial notional amount of hedging instrument**	**Outstanding notional amount of hedging instrument as at Dec 31 2018**	**Fair value of instrument (PLN '000)**	**Amount recognised in profit or loss (PLN '000)**	**Amount recognised in equity (PLN '000)**	**Date of final settlement of hedging instrument**
TOTAL	46,109	28,309	6,582	-296	-323	27	Jan 17 2019 – Feb 27 2020

Note 17. OTHER NON-FINANCIAL ASSETS

Item	Dec 31 2019	Dec 31 2018
VAT to be settled in future period	-	1,015
Prepayments and accrued income	4,880	2,301
Total other non-financial assets	**4,880**	**3,316**

Note 18. CASH AND CASH EQUIVALENTS

Item	Dec 31 2019	Dec 31 2018
Cash at banks and cash in hand	35,050	51,933
Short-term deposits	1,546	1,669
Total cash and cash equivalents	**36,595**	**53,602**

Note 19. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Item	Dec 31 2019	Dec 31 2018
Number of shares	10,298,554	10,298,554
Par value of shares	0.2	0.2
Share capital	2,059	2,059
Restatement due to hyperinflationary conditions	1,557	1,557
Share capital at end of period	**3,616**	**3,616**

Components of equity from the restatement made in 2006 under hyperinflationary conditions are disclosed as a part of the share capital.

Shareholding structure:

Shareholders as at Dec 31 2019	Share preference	Type of limitation on rights to shares	Number of shares	Ownership interest (%)
SW Holding	None	-	3,387,139	32.89%
Spruce Holding Limited Liability Company (USA)	None	-	1,123,337	10.91%
Aviva Otwarty Fundusz Emerytalny Aviva Santander	None	-	1,046,573	10.16%
Bleauhard Holdings LLC	None	-	637,028	6.19%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	-	600,000	5.83%
SECO/WARWICK S.A.	None	-	364,277	3.54%
Metlife OFE	None	-	577,470	5.61%
Other	None	-	2,562,730	24.88%
TOTAL			**10,298,554**	**100%**

Other components of equity:	Share-based payment reserve	Share buyback reserve	Actuarial gains/(losses)	Treasury shares	Total other components of equity
Other components of equity as at Jan 1 2019	**9,325**	**15,150**	**-**	**-12,408**	**12,067**
Valuation of management stock option plan	1,688	-	-	-	**1,688**
Award of management stock options	-3,301	-	-	3,301	**-**
Sale of treasury shares under the incentive scheme	198	-	-	-	**198**
Actuarial gains/(losses)	-	-	-142	-	**-142**
Other components of equity as at Dec 31 2019	**7,910**	**15,150**	**-142**	**-9,107**	**13,811**
Other components of equity as at Jan 1 2018	**9,901**	**15,150**	**-**	**-14,963**	**10,088**
Valuation of management stock option plan	1,979	-	-		**1,979**
Award of management stock options	-2,554	-	-	2,554	**-**
Other components of equity as at Dec 31 2018	**9,325**	**15,150**	**-**	**-12,409**	**12,067**

The share buyback reserve was transferred from statutory reserve funds by way of resolution of the Extraordinary General Meeting on October 30th 2014 to purchase own shares.

Note 20. BORROWINGS

As at December 31st 2019

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	In PLN (‘000)	In foreign currency (‘000)						
Citibank	188	345	CNY	CNY 345	Oct 15 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Jun 10 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Nov 11 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Dec 10 2020	SBLC	fixed	Overdraft facility
HSBC Bank	49	12	EUR	EUR 90	Dec 3 2020		fixed	Overdraft facility
Toyota Kreditbank	27	6	EUR	EUR 6	May 15 2021	-	fixed	Overdraft facility
Toyota Kreditbank	29	7	EUR	EUR 7	Jun 15 2021	-	fixed	Overdraft facility
Huntington National Bank	119	31	USD	USD 31	Dec 31 2022		fixed	Overdraft facility
SANTANDER	1,866	-	PLN	PLN 2,000	Jan 31 2020	-	variable	Overdraft facility
mBank	108	-	PLN	PLN 108	-	-	-	Credit card limit
mBank	20	5	USD	USD 20	-	-	promissory note	Credit card limit

mBank	116	27	EUR	EUR 116	-	-	promissory note	Credit card limit
BNP Paribas	2,786	-	PLN	PLN 20,000	Aug 28 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
PEKAO	22,867	-	PLN	PLN 25,000	Sep 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
mBank	1,565	-	PLN	PLN 26,845	Jan 31 2020	Mortgage, surety provided by SWE, hold on securities account	variable	Investment facility
Santander	-	-	PLN	PLN 19,000	Jan 31 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
Total	**33,013**							

As at December 31st 2018

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	In PLN ('000)	In foreign currency ('000)						
HSBC Bank	1,644	3,000	CNY	CNY 3,000	Mar 14 2019	SBLC	fixed	Overdraft facility
CITI BANK	610	1,113	CNY	CNY 1,113	Jun 28 2019	SBLC	fixed	Overdraft facility
CITI BANK	199	46	EUR	EUR 364	Mar 22 2019	SBLC	fixed	Overdraft facility
HSBC Bank	495	115	EUR	EUR 904	Jun 20 2019	SBLC	fixed	Overdraft facility
Commerzbank	1,011	235	EUR	EUR 235	Oct 31 2019	-	fixed	Overdraft facility
Toyota Kreditbank	47	11	EUR	EUR 11	May 15 2021	-	fixed	Overdraft facility
Toyota Kreditbank	49	11	EUR	EUR 11	Jun 15 2021	-	fixed	Overdraft facility
BZ WBK	1,695	-	PLN	PLN 1,695	Jun 30 2018	-	variable	Overdraft facility
mBank	23	5	EUR	EUR 5	-	-	-	Credit card limit
mBank	81	-	PLN	PLN 81	-	-	-	Credit card limit
mBank	102	24	USD	USD 24	-	-	-	Credit card limit

