SEPARATE FINANCIAL STATEMENTS

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

CONTENTS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

CONTINUING OPERATIONS	Note	Year ended Dec 31 2019	Year ended Dec 31 2018
Revenue from sale of finished goods and services		257,675	278,538
Revenue from sale of merchandise and materials		9	138
Revenue	*1*	**257,684**	**278,676**
Cost of finished goods sold and services rendered	*3*	-199,855	-219,711
Cost of merchandise and materials sold		-8	-136
Cost of sales		**-199,863**	**-219,846**
Gross profit/(loss)		**57,822**	**58,829**
Other income	*4*	3,204	7,086
Distribution costs	*3*	-13,254	-12,649
Administrative expenses	*3*	-24,623	-21,747
Impairment of receivables and contract assets	*4*	-3,935	-2,371
Other expenses	*4*	-2,496	-1,992
Operating profit/(loss)		**16,719**	**27,156**
Finance income	*5*	387	1,867
Finance costs	*5*	-3,450	-10,703
Profit/(loss) before tax		**13,656**	**18,320**
Income tax	*6*	-3,036	-3,889
Net profit/(loss) from continuing operations		**10,620**	**14,431**
DISCONTINUED OPERATIONS			
Net profit/(loss) from discontinued operations		-	-
Net profit/(loss) for the year		**10,620**	**14,431**
OTHER COMPREHENSIVE INCOME:			
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Cash flow hedges		525	-3,323
Actuarial gains/(losses)		-176	-
Income tax on other comprehensive income		-66	631
Other comprehensive income, net		**283**	**-2,692**
Total comprehensive income		**10,902**	**11,739**
Earnings/(loss) per share (PLN):	*7*		
- basic earnings/(loss) per share attributable to owners of the parent		1.08	1.48
- diluted earnings/(loss) per share attributable to owners of the parent		1.07	1.47

SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2019	Dec 31 2018
Non-current assets			
Property, plant and equipment	*9*	52,745	61,186
Right-of-use assets	*9*	11,174	-
Investment property		334	358
Intangible assets	*10*	55,072	49,192
Long-term receivables	*15*	2,072	5,263
Investments in related entities	*11*	58,422	57,593
Other financial assets	*16*	155	30
Contract costs	*14*	2,981	-
		182,954	**173,622**
Current assets			
Inventories	*13*	31,939	29,207
Trade receivables	*15*	58,571	43,646
Income tax assets	*15*	-	16
Other short-term receivables	*15*	8,278	8,906
Cash and cash equivalents	*18*	23,099	39,770
Other financial assets	*16*	2,695	1,354
Other non-financial assets	*17*	2,740	2,070
Contract costs	*14*	3,255	-
Contract assets	*14*	73,295	73,835
		203,871	**198,804**
TOTAL ASSETS		**386,824**	**372,426**

SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2019	Dec 31 2018
Equity			
Share capital	*19*	3,616	3,616
Statutory reserve funds		141,372	130,960
Hedging reserve		-161	-586
Other components of equity	*19*	13,811	12,067
Retained earnings / accumulated losses	*19*	32,235	36,046
		190,873	**182,103**
Non-current liabilities			
Borrowings	*20*	-	1,565
Lease liabilities	*21*	6,331	4,631
Derivative financial instruments	*16*	287	178
Deferred tax liabilities	*6*	6,307	3,556
Provision for retirement and similar benefits	*23*	1,243	838
Grants for development projects		15,698	14,932
Contract liabilities	*14*	1,777	1,537
		31,644	**27,237**
Current liabilities			
Borrowings	*20*	27,418	62,047
Lease liabilities	*21*	2,591	1,385
Derivative financial instruments	*16*	719	1,019
Trade payables	*22*	42,781	37,985
Other current liabilities	*22*	8,363	7,306
Provision for retirement and similar benefits	*23*	5,976	6,068
Other provisions	*24*	7,596	7,106
Grants for development projects		718	1,037
Contract liabilities	*14*	68,145	39,133
		164,308	**163,086**
TOTAL EQUITY AND LIABILITIES		**386,824**	**372,426**

SEPARATE STATEMENT OF CASH FLOWS

(PLN '000)

	Note	Year ended Dec 31 2019	Year ended Dec 31 2018
OPERATING ACTIVITIES			
Profit/(loss) before tax		**13,656**	**18,320**
Total adjustments:	*25*	**26,841**	**20,515**
Depreciation and amortisation		7,452	7,854
Foreign exchange gains/(losses)		95	-264
Interest and profit distributions (dividends)		1,853	2,092
Gain/(loss) on investing activities		723	5,252
Change in provisions		661	-2,630
Change in inventories		-2,732	-7460
Change in receivables		-11,088	1,688
Change in current liabilities (other than financial liabilities)		5,291	9,328
Change in grants for development projects		-669	-994
Change in contract assets and liabilities		23,555	-773
Change in accruals and deferrals		-670	626
Change in currency forward contracts		681	3,817
Other adjustments (including management stock options)		1,688	1,979
Income tax (paid)/refunded		**-239**	**-75**
Net cash from operating activities		**40,257**	**38,760**
INVESTING ACTIVITIES			
Cash provided by investing activities		**300**	**2,387**
Proceeds from disposal of intangible assets and property, plant and equipment		246	1,329
Decrease in loans advanced		54	1,058
Cash used in investing activities		**14,502**	**24,168**
Investments in intangible assets, property, plant and equipment, and investment property		10,765	22,117
Share capital increase at subsidiaries		1,737	2,051
Loans advanced		2,000	-
Net cash from investing activities		**-14,203**	**-21,781**
FINANCING ACTIVITIES			
Cash provided by financing activities		**1,314**	**9,690**
Sale of treasury shares under the incentive scheme		198	-
Borrowings		-	6,535
Grants		1,116	3,154
Cash used in financing activities		**43,948**	**18,069**
Repayment of borrowings		36,196	13,756
Dividends and other distributions to owners		4,019	-
Payment of lease liabilities		1,867	2,197
Payments of interest		1,867	2,115
Net cash from financing activities		**-42,634**	**-8,379**

Total net cash flows	**-16,579**	**8,601**
Net change in cash, including:	**-16,672**	**8,858**
- effect of exchange rate fluctuations on cash held	-93	258
Cash at beginning of period	**39,770**	**30,913**
Cash at end of period	**23,099**	**39,771**

SEPARATE STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Revaluation capital reserve	Other components of equity	Retained earnings / accumulated losses	Total equity
Note	*19*			*19*	*19*	
As at Jan 1 2019	**3,616**	**130,960**	**-586**	**12,067**	**36,046**	**182,103**
Profit/(loss) for the period	-	-	-	-	10,620	10,620
Other comprehensive income	-	-	425	-142	-	283
Total comprehensive income for the year	-	-	425	-142	10,620	10,902
Allocation of profit to dividend payment	-	-	-	-	-4,019	-4,019
Transfer of retained earnings to statutory reserve funds	-	10,412	-	-	-10,412	-
Management stock options	-	-	-	1,688	-	1,688
Sale of treasury shares under the incentive scheme	-	-	-	198	-	198
As at Dec 31 2019	**3,616**	**141,371**	**-161**	**13,811**	**32,235**	**190,872**
As at Jan 1 2018	**3,616**	**114,460**	**2,106**	**10,088**	**37,359**	**167,630**
Effect of IFRS 15	-	-	-	-	1,044	1,044
Effect of IFRS 9	-	-	-	-	-288	-288
Equity as at Jan 1 2019 following the adoption of IFRS 15 and IFRS 9	**3,616**	**114,460**	**2,106**	**10,088**	**38,115**	**168,386**
Profit/(loss) for the period	-	-	-	-	14,431	14,431
Other comprehensive income	-	-	-2,692	-	-	-2,692
Total comprehensive income for the year	-	-	-2,692	-	14,431	11,739
Transfer of retained earnings to statutory reserve funds	-	16,499	-	-	-16,499	-
Management stock options	-	-	-	1,979	-	1,979
As at Dec 31 2018	**3,616**	**130,960**	**-586**	**12,067**	**36,046**	**182,103**

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

I. General information

1. Company data

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		
	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

The company is the parent of the SECO/WARWICK Group.

2. Duration

The company has been established for an indefinite period.

3. Presented periods

These separate 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. Management Board and Supervisory Board of SECO/WARWICK S.A.