BZ WBK	15,076	-	PLN	PLN 19,000	Jan 1 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
Raiffeisen	18,468	-	PLN	PLN 20,000	Aug 31 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
PEKAO	15,692	-	PLN	PLN 20,000	Sep 8 2019	promissory note	variable	Overdraft facility
PEKAO	4,963	-	PLN	PLN 5,000	Sep 11 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
CITI BANK HANDLOWY	1,373	319	EUR	EUR 10,000	May 22 2019	Trade credit secured with proceeds from the contract	variable	Investment facility
mBank	7,885	-	PLN	PLN 26,845	Jan 31 2020	Mortgage, surety provided by SWE, hold on securities account	variable	Investment facility
Total	**69,412**							

Borrowings by maturity:

Item	Dec 31 2019	Dec 31 2018
Short-term borrowings	32,858	67,794
Long-term borrowings	155	1,719
- repayable in more than 1 year, up to 3 years	155	1,719
Total borrowings	**33,013**	**69,513**

Borrowings by currency:

Item	Dec 31 2019		Dec 31 2018	
	amount in foreign currency	amount in PLN	amount in foreign currency	amount in PLN
PLN	-	29,191	-	63,961
EUR	52	222	743	3,197
USD	37	139	24	102
CNY	6,345	3,461	4,113	2,254
Total borrowings		**33,013**		**69,513**

Note 21. LEASES

The Group as a lessee (period from January 1st 2019 – following the adoption of IFRS 16)

The Group holds lease contracts for property, vehicles, machinery and perpetual usufruct of land. The lease terms are as follows:

Property	from 2 to 4 years
Vehicles	from 4 to 5 years
Machinery	from 4 to 5 years
Perpetual usufruct of land	from 68 to 82 years

Some of the lease contracts contain options to extend or terminate the lease.

The Group also has lease contracts for equipment or vehicles with lease terms of 12 months or less, and lease contracts for low-value assets. The Group uses the exemption for short-term leases and leases of low-value assets.

The Group's lease liabilities are secured with the lessor's ownership title to the leased assets. As a general rule, the Group is not entitled to sub-lease the leased assets or to assign its rights under lease contracts. Some contracts include covenants for specific financial indicators.

Prior to the adoption of IFRS 16, assets used under finance leases as defined in IAS 17 were recognised as property, plant and equipment. The carrying amount of each group of such assets as at December 31st 2018 is disclosed in Note 9. 'Property, plant and equipment'.

Below are presented the carrying amounts of lease liabilities and their changes in the reporting period.

Item	**2019**
As at Jan 1 2019	9,894
Increase (new leases)	4,393
Amendments to lease contracts	-101
Interest	550
Lease payments	-3,520
As at Dec 31 2019	11,216
Short-term	3,577
Long-term	7,639

For information on the maturities of the lease liabilities, see Note 33.3. 'Liquidity risk'.

The table below presents amounts of income, expenses, gains and losses under leases recognised in the statement of profit or loss.

Item	**2019**
Depreciation of right-of-use assets	2,654
Interest expense on lease liabilities	550
Cost of short-term leases (included in cost of products and services sold)	251
Cost of leases of low-value assets (included in administrative expenses)	199
Total amount recognised in the statement of profit or loss/ statement of comprehensive income	3,654

Operating lease liabilities – the Group as a lessee (period until December 31st 2018 – before the adoption of IFRS 16)

As at December 31st 2018, future minimum lease payments under non-cancellable operating leases were as follows:

Item		**Dec 31 2018**
Outstanding balance:		
	Up to 1 year	1,085
	From 1 year to 5 years	1,038
	In more than 5 years	-
Total		**2,122**

Finance lease liabilities – the Company as a lessee (period until December 31st 2018 – before the adoption of IFRS 16)

As at December 31st 2018, the future minimum lease payments under finance lease contracts and the present value of the minimum net lease payments were as follows:

Item	Dec 31 2018	
	Minimum lease payments	Present value of lease payments
Up to 1 year	1,754	1,481
From 1 year to 5 years	5,287	4,914
In more than 5 years	-	-
Total minimum lease payments	**7,041**	**6,395**
Finance costs	646	-
Present value of minimum lease payments, including:	**6,395**	**6,395**
short-term	1,481	1,481
long-term	4,914	4,914

Receivables under operating leases – the Group as a lessor

As at December 31st 2019 and December 31st 2018, the maturities of lease payments were as follows (at undiscounted amounts):

Item	Dec 31 2019	Dec 31 2018
In the 1st year	937	805
In the 2nd year	530	707
In the 3rd year	525	694
In the 4th year	515	694
In the 5th year	515	694
In more than 5 years	773	1,041
Total	**3,795**	**4,636**

The Group mainly leases premises to its cooperating entities in the case of which the nature of cooperation requires location in close proximity.

Note 22. TRADE AND OTHER PAYABLES

Item	Dec 31 2019	Dec 31 2018
short-term	59,694	57,054
long-term	-	-
Total	**59,694**	**57,054**

TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Item	Dec 31 2019	Dec 31 2018
Trade payables		
To related entities	-	-
To other entities	47,647	45,989
Total	**47,647**	**45,989**
Taxes, customs duties, social security and other charges payable	5,164	4,903
Salaries and wages payable	4,523	4,988
Income tax payable	41	49
Other liabilities	2,319	1,124
Total other liabilities	**12,047**	**11,065**
Total trade and other payables	**59,694**	**57,054**

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 44,563 thousand as at the end of 2019, and PLN 51,508 thousand as at the end of 2018. The following guarantees were issued:

Item	Dec 31 2019	Dec 31 2018
advance payment guarantee	37,974	42,588
performance bond	1,519	1,475
bid bond	5,070	4,679
loan guarantee	-	2,766
Total	**44,563**	**51,508**

As at December 31st 2018, there were no material expected credit losses under financial guarantees issued.