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 Company 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. Significant shareholders

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 Company 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 and affiliates

As at December 31st 2019, SECO/WARWICK S.A. was the parent of the following subsidiaries:

- 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.

As at December 31st 2019, the Group had one associate:

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

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%

II. Authorisation of the financial statements

The Management Board authorised these financial statements for issue on April 22nd 2020.

III. Compliance with International Financial Reporting Standards

These 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 IFRSs in the EU and the Company’s business, there were no differences, within the scope of accounting policies applied by the Company, between the IFRSs which were in effect and the IFRSs endorsed by the EU.

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

IV. Going concern basis

These financial statements have been prepared on the assumption that the Company 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 the Company's employees 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 Company, the Management Board has performed relevant analyses and concluded that despite those risks and limitations it identified no threat to the Company's ability to continue as a going concern for at least 12 months from the reporting date.

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

These financial statements have been prepared based on the 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 payment made 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 Company takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability 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 Company recognises assets which are identifiable (separable or saleable), are controlled by the Company and are highly probable to bring future economic benefits to the Company.

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 Company 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 Company'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

Item	Capitalised development costs	Patents and licences	Software
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 based on the useful lives of the 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 Company 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.

Shares in related entities

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

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

Measurement on initial recognition

With the exception of certain trade receivables, financial assets are recognised on initial recognition 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
- the contractual rights to the cash flows from the financial asset are transferred in a transaction whereby the Company transferred substantially all risks and rewards related to that 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 Company 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

Liabilities under bank borrowings and other financial liabilities

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 the fair value of the 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 through recognition of write-downs 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 separate 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 or 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 Company is able to control the timing of 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 deductible temporary differences related to such investments and interests are recognised only to the extent that it is probable that there will be sufficient taxable profits against which the tax benefits resulting from the temporary differences can be utilised, and it is expected that the temporary differences will reverse 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 Company offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied on the same taxable entity and by 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 Company discloses and measures current and deferred tax assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, tax loss carryforwards, unused tax reliefs and the 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 Company discloses such settlement taking into account assessment of the uncertainty.

Provisions

Provisions are recognised when the Company 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 Company expects that the costs covered by the provision will be reimbursed, e.g. under an insurance agreement, then such reimbursement is recognized 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 was used, any 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 Company 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 Company 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.

Share-based payments

The Company'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 Company'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 Company'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 which the Company or the employee controls 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 Company's obligations to transfer services or equipment to a customer for which the Company 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 payments or receipts of advance payments, the transaction date is determined for each 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 Company recognises right-of-use assets at the lease commencement date (i.e. the date when the underlying asset is made available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, the initial direct costs incurred and any lease payments made at or before the commencement date, less any lease incentives received. If there is no reasonable certainty that the Company 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 Company measures lease liabilities at the present value of lease payments then outstanding. Lease payments include fixed payments (including in-substance fixed lease payments) less any lease incentives due, variable 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 Company 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 Company. 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 Company uses the lessee's incremental borrowing rate on the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased to reflect the interest, and reduced by lease payments made. Furthermore, the carrying amount of lease liabilities is remeasured if the lease term, in-substance fixed lease payments or judgement as to purchase of the underlying assets change.

Short-term leases and leases of low-value assets

The Company applies the 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 Company 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 Company 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 Company is able to extend the lease term of certain lease contracts. The Company applies judgment to assess whether there is reasonable certainty that the extension option will be exercised, which means that it takes into account all material facts and circumstances that represent an economic incentive to extend the option or an economic penalty for its non-extension. After the commencement date, the Company reviews the lease term if a significant event or change in circumstances under its control occurs which affects 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

Items of the financial statements are measured in the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in the Polish zloty (PLN), which is the Company's functional and presentation currency.

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.

VI. Material judgements and assumptions

When preparing the financial statements of the Company, the Management Board 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 Company 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 Company assumes that it will exercise this option, it does not apply useful lives equal to the contract term.

Recognition of development costs

The Company 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 Company 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 profits from sale of new equipment.

Impairment losses on shares in subsidiaries

The Company has carried out impairment tests with respect to its shares in subsidiaries for which indications of impairment have been identified.This required an estimation of the value in use of the individual subsidiaries tested for impairment. Estimating the value in use requires making an estimate of the expected future cash flows from the subsidiary and determining a suitable discount rate in order to calculate the present value of those cash flows. The underlying assumptions are presented in the Note.

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.

Provision for warranty repairs

The Company 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 Company 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.

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 Company's best knowledge (input method).

At the end of each reporting period, the Company estimates the profit or loss 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.

VII. 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 Company, 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 Company, as a lessee, recognises all identified lease contracts under a single model in which the lease assets (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 Company'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 Company 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 Company 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 1,917 thousand (of which PLN 283 thousand are current liabilities and PLN 1,634 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 Company 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 Company 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	effect of IFRS 16	Jan 1 2019
ASSETS			
Non-current assets			
Property, plant and equipment	61,186	-7,631	53,555
Right-of-use assets	-	9,548	9,548
Investment property	358		358
Intangible assets	49,192		49,192
Long-term receivables	5,263		5,263
Investments in related entities	57,593		57,593
Other financial assets	30		30
Deferred tax assets	-		
	173,622	**1,917**	**175,539**
Current assets			
Inventories	29,207		29,207
Trade receivables	43,646		43,646
Income tax assets	16		16
Other short-term receivables	8,906		8,906
Cash and cash equivalents	39,770		39,770
Other financial assets	1,354		1,354
Other non-financial assets	2,070		2,070
Contract assets	73,835		73,835
	198,804	**-**	**198,804**
Assets held for sale			-
TOTAL ASSETS	**372,426**	**1,917**	**374,343**

	Dec 31 2018	effect of IFRS	Jan 1 2019

		16	
EQUITY AND LIABILITIES			
Equity			
Share capital	3,616		3,616
Statutory reserve funds	130,960		130,960
Hedging reserve	-586		-586
Other components of equity	12,067		12,067
Retained earnings / accumulated losses	36,046		36,046
	182,103	**-**	**182,103**
Non-current liabilities			
Borrowings	1,565		1,565
Other financial liabilities	178		178
Lease liabilities	4,631	1,634	6,265
Deferred tax liabilities	3,556		3,556
Provision for retirement and similar benefits	838		838
Deferred income	14,932		14,932
Contract liabilities	1,537		1,537
	27,237	**1,634**	**28,871**
Current liabilities			
Borrowings	62,047		62,047
Other financial liabilities	1,019		1,019
Lease liabilities	1,385	283	1,668
Trade payables	37,985		37,985
Other current liabilities	7,306		7,306
Provision for retirement and similar benefits	6,068		6,068
Other provisions	7,106		7,106
Deferred income	1,037		1,037
Contract liabilities	39,133		39,133
	163,086	**283**	**163,368**
TOTAL EQUITY AND LIABILITIES	**372,426**	**1,917**	**374,343**

Implementation and application of IFRS 16 required the Company 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 Company an extension option. When determining the lease term, the Company 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 Company 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	**134**
Discount	-9
Other*	1,792
Additional lease liability recognised as at Jan 1 2019	**1,917**
Finance lease liabilities in accordance with IAS 17 as at Dec 31 2018	6,016
Lease liability as at January 1st 2019	**7,933**

* 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.

VIII. 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.


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NOTES TO THE SEPARATE 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 Company:

Item	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Revenue from sale of finished goods and services	257,675	278,538
- including revenue recognised over time	235,201	264,801
Revenue from sale of merchandise and materials	9	138
TOTAL revenue	**257,684**	**278,676**
Other income	3,204	7,086
Finance income	387	1,867
TOTAL revenue and income	**261,276**	**287,629**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
European Union	147,576	144,634
Commonwealth of Independent States	2,925	17,595
USA	50,283	45,943
Asia	55,488	61,037
Other	1,413	9,466
TOTAL revenue	**257,684**	**278,676**

All revenue is recognised by the Company in accordance with IFRS 15. In 2019, the Company 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.

Revenue by product type	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Vacuum Furnaces	104,374	126,263
Melting Furnaces	51,776	47,885
Atmosphere Furnaces (Thermal)	54,445	49,358
Aluminium Process	26,713	33,924
Aftersales	19,963	19,253
Other	413	1,993
TOTAL revenue	**257,684**	**278,676**

Note 2. OPERATING SEGMENTS

Information on particular operating segments is presented in the consolidated financial statements of the SECO/WARWICK Group (Note 2 to the consolidated financial statements for the 12 months ended December 31st 2019).