Social assets and liabilities of the Company Social Benefits Fund (Polish companies)

The Act on Company Social Benefits Fund of March 4th 1994 (as amended) stipulates that an employer is required to create a Company Social Benefits Fund if it has more than 50 full-time employees. The Company has set up such a fund and makes periodic contributions to it at the basic rate/the amount agreed upon with the trade unions. The fund holds property, plant and equipment. The purpose of the fund is to partly finance the Company's social activities, loans to its employees and other social costs.

The Group set off the fund's assets against its liabilities towards the fund because the fund's assets are not separate from the Group's assets.

The table below presents analytic data on the fund's assets, liabilities and expenses, as well as the fund's net balance.

Item	Dec 31 2019	Dec 31 2018
Loans to employees	29	36
Cash	643	406
Liabilities to the fund	670	435
Net balance	2	7
Contributions to the fund during the year	672	655

Capital commitments

As at December 31st 2019, the Group had commitments of PLN 830 thousand to incur capital expenditure on property, plant and equipment.

Note 23. EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

Retiring employees of the Polish companies of the Group received retirement bonuses in amounts established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the Group recognises a provision for the present value of the retirement bonus obligations. The amount of the provision and reconciliation of changes in the provision amount during the year are presented in the table below.

Provision for retirement bonuses and similar benefits

LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS	Jan 1– Dec 31 2019	Jan 1 – Dec 31 2018
as at beginning of period	**2,808**	**2,820**
increase	470	-
- recognition	470	-
use	-	-
reversal	775	12
as at end of period	**2,504**	**2,808**

The following key assumptions as at the end of the reporting period were adopted to calculate the amount of the obligation:

Item	Dec 31 2019	Dec 31 2018
Discount rate (%)	2.0	3.2
Expected rate of growth of salaries and wages (%)	5.0	5.0

SHORT-TERM EMPLOYEE BENEFIT OBLIGATIONS/ ACCRUED HOLIDAY ENTITLEMENTS, ETC.	Jan 1– Dec 31 2019	Jan 1 – Dec 31 2018
1. Accrued holiday entitlements		
as at beginning of period	**4,763**	**4,955**
- recognition	4,578	5,756
- use	5,497	5,948
- identification of discontinued operations	-	-
as at end of period	**3,844**	**4,763**
2. Accrued bonuses		
as at beginning of period	**4,985**	**5,347**
- recognition	6,336	5,262
- use	6,047	5,624
as at end of period	**5,273**	**4,985**
3. Employee benefit obligations		

as at beginning of period	**25**	**25**
- recognition	-	-
- use	3	-
as at end of period	**23**	**25**

The table below presents the main assumptions adopted by the actuary to calculate the amount of pension benefits obligation at SECO/WARWICK Corp. as at the reporting date:

Item	Dec 31 2019	Dec 31 2018
Discount rate (%)	2.89	3.97
Expected rate of return on assets (%)	6.00	6.00

RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)

Item	2019	2018
Change in plan's obligation		
Obligation as at beginning of period	**14,510**	**15,102**
Administration costs	-	-
Interest expense	559	500
Actuarial gain/(loss)	1,375	-1,212
Contributions paid	-1,067	-1,019
Effect of currency translation on presentation currency	147	1,139
Obligation as at end of period	**15,524**	**14,510**
Change in plan's assets		
Fair value of plan's assets at beginning of period	**13,129**	**13,686**
Interest income/(loss) on plan's assets	510	451
Additional gain/(loss) on plan's assets	2,336	-1,020
Benefits paid	-1,080	-1,019
Effect of currency translation on presentation currency	111	1,031
Fair value of plan's assets at end of period	**15,006**	**13,129**

Note 24. OTHER PROVISIONS

Item	*Provision for warranty repairs and returns*	*Provision for contractual penalties*	*Provision for loss-making contracts*	*Other provisions – contingent liability*	*Total*
As at Dec 31 2017	**261**	**2,945**	**2,213**	**-**	**5,420**
Opening balance adjustment under IFRS 15	16,822	-	504	-	17,326
Change in presentation of losses on contracts	-	636	-	-	636
Provisions recognised during the financial year	5,774	-	1,115	-	6,890
Increase	**22,596**	**636**	**1,619**	**-**	**24,851**

Provisions used	-11,804	-	-2,315	-	-14,119
Provisions reversed	-	-2,024	-1,180	-	-3,204
Decrease	**-11,804**	**-2,024**	**-3,495**	-	**-17,323**
As at Dec 31 2018	**11,053**	**1,557**	**337**	**-**	**12,947**
Provisions recognised during the financial year	6,440	-	-	-	6,440
Increase	**6,440**	**-**	**-**	**-**	**6,440**
Provisions used	-7,709	-	-	-	-7,709
Provisions reversed	-	-571	-169	-	-740
Decrease	**-7,709**	**-571**	**-169**	-	**-8,449**
As at Dec 31 2019	**9,784**	**986**	**168**	**-**	**10,938**

Note 25. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	**Dec 31 2019**	**Dec 31 2018**
Cash in the statement of financial position	**36,595**	**53,602**
Exchange differences on measurement of cash	-	-
Monetary assets classified as cash equivalents for the purposes of the statement of cash flows	-	-
Total cash and cash equivalents in the statement of cash flows	**36,595**	**53,602**