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Depreciation and amortisation	7,428	7,854
Raw materials and consumables used	121,133	125,424
Services	50,675	66,872
Taxes and charges	847	945
Salaries and wages	56,815	55,770
Social security and other benefits	11,467	11,347
Other expenses	12,469	11,499
Total operating expenses, including:	**260,833**	**279,712**
Distribution costs	-13,254	-12,649
Administrative expenses	-24,623	-21,747
Change in products	-8,133	-11,441
Cost of work performed by entity and capitalised	-14,969	-14,164
Cost of products sold and services rendered	**199,855**	**219,711**

DEPRECIATION/AMORTISATION CHARGES RECOGNISED IN THE STATEMENT OF COMPREHENSICE INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Items recognised as cost of sales	**4,598**	**4,363**
Depreciation of property, plant and equipment	1,810	2,696
Depreciation of right-of-use assets	894	-
Amortisation of intangible assets	1,895	1667
Items recognised as distribution costs	**1,599**	**1,614**
Depreciation of property, plant and equipment	928	1,266
Depreciation of right-of-use assets	20	-
Amortisation of intangible assets	651	348
Items recognised as administrative expenses	**1,231**	**1,865**
Depreciation of property, plant and equipment	461	728
Depreciation of right-of-use assets	382	-
Amortisation of intangible assets	387	1137
Items recognised as other expenses	**24**	**12**
Depreciation of investment property	24	12

PERSONNEL COSTS	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018

Salaries and wages	56,815	55,770
Social security	11,467	11,347
Total employee benefits expense, including:	**68,282**	**67,117**
Items recognised as cost of sales	46,933	45,689
Items recognised as distribution costs	3,342	4,341
Items recognised as administrative expenses	18,007	17,086

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Gain on disposal of property, plant and equipment	106	669
Reversal of provision for liquidated damages under contracts	-	2,024
Grant for development work	683	1,116
Penalties and compensation received	66	702
Income from lease of property, plant and equipment and investment property	908	1,046
Revenue from sale of scrap metal	-	41
Licence revenue	413	-
Services provided to subsidiaries	420	347
Other	609	1,141
Total other income	**3,204**	**7,087**

OTHER EXPENSES	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Inventory write-downs	750	-
Court expenses, compensation/damages, penalties	576	588
Donations	8	9
Cost related to income from lease of property, plant and equipment	349	156
Retirement of an item of property, plant and equipment	323	322
Other	490	917
Total other expenses	**2,496**	**1,992**

Impairment of receivables and contract assets	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Impairment of receivables	3,935	2,371
- including impairment losses on receivables from SECO/WARWICK Germany GmbH	2,441	1,427
- including impairment losses on receivables from SECO/WARWICK Rus	1,035	-
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**3,935**	**2,371**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Interest income	386	145
Net foreign exchange gains	-	1,713
Other	1	9
Total finance income	**387**	**1,867**

FINANCE COSTS	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Interest on bank borrowings	1,600	1,870
Interest on leases	453	266
Net foreign exchange losses	343	-
Net gain/(loss) on derivative instruments	75	2,567
Impairment losses on loans	-	76
Impairment losses on shares (1)	909	5,617
Other	70	307
Total finance costs	**3,450**	**10,703**

1) The impairment losses recognised in 2019 include impairment losses of PLN 737 thousand on SECO/WARWICK Germany GmbH and PLN 172 thousand on SECO/WARWICK RUS.

   The impairment losses recognised in 2018, of PLN 886 thousand, PLN 2,679 thousand and PLN 2,051 thousand are related to SECO/WARWICK France, SECO/WARWICK Germany GmbH, and SECO/WARWICK Allied Pvt. Ltd., respectively.

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	**239**	**75**
Withholding tax	239	75
Deferred income tax	**2,797**	**3,814**
Income tax disclosed in profit or loss	**-3,036**	**-3,889**
Income tax on other comprehensive income	**133**	**-631**

CURRENT INCOME TAX	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
Net profit/(loss) before tax	**13,656**	**18,320**
Income excluded from taxation and previous years' income increasing tax base	27,527	-68,624
Non-tax deductible costs and costs of previous years reducing tax base	-19,436	53,412
Tax profit/(loss)	**21,747**	**3,107**
Deductions from income – loss	-16,017	-2,711
R&D relief	-5,025	-
Tax base	**705**	**396**
Income tax at 19%	134	75
Tax deduction	134	75
Effective tax rate (share of income tax in profit before tax)	**-**	**-**

The current portion of income tax was determined at the rate of 19% of the tax base.

The table below presents a reconciliation of corporate income tax on profit/loss before tax computed at the statutory tax rate with corporate income tax computed at the Company’s effective tax rate for the years ended December 31st 2019 and December 31st 2018.

	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018

Profit/(loss) before tax from continuing operations	13,656	18,320
Profit/(loss) before tax from discontinued operations	-	
Profit/(loss) before tax	13,656	18,320
Corporate income tax at Poland's statutory rate of 19% (2018: 19%)	2,595	3,481
Corporate income tax at the effective tax rate of 22.2% (2018: 20%)	3,036	3,889
Tax differences	**441**	**408**
Explanation of differences between the effective and theoretical tax rates:		
Investment tax reliefs	-3,223	-3,046
Permanently non-deductible expenses	1,019	476
Temporary differences with respect to which no deferred tax was recognised*	2,799	4,024
Permanently non-taxable income	-82	-41
Additional income included in taxable income	372	-
Other	1,436	736
Total differences between the effective and theoretical tax rates	2,321	2,149
Tax on the difference between the effective and theoretical tax rates	**441**	**408**

* As at December 31st 2019, temporary differences included in the calculation of income tax for 2019, for which no deferred tax was recognised, amounted to PLN 2,799 thousand, of which PLN 1,688 thousand related to the Incentive Scheme costs, and PLN 909 thousand to impairment losses on shares in subsidiaries.

As at December 31st 2018, temporary differences included in the calculation of income tax for 2018, for which no deferred tax was recognised, amounted to PLN 4,024 thousand, of which PLN 4,010 thousand related to impairment losses on shares in subsidiaries and impairment losses on receivables.

The amount of unrecognised deferred tax assets is related to temporary differences which, in the opinion of the Company's Management Board, may not be used for tax purposes.

As at December 31st 2019, temporary differences for which no deferred tax assets were recognised amounted to PLN 49,982 thousand, of which PLN 3,103 thousand were unused tax losses on equity-related activities, incurred in 2019, PLN 44,666 thousand were impairment losses on shares in subsidiaries, and PLN 2,213 thousand were impairment losses on receivables.

As at December 31st 2018, temporary differences for which no deferred tax assets were recognised amounted to PLN 81,824 thousand, of which PLN 34,246 thousand were unused tax losses on equity-related activities, incurred in 2018, PLN 44,642 thousand were impairment losses on shares in subsidiaries, and PLN 2,936 thousand were impairment losses on receivables.

As part of the 2019 tax settlement, the Company made a deduction of tax losses incurred in previous years of PLN 16,016.8 thousand. Tax loss carryforwards of PLN 13,824.1 thousand were recognised, including tax loss carryforwards of PLN 837.6 thousand from 2015 and PLN 12,986.5 thousand from 2016. Based on its past experience of continually reporting taxable profit since 2017, which allowed the Company to gradually recover its tax losses from earlier years, as at December 31st 2019 the Company did not expect any material risk of non-recovery of tax losses brought forward.

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	5,275	-	-1,470	6,745	-	-	1,219
Contract assets	10,920	-	902	10,018	567	-	2,369
Right-of-use assets	455	-	455				
Foreign exchange gains	-	-	-56	56	-	-	431
Measurement of forward contracts	197	-52	-132	381	8	-344	-523
Other	19	-	-54	73	-	-	-24
Deferred tax liabilities	**16,866**	**-52**	**-355**	**17,273**	**575**	**-344**	**3,472**
	Deferred tax assets						
Provision for disability severance payments and retirement bonuses	240	33	43	164	-	-	-
Provision for length-of-service awards and bonuses	819	-	-258	1,077	-	-	244
Employee benefits for accrued holiday entitlements	312	-	-23	335	-	-	-33
Provision for losses on contracts	32	-	-163	195	-23	-	-424
Provision for warranty repairs	1,231	-	189	1,042	1,296	-	-254
Other provisions	181	-	13	168	25	-	-53
Tax losses to be settled	2,627	-	-3,043	5,670	-	-	-515
Contract liabilities	2,086	-	557	1,529	-967	-	-616
Foreign exchange losses	29	-	29	-	-	-	-
Salaries, wages and social security contributions payable in subsequent periods	295	-	10	285	-	-	8
Lease liabilities	-	-	-1,070	1,070	-	-	431
Impairment losses on receivables	1,145	-	-10	1,155	-	-	51
Inventory write-downs	950	-	950	-	-	-	-
R&D relief	236	-	-343	579	-	-	579
Measurement of forward contracts	191	-40	4	227	-8	138	93
Other	184	-	-37	221	-	-	147
Deferred tax assets	**10,559**	**-7**	**-3,151**	**13,717**	**323**	**138**	**-342**

Note 7. EARNINGS PER SHARE

Item	2019	2018
Net profit from continuing operations attributable to shareholders	10,620	14,431
Loss from discontinued operations attributable to shareholders		
Net profit attributable to owners of the parent	10,620	14,431
Interest on redeemable preference shares convertible into ordinary shares		
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**10,620**	**14,431**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	9,858,453	9,728,683
Earnings per share	**1.08**	**1.48**
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	9,960,771	9,848,558
Diluted earnings per share	**1.07**	**1.47**

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

Pursuant to Resolution No. 19, the General Meeting 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.

The Company's Management Board resolved that if a share buy back is performed pursuant to the General Meeting's decision, it will not recommend payment of dividend from the Company's net profit for 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 Dec 31 2018	**1,054**	**35,924**	**32,973**	**7,179**	**4,274**	**81,403**
Identification of rights of use in connection with the adoption of IFRS 16	-1,022	-	-3,133	-5,060	-	-9,216
Gross carrying amount as at Jan 1 2019 following the adoption of IFRS 16	**32**	**35,924**	**29,840**	**2,118**	**4,274**	**72,187**
Increase, including:	**-**	**1,514**	**2,297**	**344**	**26**	**4,180**
acquisitions	-	1,514	2,297	274	26	4,110
other	-	-	-	70	-	70
Decrease, including:	**-**	**-**	**322**	**889**	**-**	**1,211**
disposal	-	-	202	710	-	911
retirement	-	-	120	179	-	299
Gross carrying amount as at Dec 31 2019	**32**	**37,437**	**31,815**	**1,573**	**4,300**	**75,157**
Cumulative depreciation as at Dec 31 2018	**-**	**6,203**	**11,178**	**3,205**	**1,838**	**22,424**

Identification of rights of use in connection with the adoption of IFRS 16	-	-	-19	-1,841	-	-1,860
Cumulative depreciation as at Jan 1 2019 following the adoption of IFRS 16	**-**	**6,203**	**11,159**	**1,364**	**1,838**	**20,564**
Increase, including:	**-**	**784**	**1,947**	**150**	**318**	**3,199**
depreciation	-	784	1,947	150	318	3,199
Decrease, including:	**-**	**-**	**263**	**536**	**-**	**799**
disposal	-	-	143	533	-	676
retirement	-	-	120	-	-	120
other	-	-	-	3	-	3
Cumulative depreciation as at Dec 31 2019	**-**	**6,987**	**12,844**	**978**	**2,156**	**22,964**
Impairment losses as at Jan 1 2019	-	-	-	-	-	-
Impairment losses as at Dec 31 2019	-	-	-	-	-	-
Net carrying amount as at Dec 31 2019	**32**	**30,450**	**18,971**	**595**	**2,145**	**52,192**

Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2018

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Jan 1 2018	**1,054**	**32,870**	**29,637**	**7,636**	**3,909**	**75,105**
Increase, including:	**-**	**3,054**	**4,347**	**1,079**	**404**	**8,884**
acquisitions	-	3,054	1,214	-	404	4,671
finance leases	-	-	3,133	1,011	-	4,144
other	-	-	-	68	-	68
Decrease, including:	**-**	**-**	**1,012**	**1,537**	**38**	**2,586**
disposal	-	-	735	1,147	-	1,882
retirement	-	-	277	379	38	694
other	-	-	-	11	-	11
Gross carrying amount as at Dec 31 2018	**1,054**	**35,924**	**32,973**	**7,179**	**4,274**	**81,403**
Cumulative depreciation as at Jan 1 2018	**-**	**5,480**	**9,286**	**3,092**	**1,487**	**19,345**
Increase, including:	**-**	**723**	**2,436**	**1,157**	**374**	**4,690**
depreciation	-	723	2,436	1,157	374	4,690
Decrease, including:	**-**	**-**	**544**	**1,044**	**22**	**1,611**
disposal	-	-	318	905	-	1,222
retirement	-	-	227	139	22	388
other	-	-	-	-	-	-
Cumulative depreciation as at Dec 31 2018	**-**	**6,203**	**11,178**	**3,205**	**1,838**	**22,424**
Impairment losses as at Jan 1 2018	-	-	-	-	-	-
Impairment losses as at Dec 31 2018	-	-	-	-	-	-
Net carrying amount as at Dec 31 2018	**1,054**	**29,721**	**21,795**	**3,973**	**2,436**	**58,980**

As at December 31st 2019, the Company analysed information from external and internal sources for any indication of the need to test assets for impairment. As no indication of impairment of the Company's property, plant and equipment was found, no impairment testing was performed.

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*	
2,206	**3,267**	1,514	3,312	70	26	**552**

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*	
2,805	**8,285**	3,054	4,347	1,079	404	**2,206**

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	380	3,133	5,060	11,198
Gross carrying amount as at Jan 1 2019 following the adoption of IFRS 16	**2,625**	**380**	**3,133**	**5,060**	**11,198**
Increase, including:	**-**	**977**	**1,011**	**1,194**	**3,182**
new lease contracts	-	537	1,011	1,194	2,742
modification of contracts	-	440	-	-	440
Decrease, including:	**-**	**-**	**-**	**297**	**297**
retirement	-	-	-	297	297
Gross carrying amount as at Dec 31 2019	**2,625**	**1,357**	**4,144**	**5,957**	**14,083**
Cumulative depreciation as at Dec 31 2018	**-**	**-**	**-**	**-**	**-**
Identification of rights of use in connection with the adoption of IFRS 16	-	-	19	1,841	1,860
Cumulative depreciation as at Jan 1 2019 following the adoption of IFRS 16	**-**	**-**	**19**	**1,841**	**1,860**
Increase, including:	**23**	**267**	**97**	**910**	**1,296**
depreciation	23	267	97	910	1,296
Decrease, including:	**-**	**-**	**-**	**247**	**247**
retirement	-	-	-	247	247
Cumulative depreciation as at Dec 31 2019	**23**	**267**	**115**	**2,505**	**2,909**
Net carrying amount as at Dec 31 2019	**2,602**	**1,091**	**4,029**	**3,452**	**11,174**

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 Company shares under the share buyback programme established pursuant to Resolution No. 5 of the Company’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	Development costs	Patents and licences, software	Other intangible assets	Total
Gross carrying amount as at Jan 1 2019	**48,369**	**9,699**	**4,955**	**63,024**
Increase, including:	**7,601**	**1,275**	**-**	**8,876**
acquisitions	7,601	1,275	-	8,876
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-
Gross carrying amount as at Dec 31 2019	**55,970**	**10,974**	**4,955**	**71,900**
Cumulative amortisation as at Jan 1 2019	**7,023**	**3,680**	**3,129**	**13,832**
Increase, including:	**1,157**	**1,521**	**319**	**2,996**
amortisation	1,157	1,458	319	2,933
other	-	63	-	63
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-
Cumulative amortisation as at Dec 31 2019	**8,179**	**5,201**	**3,448**	**16,828**
Impairment losses as at Jan 1 2019	-	-	-	-
Impairment losses as at Dec 31 2019	-	-	-	-
Net carrying amount as at Dec 31 2019	**47,791**	**5,773**	**1,508**	**55,072**

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

Item	*Development costs*	*Patents and licences, software*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2018	**35,699**	**6,294**	**4,955**	**46,948**
Increase, including:	**13,746**	**3,405**	**-**	**17,151**
acquisitions	11,185	2,330	-	**13,515**
other	2,561	1,075	-	**3,636**
Decrease, including:	**1,075**	**-**	**-**	**1,075**
other	1,075	-	-	**1,075**
Gross carrying amount as at Dec 31 2018	**48,369**	**9,699**	**4,955**	**63,024**
Cumulative amortisation as at Jan 1 2018	**5,560**	**2,321**	**2,799**	**10,680**
Increase, including:	**1,463**	**1,360**	**330**	**3,152**
amortisation	1,463	1,360	330	**3,152**
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	**-**
Cumulative amortisation as at Dec 31 2018	**7,023**	**3,680**	**3,129**	**13,832**
Impairment losses as at Jan 1 2018	-	-	-	**-**
Impairment losses as at Dec 31 2018	-	-	-	**-**
Net carrying amount as at Dec 31 2018	**41,346**	**6,019**	**1,826**	**49,192**

No intangible assets are pledged as security for liabilities.