Item	**Dec 31 2019**	**Dec 31 2018**
Depreciation and amortisation	**11,998**	**10,743**
Amortisation of intangible assets	3,411	3,283
Depreciation of right-of-use assets	2,775	-
Depreciation of property, plant and equipment	5,789	7,448
Depreciation of investment property	24	12
Change in provisions (excluding elimination of income tax liabilities) results from the following items:	**-2,305**	**-6,569**
Net change in provisions	336	10,553
Adjustment under IFRS 15	-	-13,511
Elimination of change in deferred tax liabilities	-3,280	-3,595
Exchange differences	-164	-208
Assets designated as held for sale	-	-
Provisions for employee benefits	803	192
Change in inventories results from the following items:	**5,764**	**-14,831**
Net change in inventories	2,858	-25,902
Adjustment under IFRS 15	-	10,289
Reclassification of property, plant and equipment to inventories	2,626	-
Exchange differences	280	782
Change in receivables (excluding elimination of income tax receivable) results from the following items:	**6,069**	**17,144**
Net change in receivables	3,603	15,287

Adjustment under IFRS 9	-	-288
Elimination of income tax receivable	63	91
Assets designated as held for sale	-	-
Exchange differences	2,402	2,054
Change in liabilities (excluding financial liabilities) results from the following items:	**470**	**-8,874**
Net change in liabilities	7,200	-15,817
Assets designated as held for sale	-	-
Change in investment commitments	-562	2,408
Exchange differences	-1,540	-3,273
adjustment under IFRS 15	-	11,033
Change in lease liabilities	-4,820	-2,046
Valuation of derivative instruments	192	-1,179
Change in accruals and deferrals and in contract assets and liabilities (excluding elimination of changes in income tax assets) results from the following items:	**-6,990**	**5,885**
Net change in accruals and deferrals and in contract assets and liabilities	-5,595	13,188
Adjustment under IFRS 15	-	-6,106
Adjustment under IFRS 9	-	-577
Exchange differences	-1,395	-620

Note 26. RELATED ENTITIES

Related-party transactions were concluded in the companies' ordinary course of business, on an arm's length basis.

Note 27. REMUNERATION OF KEY PERSONNEL

Senior management of the SECO\WARWICK GROUP comprises members of the Management and Supervisory Boards.

Remuneration of the Management Board

Name and surname	Base salary for period	Other benefits, including bonuses, awards	Accrued incentive scheme costs	Total remuneration for the period
Dec 31 2019	**(PLN '000)**	**(PLN '000)**	**(PLN '000)**	**(PLN '000)**
Sławomir Woźniak	444	174	379	997
Paweł Wyrzykowski (1)	181	807	285	1,273
Jarosław Talerzak (2)	228	14	20	262
Piotr Walasek (3)	210	5	125	339
Earl Good (4)	1,040	-	74	1,115
Bartosz Klinowski	345	247	618	1,210

Total	**2,448**	**1,248**	**1,501**	**5,196**
Dec 31 2018				
Paweł Wyrzykowski	784	1,059	1,030	2,873
Sławomir Woźniak	519	44	63	626
Bartosz Klinowski	387	628	184	1,199
Total	**1,689**	**1,732**	**1,277**	**4,698**

For details of awarded management stock options, see Note 34 'Management stock options'.

(1) The remuneration amount relates to the term of office on the Management Board: from January 1st 2019 to June 4th 2019.

(2) Mr Jarosław Talerzak was appointed Vice President of the Management Board on June 5th 2019.

(3) Mr Piotr Walasek was appointed Member of the Management Board on June 5th 2019.
(4) Under an employment contract between Retech and Mr Earl Good. Mr Earl Good was appointed Member of the Management Board on June 5th 2019.

Name and surname	Total remuneration	
	Dec 31 2019	**Dec 31 2018**
Andrzej Zawistowski, including:	218	220
- for his service as Chairman of the Supervisory Board	120	120
- under contract for advisory services[(1)]	98	100
Jeffrey Boswell, including:	165	147
- under employment contract[(2)]	165	147
Henryk Pilarski	54	54
Marcin Murawski	43	43
Paweł Tamborski[(3)]	-	11
Jacek Tucharz[(4)]	43	32
Total	**523**	**506**

Remuneration of the SUPERVISORY BOARD

(1) Under a service contract between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities as USŁUGI DORADCZE Andrzej Zawistowski. The contract of July 2nd 2012 is for the provision of technical and product development advisory services.
(2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.
(3) Mr Paweł Tamborski tendered his resignation as member of the Supervisory Board on February 16th 2018.
(4) Mr Jacek Tucharz was appointed as member of the Supervisory Board on April 11th 2018.

Note 28. FINANCIAL INSTRUMENTS

Item	Category under IFRS 9	Carrying amount		Maximum credit risk exposure in 2019
		Dec 31 2019	Dec 31 2018	
Financial assets				
Loans advanced	At amortised cost	-	41	-
Trade and other receivables	At amortised cost	69,849	70,244	69,849
Long-term receivables	At amortised cost	2,104	5,313	2,104
Hedging instruments	At fair value	695	1,313	695
Cash and cash equivalents	At amortised cost	36,595	53,602	36,595
Financial liabilities				
current				
Short-term bank borrowings	At amortised cost	32,858	67,794	-
Lease liabilities	At amortised cost	3,540	1,481	-
Trade and other liabilities	At amortised cost	55,250	53,228	-
Hedging instruments	At fair value	719	1,197	-
non-current				
Long-term bank borrowings	At amortised cost	155	1,719	-
Hedging instruments	At fair value	287	178	-
Lease liabilities	At amortised cost	1,257	4,914	-

At amortised cost – measurement at amortised cost

At fair value – measurement at fair value through profit or loss.

* In the case of derivative instruments serving as hedging instruments, measurement is recognised in profit or loss through finance income or finance costs in proportion to the percentage of completion of the hedged contract.

There are no material differences between the carrying amount and the fair value of any of the financial assets and liabilities.

Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instrument

2019

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	Gains/(losses) on derecognition of financial assets
Financial assets						
Loans advanced	78	-	-64	-	-	-
Trade and other receivables	219	260	-3,935	-322	-	-
Long-term receivables	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-218	1,768	-
Cash and cash equivalents	52	215	-	-301	-	-
TOTAL	**349**	**476**	**-3,998**	**-842**	**1,768**	**-**

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	
Financial liabilities						
current						
Short-term bank borrowings	-1,892	-	-	5	-	-
Lease liabilities	-533	-	-	-	-	-
Trade and other payables	-87	204	-	169	-	-
Hedging instruments	-	-	-	-168	-1,607	-
non-current						
Long-term bank borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
TOTAL	**-2,512**	**204**	**-**	**158**	**-1,607**	

Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instrument

2018

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	Gains/(losses) on derecognition of financial assets
Financial assets						
Trade and other receivables	-	2,071	-7,437	1,617	-	-
Long-term receivables	-	-	-	292	-	-
Derivative financial instruments	-	-	-	-3,422	3,531	-
Cash and cash equivalents	49	9	-	-	-	-
TOTAL	**49**	**2,080**	**-7,437**	**-1,513**	**3,531**	**-**

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	
Financial liabilities						
current						
Short-term bank borrowings	-2,620	-55	-	328	-	-
Finance lease liabilities	-266	-	-	-	-	-
Trade and other payables	10	-257	-	-380	-	-
Hedging instruments	-	-	-	-314	-2,189	-
Contract liabilities	23	-	-	-	-	-
non-current						
Hedging instruments	-	-	-	-173	-	-
TOTAL	**-2,853**	**-312**	**-**	**-867**	**-2,189**	

Changes in liabilities arising from financing activities

2019

	Jan 1 2019	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2019
Interest-bearing borrowings (long-term)	1,719	**-1,564**	**0**	**-**	**0**	**155**
Lease liabilities (long-term)	4,914	**-**	**2,657**	**0**	**0**	**7,571**
Interest-bearing borrowings (short-term)	67,794	**-33,821**	**0**	**-1,115**	**0**	**32,858**
Lease liabilities (short-term)	1,481	**-3,362**	**5,422**	**0**	**0**	**3,540**
Other financial liabilities	488	**-**	**0**	**-**	**0**	**488**
Total liabilities arising from financing activities	77,594	**-38,748**	**8,079**	**-1,115**	**-192**	**45,617**

2018

	Jan 1 2018	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2018
Interest-bearing borrowings (long-term)	8,055	**-6,678**	**-**	**342**	**-**	**1,719**
Finance lease liabilities (long-term)	3,296	**-1,459**	**3,077**	**-**	**-**	**4,914**
Interest-bearing borrowings (short-term)	70,184	**-2,894**	**-**	**505**	**-**	**67,794**
Finance lease liabilities (short-term)	1,116	**-799**	**1,164**	**-**	**-**	**1,481**
Derivative financial instruments	19	**-**	**-**	**-**	**1,179**	**1,197**
Other financial liabilities	425	**-3**	**-**	**66**	**-**	**488**
Total liabilities arising from financing activities	83,094	**-11,834**	**4,241**	**913**	**1,179**	**77,593**

The table presents the fair value hierarchy reflecting the significance of the inputs used in making fair value measurements.

	2019		
	Level 1	Level 2	Level 3
	PLN '000	PLN '000	PLN '000
Financial assets			
Investments in related entities	-	-	-
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-
Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	695	-
- Currency forwards	-	695	-
Cash and cash equivalents	-	-	-
Sureties issued	-	-	-
Total	-	695	-
Financial liabilities			
current			
Interest-bearing borrowings, including:	-	-	-
- Overdraft facility	-	-	-
- Short-term borrowings	-	-	-
- Finance lease liabilities (short-term)	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	719	-
non-current	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- Finance lease liabilities	-	-	-
Total	-	719	-

	2018		
	Level 1	Level 2	Level 3
	PLN '000	PLN '000	PLN '000
Financial assets			
Investments in related entities	-	-	-
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-

Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	1,313	-
- Currency forwards	-	1,313	-
Cash and cash equivalents	-	-	-
Sureties issued	-	-	-
Total	-	1,313	-
Financial liabilities			
current			
Interest-bearing borrowings, including:	-	-	-
- Overdraft facility	-	-	-
- Short-term borrowings	-	-	-
- Finance lease liabilities (short-term)	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	1,197	-
non-current	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- Finance lease liabilities	-	-	-
Total	-	1,197	-

Note 29. EMPLOYMENT STRUCTURE

Item	Dec 31 2019	Dec 31 2018
Production and product unit employees	596	659
White-collar employees	174	190
Employees on parental leaves	1	2
Total	**771**	**851**

Note 30. DISCONTINUED OPERATIONS

No operations were discontinued in 2019.

Note 31. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Company's operations and increase the shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. In order to maintain or adjust the capital structure, the Company may change dividend payments, return capital to shareholders or issue new shares. In the year ended December 31st 2019, no changes were introduced to the objectives, principles and processes applicable in this area.

The Group monitors its equity using a gearing ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Group's net debt includes interest-bearing borrowings and finance lease liabilities, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to equity holders of the parent, less capital reserve from unrealised net gains.

The gearing ratio at end of the respective years was as follows:

	As at Dec 31 2019	As at Dec 31 2018
	PLN '000	PLN '000
Debt	37,810	75,909
Cash and cash equivalents	-36,595	-53,602
Net debt	1,215	22,306
Equity	189,593	174,317
Net debt to equity	**0.64%**	**12.80%**

The level of the net debt to equity ratio is a result of the Management Board's conservative approach to debt. Accumulated cash is used to fund the Group's operating activities.