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

In 2019, the research costs recognised in the statement of comprehensive income were PLN 1,442 thousand (2018: PLN 1,118 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 operating segment level.

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. INVESTMENTS IN RELATED ENTITIES

Investments in related entities

As at Dec 31 2019	Gross amount of equity interests	Impairment losses on shares	Carrying amount of equity interests	Ownership interest (%)	% of total voting rights
SECO/WARWICK Corporation	21,806	21,806	-	100%	100%
SECO/WARWICK Rus (1)	172	172	-	100%	100%
Retech Systems LLC	50,863	12,399	38,464	100%	100%
SECO/WARWICK Retech	7,601		7,601	93%	93%
OOO SCT Russia (2)	4,228	4,228	-	50%	50%
SECO/WARWICK Germany GmbH (3)	6,035	6,035	-	100%	100%
SECO/WARWICK Systems and Services India PVT Ltd	1,268	-	1,268	100%	100%
SECO/WARWICK Service Sp. z o.o. (4)	3,412	26	3,386	100%	100%
SECO WARWICK USA Holding	7,703	-	7,703	100%	100%
Total	**103,088**	**44,666**	**58,421**		

As at Dec 31 2018	Gross amount of equity interests	Impairment losses on shares	Carrying amount of equity interests	Ownership interest (%)	% of total voting rights

SECO/WARWICK Corporation	21,806	21,806	0	100%	100%
SECO/WARWICK Rus	172	-	172	100%	100%
Retech Systems LLC	50,863	12,399	38,464	100%	100%
SECO/WARWICK Retech	7,601		7,601	93%	93%
OOO SCT Russia	4,228	4,228	0	50%	50%
SECO/WARWICK Germany GmbH	5,297	5,297	0	100%	100%
SECO/WARWICK France	886	886	0	100%	100%
SECO/WARWICK Systems and Services India PVT Ltd	1,268	-	1,268	100%	100%
SECO/WARWICK Service Sp. z o.o.	2,412	26	2,386	100%	100%
SECO WARWICK USA Holding	7,703	-	7,703	100%	100%
Total	**102,236**	**44,642**	**57,593**		

(1) In 2019, impairment losses of PLN 172 thousand were recognised on SECO/WARWICK Rus.

(2) Associate.

(3) In 2019, EUR 170 thousand (PLN 737 thousand) was contributed to SECO/WARWICK Germany GmbH's equity. Impairment losses of PLN 737 thousand were recognised.

(4) In 2019, PLN 1 million was contributed to SECO/WARWICK Services Sp. z o.o.'s equity.

Change in investments in related entities

Item	**2019**	**2018**
At beginning of period	**57,593**	**61,158**
Increase during the period, including:		
- share capital increase at SECO/WARWICK Services Sp. z o.o.	1,000	-
- share capital increase at SECO/WARWICK Germany GmbH	738	-
- share capital increase at SECO/WARWICK Allied	-	2,051
Decrease during the period, including:		
- impairment losses on investment in SECO/WARWICK Allied	-	2,051
- impairment losses on investment in SECO/WARWICK Rus	172	-
- impairment losses on investment in SECO/WARWICK Germany	737	2,679
- impairment losses on investment in SECO/WARWICK France	-	886
At end of period	**58,421**	**57,593**

In 2019, SECO/WARWICK France was liquidated – its shares, with a value of PLN 886 thousand, were fully written off.

Note 12. IMPAIRMENT TESTS

As at December 31st 2019, the Company identified indications of impairment with respect to SECO/WARWICK Germany GmbH (SWG) and SECO/WARWICK Rus (SW RUS), therefore investments in those companies were tested for impairment.

The recoverable amounts were determined using future cash flow projections based on the 2020 budget and forecasts for the next five 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	*SWG*	*SW RUS*

	(Germany)	(Russia)
Average discount rate (pre-tax)	13.90%	19.09%
Average revenue growth rate	13.19%	6.51%
Growth rate after the forecast period	2.00%	2.00%
Recoverable amount	-4,431	-139
Value of the shares	737	172
Impairment losses	737	172

Other key assumptions for the calculation of value in use:

The estimation of recoverable amount is sensitive to 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 shares 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 SW RUS (Russia)*	
Discount rates assumed in the test	-139	
+1/-1% change in discount rate	-207	232
change in average revenue growth rate: +10/-10%	1,216	-898
change in growth rate after forecast period +1/-1%	127	-113

As at December 31st 2018, the Company identified indications of impairment with respect to SECO/WARWICK Germany GmbH (SWG) and SECO/WARWICK Rus (SW RUS), and investments in those companies were tested for impairment.

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	*SWG (Germany)*	*SW RUS (Russia)*
Average discount rate (pre-tax)	13.02%	19.19%
Average revenue growth rate	21.56%	17.22%
Growth rate after the forecast period	1.00%	1.00%
Recoverable amount	3,181	2,379
Net investment	7,287	2,313
Impairment losses	4,106	NO

Based on the tests, the Company recognised a PLN 2,679 thousand impairment loss on shares in SECO/WARWICK Germany GmbH and a PLN 1,427 thousand impairment loss on receivables.

Additionally, in 2018 a PLN 886 thousand impairment loss was recognised on SECO/WARWICK France due to its planned liquidation and a PLN 2,051 thousand impairment loss on SECO/WARWICK Allied Pvt. Ltd. – due to the planned sale of shares in that company.

Sensitivity to changes of assumptions

In testing shares 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 SW RUS exceeded its carrying amount by PLN 65 thousand.

The following changes in any of the key assumptions:

- a 0.4% growth in the average pre-tax discount rate, or
- a 1% decline in the average revenue growth rate, or
- a 0.8% decline in growth rate after the forecast period

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

Note 13. INVENTORIES

Item	**Dec 31 2019**	**Dec 31 2018**
Materials	16,135	20,463

Semi-finished products and work in progress	15,804	8,743
Total inventories (carrying amount)	**31,939**	**29,207**
Inventory write-downs	5,001	4,574
Gross inventories	**36,940**	**33,780**

CHANGE IN WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	**Total**
Jan 1 2018	**264**	**5,360**	**-**	**-**	**5,624**
Decrease, including:	**-**	**-1,050**	-	-	**-1,050**
- inventory write-downs used	-	-1,050	-	-	-1,050
Dec 31 2018	**264**	**4,310**	**-**	**-**	**4,574**
Increase, including:	**750**	**-**	**-**	**-**	**750**
- inventory write-downs recognised	750	-	-	-	750
Decrease, including:	**-**	**-323**	**-**	**-**	**-323**
- inventory write-downs reversed	-	-323	-	-	-323
Dec 31 2019	**1,014**	**3,987**	**-**	**-**	**5,001**

Note 14. CONTRACT ASSETS/LIABILITIES

The Company recognised the following assets and liabilities under contracts with customers:

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 customer base. The Company'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	**73,835**	**73,131**
Effect of IFRS 15	-	2,436
Effect of IFRS 9	-	-210
Increase	267,125	198,273
Invoiced amounts transferred to trade receivables	-261,428	-199,795
Closing balance	**79,532**	**73,835**

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 33,177 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 69,922 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	68,145	39,133
1–2 years	1,777	1,537
Total unsatisfied performance obligations	**69,922**	**40,670**

Contract costs

As at December 31st 2019, the Company also recognised the following costs of obtaining a contract with a customer:

	Dec 31 2019	Dec 31 2018
As at Jan 1		
- contract costs capitalised in the period	6,331	-
- amortisation for period	95	-
- impairment losses	-	-
As at Dec 31	**6,236**	**-**

Note 15. TRADE AND OTHER RECEIVABLES

Long-term receivables

Item	Dec 31 2019	Dec 31 2018
Trade receivables	**-**	**2,082**
a) from related entities	-	1,219
b) from other entities	-	863
Other receivables	**2,072**	**3,182**
a) from related entities	-	-
b) from other entities*	2,072	3,182
Total long-term receivables	**2,072**	**5,263**

* The main item is receivables from sale of shares in S/W Brasil of PLN 1,227 thousand as at December 31st 2019 (December 31st 2018: PLN 2,429 thousand).

Short-term receivables

Item	Dec 31	Dec 31

	2019	2018
a) from related entities	**32,541**	**24,542**
- trade receivables, up to 12 months	31,635	22,462
- other	907	2,081
b) from other entities	**34,307**	**28,026**
- trade receivables, up to 12 months	26,936	21,185
- taxes, customs duties, social security and other benefits receivable	3,682	3,450
- other, including:	3,689	3,391
advance payments to suppliers	*1,736*	*1,532*
receivables from sale of S/W Brasil shares	*1,534*	*1,518*
Total net trade and other receivables	**66,848**	**52,569**
Impairment losses on receivables	8,316	5,103
Total gross trade and other receivables	**75,164**	**57,671**

As at December 31st 2019, trade receivables of PLN 8,316 thousand (2018: PLN 5,103 thousand) were classified as unrecoverable and, accordingly, relevant impairment losses were recognised. Impairment losses recognised following an individual analysis of balances amounted to PLN 3,476 thousand. Expected credit losses recognised for all receivables stood at PLN 4,840 thousand.

The Company had receivables from related entities which were significantly past due, mainly from SECO/WARWICK Germany GmbH and SECO/WARWICK Rus, so an assessment of their individual recoverable amounts was performed, resulting in the recognition of impairment losses of PLN 2,441 thousand and PLN 1,035 thousand, respectively.

Changes in impairment losses on receivables were as follows:

CHANGE IN IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES	**Dec 31 2019**	**Dec 31 2018**
Change in impairment losses in related entities		
At beginning of period	**3,480**	**7,198**
a) increase:	**3,476**	**2,513**
- recognition of impairment loss on trade receivables	3,476	2,513
b) decrease:	**-**	**6,231**
- reversal of impairment loss on trade receivables	-	29
- cancellation of trade receivables, including:	-	6,202
cancellation of SECO/WARWICK Allied's receivables	-	*5,150*
cancellation of SECO/WARWICK France's receivables	-	*1,052*
Balance of impairment losses on trade receivables from related entities at end of period	**6,956**	**3,480**

Change in impairment losses at other entities		
At beginning of period	**1,623**	**1658**
a) increase, including:	**543**	**807**
- effect of IFRS 9	-	78
- recognition of impairment loss on trade receivables	543	729
b) decrease, including:	**806**	**842**
- reversal of impairment loss on trade receivables	79	842
- write-off of receivables	722	-

- sale of receivables	5	-
Balance of impairment losses on trade receivables from other entities at end of period	**1,360**	**1623**
Balance of impairment losses on trade receivables at end of period	**8,316**	**5,104**

Ageing of trade receivables (net):

Item	**Dec 31 2019**	**Dec 31 2018**
short-term	32,875	25,412
past due more than 1 month, up to 6 months	11,372	8,657
past due more than 6 months, up to 12 months	6,278	4,021
past due over 12 months	8,045	5,557
Net trade receivables	**58,571**	**43,647**
impairment losses on trade receivables	8,316	5,103
Gross trade receivables	**66,887**	**48,750**

In the years ended December 31st 2019 and December 31st 2018, the Company did not claim any trade receivables in court.

Contingent receivables

As at December 31st 2019, the Company held guarantees for a total amount of PLN 4,499 thousand. As at December 31st 2018, the Company held guarantees totalling PLN 9,021 thousand.

Note 16. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets and liabilities

Item	**Dec 31 2019**	**Dec 31 2018**
Derivative financial instruments	846	1,340
Loans advanced*	2,000	40
Other	3	3
Total financial assets, including:	**2,849**	**1,384**
- non-current	154	30
- current	2,695	1,354

* Loan advanced to SECO/WARWICK Services Sp. z o.o., repayable on December 31st 2020.

Item	**Dec 31 2019**	**Dec 31 2018**
Other financial liabilities:	**9,928**	**7,213**
- derivative financial instruments	1,005	1,197
- lease liabilities	8,923	6,016

Total financial liabilities, including:	**9,928**	**7,213**
- non-current	6,618	4,809
- current	3,310	2,404

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 (cumulative) (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 (cumulative) (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 (cumulative) (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 (cumulative) (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	2,740	1,055
Total other non-financial assets	**2,740**	**2,070**

Note 18. CASH AND CASH EQUIVALENTS

Item	Dec 31 2019	Dec 31 2018
Cash at banks and cash in hand	22,685	38,579
Short-term deposits	414	1,191
Total cash and cash equivalents	**23,099**	**39,770**

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	2,060	2,060
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	% interest held	Type of limitation on rights to shares	Number of shares
SW Holding	None	32.89%	-	3,387,139
Spruce Holding Limited Liability Company (USA)	None	10.91%	-	1,123,337
Aviva Otwarty Fundusz Emerytalny Aviva Santander	None	10.16%	-	1,046,573
Bleauhard Holdings LLC	None	6.19%	-	637,028
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	5.83%	-	600,000
SECO/WARWICK S.A.	None	3.54%	-	364,277
Metlife OFE	None	5.61%	-	577,470
Other	None	24.88%	-	2,562,730
TOTAL		**100%**		**10,298,554**

Other components of equity

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	**9,326**	**15,150**	**-**	**-12,409**	**12,067**
Valuation of management stock option plan	1,688	-	-	-	**1,688**
Award of management stock options	-3,301	-	-	3,301	**0**
Sale of treasury shares under the incentive scheme	198	-	-	-	**198**
Actuarial gains/(losses)	-	-	-142	-	**-142**
Other components of equity as at Dec 31 2019	**7,911**	**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	**0**
Other components of equity as at Dec 31 2018	**9,326**	**15,150**	**-**	**-12,409**	**12,067**

Retained profit/(loss)

Item	Dec 31 2019	Dec 31 2018
Retained profit/(loss)	**32,235**	**36,046**
Current period's result	10,620	14,431
Retained earnings	21,615	21,615

Note 20. BORROWINGS

As at December 31st 2019

Lender	Amount in PLN '000	Currency	Limit/amount as per agreement	Interest	Repayment date	Security
mBANK S.A.	1,565	PLN	26,845	variable interest rate	Jan 31 2020	mortgage, hold on securities account
mBank – credit card limit	88	PLN	-	variable interest rate	None	None
mBank – credit card limit	20	USD	-	variable interest rate	None	None

mBank – credit card limit	93	EUR	-	variable interest rate	None	None
SANTANDER S.A. – overdraft facility	-	PLN	19,000	variable interest rate	Jan 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
BNP Paribas S.A. – overdraft facility	2,786	PLN	20,000	variable interest rate	Aug 28 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
PEKAO – overdraft facility	22,867	PLN	25,000	variable interest rate	Sep 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
Total	**27,418**					

As at December 31st 2018

Lender	Amount in PLN '000	Currency	Limit/amount as per agreement	Interest	Repayment date	Security
mBANK S.A.	7,885	PLN	26,845	variable interest rate	Jan 31 2020	mortgage, hold on securities account
mBank – credit card limit	53	PLN	-	variable interest rate	None	None
mBank – credit card limit	11	USD	-	variable interest rate	None	None
mBank – credit card limit	90	EUR	-	variable interest rate	None	None
BZ WBK – overdraft facility	15,076	PLN	19000	variable interest rate	Jan 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure

Raiffeisen – overdraft facility	18,468	PLN	20,000	variable interest rate	Aug 31 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
CITI – overdraft facility	1,373	EUR	10,000	variable interest rate	May 22 2019	trade credit secured with proceeds from the contract
PEKAO – overdraft facility	4,963	PLN	5,000	variable interest rate	Sep 11 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
PEKAO – overdraft facility	15,692	PLN	20,000	variable interest rate	Sep 8 2019	promissory note
Total	**63,611**					

Borrowings by maturity:

Item	Dec 31 2019	Dec 31 2018
Short-term borrowings	27,418	62,047
Long-term borrowings	-	1,565
- repayable in more than 1 year, up to 3 years	-	1,565
Total borrowings	**27,418**	**63,612**