Note 32. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

As part of its operating and financial activities, the Group is exposed to risks related primarily to its financial instruments. Those risks may be broadly defined as market risk, and comprise currency risk, interest rate risk, liquidity risk and credit risk. The Group manages financial risks in order to limit the adverse impact of changes in foreign exchange rates and interest rates, as well as to stabilise cash flows and ensure an appropriate level of financial liquidity and flexibility. The financial risk management policies for the Group are determined by the Management Board of the Parent. As part of the risk management process, an expert system for management accounting was developed and implemented. The key parameters of operational and financial risks are monitored on the basis of monthly reports prepared by the Group companies.

32.1 Currency risk

Due to its active and extensive presence on foreign markets, the Group enters into certain sales and purchase transactions denominated in foreign currencies. The Group enters into forward transactions, hedging its contract exchange rates in the budget. The Group also has borrowings and other financial liabilities denominated in foreign currencies. This exposes the Group to the risk of exchange rate fluctuations.

Financial assets and liabilities denominated in foreign currencies and translated into PLN at the closing rate effective as at the reporting date are presented below.

The Group is mainly exposed to foreign currency risk related to EUR and USD.

	As at Dec 31 2019	As at Dec 31 2019	As at Dec 31 2018	As at Dec 31 2018
	in foreign currency	in PLN	in foreign currency	in PLN
Liabilities				
EUR	4,998	21,284	3,400	14,621
USD	2,613	9,924	5,504	20,694

Assets				
EUR	24,171	102,934	26,438	113,682
USD	15,682	59,557	10,713	40,278
Notional amount of the hedging instrument – for currency sale transactions				
EUR	13,618	57,992	20,612	88,632
USD	10,579	40,176	6,582	24,746
Goodwill				
EUR	398	1,693	394	1,693
USD	9,038	34,325	9,130	34,325

Presented below is a sensitivity analysis for financial assets and liabilities, showing the effect of movements in the EUR/PLN and USD/PLN exchange rates on the Group's profit or loss and other comprehensive income.

Assumptions:

- exchange rate at reporting date Dec 31 2019

+ 10% increase in exchange rate

- 10% decrease in exchange rate

Exchange rate at Dec 31 2019	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.7977	0.380	-0.380
EUR	4.2585	0.426	-0.426

Exchange rate at Dec 31 2018	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.7597	0.376	-0.376
EUR	4.3000	0.430	-0.430

Exposure to currency risk changes during the year depending on the volume of transactions carried out in foreign currencies. However, the following sensitivity analysis is considered to be representative of the Group's exposure to foreign currency risk.

Effect on equity		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended	**Period ended**	**Period ended**	**Period ended**
		Dec 31 2019	**Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**
ASSETS					
Increase in exchange rate	10%	9,388	7,460	10,463	11,538
Decrease in exchange rate	-10%	-9,388	-7,460	-10,463	-11,538

LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-5,010	-4,544	-7,928	-10,325
Decrease in exchange rate	-10%	5,010	4,544	7,928	10,325
TOTAL					
Increase in exchange rate	10%	4,378	2,916	2,535	1,212
Decrease in exchange rate	-10%	-4,378	-2,916	-2,535	-1,212

Effect on profit/loss		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended	**Period ended**	**Period ended**	**Period ended**
		Dec 31 2019	**Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**
ASSETS					
Increase in exchange rate	10%	5,956	4,028	10,293	11,368
Decrease in exchange rate	-10%	-5,956	-4,028	-10,293	-11,368
LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-5,010	-4,544	-7,928	-10,325
Decrease in exchange rate	-10%	5,010	4,544	7,928	10,325
TOTAL					
Increase in exchange rate	10%	946	-516	2,366	1,043
Decrease in exchange rate	-10%	-946	516	-2,366	-1,043

32.2 Interest rate risk

Group companies have interest-bearing borrowings of PLN 33,013 thousand and lease liabilities of PLN 9,510 thousand, which bear interest at variable rates, while lease liabilities of PLN 1,601 thousand bear interest at fixed rates. Accordingly, the Group is exposed to interest rate risk. The risk is estimated on the basis of interest rate increase/decrease by 1%.

	Effect on net profit/loss	**Effect on net profit/loss**
	+ 1%/- 1%	+ 1%/- 1%
	Year ended Dec 31 2019	**Year ended Dec 31 2018**
Lease liabilities	+/- 111	+/- 63
Other financial liabilities at amortised cost	+/- 330	+/- 695

In 2019, bank borrowings totalled PLN 33,013 thousand (2018: PLN 69,513 thousand) and total financial liabilities were PLN 11,111 thousand (2018: PLN 6,395 thousand). The effect of interest rate movements on profit or loss and equity was calculated by adding/deducting 1pp to/from the average interest rate.

The objective of interest rate risk management is to limit the adverse impact of changes in market interest rates on cash flows to the level acceptable to the Group.

32.3 Liquidity risk

Liquidity risk is the risk that the Company may face difficulties in meeting financial liabilities. The liquidity risk management process at the Group involves projecting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring the liquidity ratios based on items of the statement of financial position, and maintaining access to various sources of financing.

The Group also manages liquidity risk by maintaining open and undrawn credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Group recognises bank borrowings as financial instruments which may potentially cause concentration of liquidity risk as the Group maintains relationships with selected financial institutions only. As at December 31st 2019, bank borrowings represented 26% of total current liabilities (December 31st 2018: 26%).

The table below presents the Group's financial liabilities by maturity as at December 31st 2019 and December 31st 2018, based on contractual payments.

The Company has undrawn credit facilities of PLN 64,097 thousand; for summary information see Note 20 to these financial statements.

Dec 31 2019	up to 1 year	1–2 years	2-3 years	3-4 years	4–5 years	over 5 years	Total as at Dec 31 2019
Trade payables	47,647	-	-	-	-	-	**47,647**
Lease liabilities	5,305	2,256	1,673	1,078	428	7,101	**17,841**
Derivative financial instruments	719	287	-	-	-	-	**1,006**
Borrowings	33,013	-	-	-	-	-	**33,013**
Other current liabilities	419	-	-	-	-	-	**419**
TOTAL	**87,103**	**2,543**	**1,673**	**1,078**	**428**	**7,101**	**99,925**

Dec 31 2018	up to 1 year	1–2 years	2-3 years	3-4 years	4–5 years	over 5 years	Total as at Dec 31 2018
Trade payables	45,989	-	-	-	-	-	**45,989**
Lease liabilities	2,050	2,369	1,437	934	519	-	**7,309**
Derivative financial instruments	1,019	178	-	-	-	-	**1,197**
Borrowings	67,949	1,565	-	-	-	-	**69,513**
Other current liabilities	11,553	-	-	-	-	-	**11,553**
TOTAL	**128,560**	**4,112**	**1,437**	**934**	**519**	**-**	**135,562**

32.4. Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to use trade credit is subject to preliminary verification procedures. Moreover, thanks to ongoing monitoring of the balance of receivables, the Group's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Group's other financial assets, such as derivative instruments, credit risk is related to the counterparty's inability to pay, and the maximum exposure to this risk is equal to the carrying amount of such instruments.

There are no significant concentrations of credit risk within the Group.

The Group applies a simplified model for calculating impairment losses on trade receivables (regardless of maturity). The expected credit loss is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. To estimate expected credit losses on receivables from customers, the Group uses a provision matrix estimated based on historical data on payments of amounts due from customers. The Group takes into account forward-looking information in its expected loss estimation model by adjusting the underlying default probability ratios. The expected credit loss on receivables from customers is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable.

The maturity structure of receivables is presented in Note 16.

Note 33. MANAGEMENT STOCK OPTIONS

Adoption of the Incentive Scheme for members of the SECO/WARWICK Group's management staff for 2018–2020

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018−2020 Incentive Scheme, approve the Rules of the Incentive Scheme, and allocate the Company's treasury shares for the purposes of the Incentive Scheme. The Meeting also passed Resolution No. 21 approving the list of participants of the 2018−2020 Incentive Scheme. The Incentive Scheme beneficiaries are the Group's senior management staff. The Incentive Scheme includes a total of 494,000 shares. The annual equity volumes for the years 2018, 2019, 2020, and the assessment parameter, which is determined by the Company's Supervisory Board and approved by the General Meeting, have been established for each beneficiary. The assessment parameter is closely linked to the net profit of the SECO/WARWICK Group, the separate net profit, or operating profit of an operating segment. After the end of each financial year, the Company's Supervisory Board and General Meeting determine and approve the achievement of individual targets by the beneficiaries.

On June 5th 2019, the Supervisory Board passed Resolution No. 01/2019 approving the results of the review of the annual targets for the 2018 Incentive Scheme, and indicating the proposed number of shares to be acquired by each of the beneficiaries, subject to the condition that they remain employed with the Company in the period from January 1st 2019 to December 31st 2019. On the same day, the Annual General Meeting approved the resolution passed by the Supervisory Board and decided to expand the list of positions eligible for participation in the Scheme and to amend the Rules of Incentive Scheme as previously proposed by the Supervisory Board.

On October 2nd 2019, as part of the settlement of the 2018 Incentive Scheme, the Company entered into agreements with its participants for the acquisition of a total of 132,057 shares in the Company. The shares were sold to the beneficiaries for PLN 1.50 (one złoty, fifty grosz) per share. The sold shares represent 1.28% of the Company's share capital and confer the right to 132,057 votes, or 1.28% of total voting rights, at the General Meeting. Following the sale, the Company holds 364,277 treasury shares, representing 3.54% of its share capital and 3.54% of total voting rights at its General Meeting.

On December 12th 2019, by Resolution No. 01/2019 the Supervisory Board defined the individual 2020 targets for the participants of the 2018–2020 Incentive Scheme. Achievement of the individual targets is a condition for the award of rights under the Incentive Scheme to its participants, provided that they remain employed with the Company in the period from January 1st to December 31st 2020. The targets cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a participant.

As at December 31st 2019, the maximum number of options that may be granted to the beneficiaries of the 2018−2020 Incentive Scheme was 361,943 (December 31st 2018: 494,000).

The cost of option vesting recognised in 2019 was PLN 1,688 thousand.

Note 34. LITIGATION

Seco/Warwick Corporation (SWC), a subsidiary of the Company, with its registered office in Pennsylvania, USA, along with a third party which is not associated with SECO/WARWICK (the "Third Party"), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1982–1986. SWC and the Third Party are seeking coverage for the claims being raised against SWC and the Third Party in connection with product liability personal injury lawsuits filed by individuals alleging injury from asbestos as a result of their exposure to the Third Party's products manufactured by legal predecessors of SWC and the Third Party in 1958-1984 (the "Asbestos Claims"). SWC was established in 1984 and was not a part of the SECO/WARWICK Group until 2006.

SWC and the Third Party have alleged in court that the insurance policy contract entered into by LMI extends additional coverage to include the Asbestos Claims, including the costs of settlements entered into with the injured parties and the legal costs incurred to verify the legitimacy of such claims and negotiate the settlements. LMI claims that the policy limits have been exhausted, citing certain special provisions of the insurance policy. SWC and the Third Party disagree with LMI's interpretation of the contract provisions.

To the best of the Company's knowledge, by the date of these financial statements, 759 Asbestos Claims had been filed against SWC, of which 330 Claims were dismissed, 41 Claims ended in settlement with the insurers for a total amount of USD 4,460 thousand, and with respect to 388 Claims verification procedures are underway or the terms of potential settlement with the injured parties are being negotiated.