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	-	27,305	-	62,138
EUR	22	93	340	1,463
USD	5	20	3	11
Total borrowings	**x**	**27,418**	**x**	**63,612**

Note 21. LEASES

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

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

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

The Company's lease liabilities are secured with the lessor's ownership title to the leased assets. As a general rule, the Company 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**
Liability amount as at Dec 31 2018	**6,016**
Recognition of liability in connection with the adoption of IFRS 16	1,917
Liability amount as at Jan 1 2019 following the adoption of IFRS 16	**7,933**
Increase (new leases)	2,742
Amendments to lease contracts	-37
Interest paid	470
Payments	-2,185
As at Dec 31 2019	**8,923**
Short-term	2,592
Long-term	6,331

Item	**2018**
As at Jan 1 2018	4,069
Increase (new leases)	3,996
Amendments to lease contracts	-362
Interest paid	260
Payments	-1,947
As at Dec 31 2018	**6,016**
Short-term	1,385
Long-term	4,631

For information on the maturities of the lease liabilities, see Note 30.4. '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	1,296
Interest expense on lease liabilities	470
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	2,216

The total cash outflow from the Company's lease contracts in 2019 was PLN 2,635 thousand.

Operating lease liabilities – the Company 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	126
From 1 year to 5 years	8
Over 5 years	-
Total	**134**

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	1,634	1,385
From 1 year to 5 years	4,963	4,631
Over 5 years	-	-
Total minimum lease payments	**6,598**	**6,016**
Future interest expense	582	
Present value of minimum lease payments, including:	**6,016**	**6,016**
Short-term	1,385	1,385
Long-term	4,631	4,631

In the year ended December 31st 2018, contingent lease payments recognised as expense in the reporting period amounted to PLN 300 thousand.

Receivables under operating leases – the Company as a lessor

The lease income recognised by the Company in 2019 amounted to PLN 908 thousand .

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	906	700
In the 2nd year	512	615
In the 3rd year	508	604
In the 4th year	498	604
In the 5th year	498	604
In more than 5 years	747	906
Total	**3,669**	**4,033**

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

Note 22. TRADE PAYABLES AND OTHER LIABILITIES

TRADE PAYABLES AND OTHER CURRENT LIABILITIES	Dec 31 2019	Dec 31 2018
a) for deliveries and services, payable in up to 12 months	42,781	37,985
b) taxes, duties, social security and other benefits (excluding income tax) payable	3,840	3,910
c) salaries and wages payable	3,039	2,804
d) capital commitments	856	268
e) other	628	323
TOTAL	**51,144**	**45,290**

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 85,661 thousand as at the end of 2019, and PLN 87,949 thousand as at the end of 2018. The following guarantees were issued:

Item	Dec 31 2019	Dec 31 2018
advance payment guarantee	37,974	40,962
loan guarantee	-	2,150
performance bond	1,266	1,054
stand-by letter of credit	17,090	12,031
payment guarantee	-	2,766
warranty obligations guarantee	5,070	4,679
Total	**61,400**	**63,643**

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

For information on sureties issued, see section 17 of the Directors' Report on the operations of SECO/WARWICK S.A.

Social assets and liabilities of the Company Social Benefits Fund

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

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

Item	Dec 31 2019	Dec 31 2018
Loans to employees	29	36
Cash	643	406
Liabilities to the fund	670	435

Contributions to the fund during the year	672	655

Note 23. EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

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

Long-term employee benefit obligations	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
at beginning of period	838	838
increase	405	-
- recognition	405	-
at end of period	**1,243**	**838**

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

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	Jan 1–Dec 31 2019	Jan 1–Dec 31 2018
- accrued holiday entitlements	1,641	1,761
- accrued bonuses	4,314	4,283
- current salaries and wages	20	24
	5,976	**6,069**

Note 24. OTHER PROVISIONS

Item	*Provision for warranty repairs and returns*	*Provision for penalties*	*Provision for loss-making contracts*	*Total*
As at Dec 31 2017	**-**	**2,738**	**-**	**2,738**
recognised during the financial year	2,869	-	-	2,869
Adjustment under IFRS 15	6,820	-	504	7,324
used	-4,205	-	-	-4,205
change in presentation of losses on contracts	-	636		636
reversed	-	-2,024	-232	-2,256
As at Dec 31 2018	**5,484**	**1,350**	**272**	**7,106**
recognised during the financial year	5,030	-	-	5,030
used	-4,037	-	-	-4,037
reversed	-	-400	-102	-502

As at Dec 31 2019	**6,477**	**950**	**170**	**7,596**

Note 25. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	Dec 31 2019	Dec 31 2018
Gain/(loss) on investing activities	**723**	**5,252**
Disposal of property, plant and equipment	137	-669
Impairment losses on shares in subsidiaries and associates	909	3,565
Liquidation of tangible assets	-323	-
Other	-	305
Cancellation of contribution to equity	-	2,051
Change in provisions results from the following items:	**661**	**-2,630**
net change in provisions	4,017	7,647
adjustment under IFRS 15	-	-6,828
actuarial gains/(losses)	-142	-
elimination of change in deferred tax liabilities	-3,213	-3,449
Change in receivables results from the following items:	**-11,088**	**1,688**
net change in receivables	-11,088	1,766
adjustment under IFRS 9	-	-78
Change in liabilities (excluding financial liabilities) results from the following items:	**5,291**	**9,328**
net change in liabilities	8,568	10,046
elimination of lease liabilities	-2,907	-1,947
elimination of liabilities under forward contracts	192	-1,179
elimination of capital commitments	-562	2,408
Change in contract assets and liabilities results from the following items:	**23,555**	**-773**
net change in contract assets and liabilities	23,555	-8,637
adjustment under IFRS 15	-	8,074
adjustment under IFRS 9	-	-210
Other	**1,688**	**1,979**
management stock options	1,688	1,979

Note 26. RELATED ENTITIES

Related entity (subsidiaries)	year	Sales to related entities	Purchases from related entities	Receivables from related entities	Liabilities to related entities
SECO/WARWICK Corporation					
	2019	7,226	774	8,199	-
	2018	5,190	200	2,691	200
SECO/WARWICK Rus					
	2019	14	2,930	1,295	6
	2018	4,414	1,322	2,406	1,581
RETECH SYSTEMS LLC					
	2019	6,694	9,596	647	4,472

	2018	20,209	2,347	3,576	555
SECO/WARWICK RETECH Thermal Equipment Manufacturing Tianjin Co., Ltd.					
	2019	1,651	1,712	2,289	5,014
	2018	1,984	1,835	1,940	4,775
SECO/WARWICK Germany GmbH					
	2019	3,428	1,716	4,809	1,406
	2018	4,717	1,831	4,766	1,571
SECO/WARWICK France					
	2019	-	-	-	-
	2018	6	10	-	-
SECO/WARWICK Services					
	2019	3,750	287	1,675	45
	2018	2,702	182	1,086	5
SECO VACUUM TECHNOLOGIES LLC					
	2019	22,669	573	12,578	1,012
	2018	16,271	406	7,098	413
SECO/WARWICK Systems and Services India					
	2019	218	876	144	273
	2018	99	761	116	301

Note 27. REMUNERATION OF KEY PERSONNEL

Senior management of SECO\WARWICK S.A. 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	0	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**

(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.