If no agreement is reached with LMI on continued insurance coverage for SWC or if the lawsuit against LMI is dismissed, there arises the risk that SWC will be forced to bear the costs relating to the Asbestos Claims while SWC and the Third Party pursue the excess carriers to take over the asbestos product liability claims.

To the best of the Company's knowledge, the risk of SWC being forced to bear further costs relating to the Asbestos Claims is not significant, as the Third Party holds other excess insurance policies contracted with other insurance providers, which policies can, according to the information obtained from SWC, cover the Asbestos Claims.

As at the date of this Report, the Company's Management Board is not in a position to make a reliable estimate of the total amount of the Company's contingent liability related to the claims described above. The Company will disclose to the public further material information relating to this event.

Note 35. TAX SETTLEMENTS

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administrative authorities, which are authorised to impose high penalties and sanctions. Lack of reference to well-established legal regulation in Poland results in ambiguities and inconsistencies in the applicable laws and regulations. Frequent differences in opinions as to the legal interpretation of tax regulations, both between governmental bodies and between governmental bodies and businesses, create areas of uncertainty and conflict. Therefore, the tax risk in Poland is significantly higher than that usually existing in countries with more developed tax systems.

Tax settlements may be subject to tax inspection for a period of five years from the end of the year in which the tax was paid. As a result of such inspections, the Group's current tax settlements may be increased by additional tax liabilities.

In the opinion of the Management Board, as at December 31st 2019, there was no need to recognise provisions for known and quantifiable tax risk. The Company pays its tax liabilities when due.

Note 36. EVENTS SUBSEQUENT TO THE REPORTING DATE

On February 12th 2020, the Extraordinary General Meeting passed Resolution No. 5 to authorise the Company's Management Board to repurchase the Company's shares listed on the regulated market operated by the Warsaw Stock Exchange.

On February 27th 2020, an annex to the overdraft facility agreement with Santander Bank Polska Spółka Akcyjna was signed, extending the facility repayment deadline until February 28th 2021.

At the end of 2019, the first news were received of the spread of the SARS-CoV-2 virus, causing the COVID-19 disease, in China. In the first months of 2020, the virus spread across the world, and its adverse impacts are being felt in many countries.

In connection with the spread of SARS-CoV-2 in Poland, the Polish government announced a state of epidemic threat as of March 14th 2020, and then a state of epidemic as of March 20th 2020, and introduced far-reaching restrictions aimed at limiting the pace and extent of the epidemic. The restrictions have strongly affected the Polish businesses' ability to operate and have a material bearing on the current economic situation in Poland.

It should also be pointed out that the epidemiological threat is driving a strong volatility on stock exchange and currency markets, unavailability of certain goods and services, as well as the risk of disruption to global supply chains of key importance to specialised industrial production activities.

The Company has identified the following as the main risk factors that may affect its operations and financial performance in the coming periods:

(i) risk of reduced order and sales volumes,
(ii) discontinuation of capital expenditures by the Company's key customers,
(iii) delays in the performance of the Company's contracts caused by the downtimes in China, Europe and the US seen since February 2020,
(iv) aggravation of the crisis in the automotive and aviation sectors,
(v) material constraints to effective sales and the possibility of starting up and servicing machinery and equipment, caused by travelling having been made impossible by the COVID-19 pandemic,
(vi) difficulties in the performance of contracts resulting from the introduction of a remote work system to protect employees' health and life against COVID-19,
(vii) potential impediments in the Company's cooperation with its key suppliers of raw materials.

With respect to the Company and other Group companies, the negative impact of the epidemic to date has involved primarily a reduction in the number and value of new orders placed by the Company's trading partners. So far, the Company has not experienced any significant problems with the availability of raw materials, materials or goods.

The Company's Management Board took steps to mitigate the adverse effect of the situation on the Company's and the Group's operations and financial performance, while taking steps to ensure safety of the employees and trading partners. On April 1st 2020, in consultation with trade unions, the Company reduced employees' working hours to 80%, with pro rata cuts of the pay amounts. The Company's employees confirmed their readiness to work reduced hours and to accept the proportionate pay reductions. A Covid19 team has been established to mitigate the effects and risks of the epidemic. Procedures and policies have been put in place to minimise the risk of infection among the Company's employees. A rotational work system was introduced, with the possibility of home office work for most of the Company's employees. In the case of the departments in which remote work is not possible, an equivalent working time has been introduced. On April 8th 2020, the Company received the first tranche of employee compensation co-financing of PLN 1,061 thousand as part of the 'anti-crisis shield' package in connection with the reduced working hours.

Based on its best knowledge, the Company's Management Board does not expect any rise in the number of court disputes, any penalties imposed for contract performance delays, contract terminations, or insolvencies of the Company's customers. The Management Board monitors and analyses on an ongoing basis the situation, the value of orders, and the stage of completion of contracts, to undertake activities to secure the Company's operations if necessary.

At present, the Company's Management Board does not consider the current situation related to the spread of SARS-CoV-2 as an event necessitating adjustments to the Company's financial statements for 2019, but as an event subsequent to the reporting date that requires disclosure. At present, the epidemiological risk associated with the virus is developing dynamically and therefore the Management Board does not have an estimate of the final effect of the changes on the Company's profit or loss. The Company's Management Board will continue to monitor the potential impact of the epidemic and take all reasonable steps to mitigate its negative effects on the Company and other Group companies. Any possible impacts will be reflected in the subsequent financial statements.

Date: April 22nd 2020

President of the Management Board	
	Sławomir Woźniak
Vice President of the Management Board	
	Jarosław Talerzak
Member of the Management Board	
	Bartosz Klinowski
Member of the Management Board	
	Earl Good
Member of the Management Board	
	Piotr Walasek