REMUNERATION OF THE SUPERVISORY BOARD:

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**

(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	2,000	40	2,000
Trade and other receivables	At amortised cost	66,848	52,569	66,848
Long-term receivables	At amortised cost	2,072	5,263	2,072
Hedging instruments	At fair value through profit or loss	846	1,340	846
Cash and cash equivalents	At amortised cost	23,099	39,770	23,099
Contract assets	At amortised cost	79,532	73,835	79,532
Sureties issued	-	-	-	24,261
Financial liabilities				
Current				
Short-term bank borrowings	At amortised cost	27,418	62,047	-
Lease liabilities	At amortised cost	2,609	1,385	-
Trade and other payables	At amortised cost	51,144	45,291	-
Hedging instruments	At fair value through profit or loss	719	1,019	-
Non-current				
Long-term bank borrowings	At amortised cost	-	1,565	-
Hedging instruments	At fair value through profit or loss	287	178	
Lease liabilities	At amortised cost	6,314	4,631	-

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 instruments in 2019

	Other interest income/(expense)	Realised 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	136	30	-3,935	-322	-	-
Long-term receivables	-	-	-	-	-	-
Hedging instruments	-	-	-	-218	1,768	-
Cash and cash equivalents	31	215	-	-301	-	-
TOTAL	**244**	**245**	**-3,998**	**-842**	**1,768**	**-**

	Other interest income/(expense)	Realised 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	-1,438	-	-	5	-	-
Lease liabilities	-453	-	-	-	-	-
Trade and other payables	-20	-140	-	169	-	-
Hedging instruments	-	-	-	-168	-1,607	-
non-current						
Long-term bank borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Hedging instruments	-	-	-	150	-	-
TOTAL	**-1,911**	**-140**	**-**	**157**	**-1,607**	**-**

Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instruments in 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						
Loans advanced	99	-	-76	-	-	-
Trade and other receivables	-	-90	3,752	1,617	-	-
Long-term receivables	-	-	-	292	-	-
Hedging instruments	-	-	-	-3,422	3,531	-
Cash and cash equivalents	-4	-	-	-	-	-
TOTAL	**95**	**-90**	**3,677**	**-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	-1,853	-55	-	328	-
Finance lease liabilities	-266	-	-	-	-
Trade and other payables	10	-	-	-380	-
Hedging instruments	-	-	-	-314	-2,189
non-current					
Long-term bank borrowings	-	-	-	-	-
Finance lease liabilities	-	-	-	-	-
Hedging instruments	-	-	-	-173	-
TOTAL	**-2,109**	**-55**	**-**	**-539**	**-2,189**

Changes in liabilities arising from financing activities

	Jan 1 2019	changes resulting from cash flows from financing activities	increase under leases	redemption/sale/assignment	effect of valuation of hedging instruments	Dec 31 2019
Non-current:						
Interest-bearing borrowings	1,565	-1,565	-	-	-	-
Lease liabilities	4,631	-	1,950	-250	-	**6,331**
Current:						
Interest-bearing borrowings	62,047	-34,629	-	-	-	**27,418**
Lease liabilities	1,385	-1,867	3,365	-291	-	**2,591**
Total liabilities arising from financing activities	**69,628**	**-38,060**	**5,315**	**-541**	-	**36,341**

	Jan 1 2019	changes resulting from cash flows from financing activities	increase under leases	redemption/sale/assignment	effect of valuation of hedging instruments	Dec 31 2018
Non-current:						
Interest-bearing borrowings	7,885	-6,320	-	-	-	**1,565**
Finance lease liabilities	3,030	-1,465	3,066	-	-	**4,631**
Current:						
Interest-bearing borrowings	62,953	-906	-	-	-	**62,047**
Finance lease liabilities	1,039	-732	1,078	-	-	**1,385**
Total liabilities arising from financing activities	**74,907**	**-9,423**	**4,144**	**-**	**-**	**69,628**

Note 29. EMPLOYMENT STRUCTURE

Item	Dec 31 2019	Dec 31 2018
Production and product unit employees	433	436
White-collar employees	102	114
Employees on parental leaves	1	2
Total	**536**	**552**

Note 30. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

As part of its operating and financing activities, the Company 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 Company 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.

30.1 Currency risk

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

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

Liabilities	As at Dec 31 2019 in foreign currency	As at Dec 31 2019 in PLN	As at Dec 31 2018 in foreign currency	As at Dec 31 2018 in PLN
EUR	3,936	16,761	3,584	15,410
USD	1,011	3,838	518	1,947
Assets	**As at Dec 31 2019 in foreign currency**	**As at Dec 31 2019 in PLN**	**As at Dec 31 2018 in foreign currency**	**As at Dec 31 2018 in PLN**
EUR	10,883	46,345	13,637	58,638
USD	9,522	36,161	5,654	21,256
Notional amount of the hedging instrument – for currency sale transactions				
EUR	53,839	229,273	20,612	88,632
USD	43,406	164,843	6,582	24,746

Sensitivity to currency risk

The Company is mainly exposed to currency risk related to the euro and US dollar.

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

Exchange rate at Dec 31 2019	Exchange rate	+ 10% increase in exchange rate	decrease in exchange rate -10%
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	decrease in exchange rate -10%
USD	3.7597	0.376	-0.376
EUR	4.3000	0.430	-0.430

Assumptions:
- exchange rate at reporting date Dec 31 2019
- 10% increase in exchange rate
- 10% decrease in exchange rate

Effect on equity		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended Dec 31 2019	**Period ended Dec 31 2018**	**Period ended Dec 31 2019**	**Period ended Dec 31 2018**
ASSETS					
Rate increase	10%	3,616	2,147	4,635	5,807
Rate decrease	-10%	-3,616	-2,147	-4,635	-5,807
LIABILITIES AND BANK BORROWINGS					
Rate increase	10%	-384	-197	-1,676	-1,526.1
Rate decrease	-10%	384	197	1,676	1,526.1
TOTAL					
Rate increase	10%	3,232	1,950	2,958	4,281
Rate decrease	-10%	-3,232	-1,950	-2,958	-4,281

Effect on profit/loss		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended Dec 31 2019	**Period ended Dec 31 2018**	**Period ended Dec 31 2019**	**Period ended Dec 31 2018**
ASSETS					
Rate increase	10%	3,616	2,147	4,635	5,807
Rate decrease	-10%	-3,616	-2,147	-4,635	-5,807
LIABILITIES AND BANK BORROWINGS					
Rate increase	10%	-384	-197	-1,676	-1,526.1
Rate decrease	-10%	384	197	1,676	1,526.1
TOTAL					
Rate increase	10%	3,232	1,950	2,958	4,281
Rate decrease	-10%	-3,232	-1,950	-2,958	-4,281

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

30.2 Interest rate risk

The Company uses interest-bearing borrowings. Liabilities under credit facilities of PLN 27,418 thousand and lease liabilities of PLN 7,321 thousand bear interest at variable rates, while lease liabilities of PLN 1,601 thousand bear interest at fixed rates. Accordingly, the Company 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 equity	Effect on profit/loss	Effect on equity
	+ 1%/- 1%		+ 1%/- 1%	
	Year ended Dec 31 2019		Year ended Dec 31 2018	
Lease liabilities	+/- 89	+/- 89	+/- 60	+/- 60
Other financial liabilities at amortised cost	+/- 274	+/- 274	+/- 636	+/- 636

30.3 Capital management

The primary objective of the Company'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 Company 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 Company monitors its equity using a gearing ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Company'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 (PLN '000)	As at Dec 31 2018 (PLN '000)
Debt	36,341	69,627
Cash and cash equivalents	-23,099	-39,770
Net debt	13,242	29,857
Equity	190,873	182,103
Net debt to equity	**6.94%**	**16.40%**

30.4 Liquidity risk

Liquidity risk is the risk that the Company may face difficulties in meeting financial liabilities. The liquidity risk management process at the Company 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 Company also manages liquidity risk by maintaining open and undrawn credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Company recognises bank borrowings as financial instruments which may potentially cause concentration of liquidity risk as the Company maintains relationships with selected financial institutions only. As at December 31st 2019, short-term bank borrowings represented 17% of total current liabilities (December 31st 2018: 38%). The Company has undrawn credit facilities of PLN 38,348 thousand; for summary information see Note 20 to these financial statements.

The table below presents the Company's financial liabilities by maturity as at December 31st 2019, based on contractual payments – following the adoption of IFRS 16.

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**
Borrowings	27,418	-	-	-	-	-	**27,419**
Trade payables	42,781	-	-	-	-	-	**42,781**
Lease liabilities	3,012	2,256	1,673	1,078	428	7,101	**15,548**
Derivative financial instruments	719	287	-	-	-	-	**1,005**
Other current liabilities	8,363	-	-	-	-	-	**8,363**
TOTAL	**82,294**	**2,543**	**1,673**	**1,078**	**428**	**7,101**	**95,116**

The table below presents the Company's financial liabilities by maturity as at December 31st 2018, based on contractual payments – before the adoption of IFRS 16.

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**
Borrowings	62,047	1,565	-	-	-	-	**63,612**
Trade payables	37,985	-	-	-	-	-	**37,985**
Lease liabilities	1,671	2,369	1,437	934	519	-	**6,930**
Derivative financial instruments	1,019	178	-	-	-	-	**1,197**
Other current liabilities	7,306	-	-	-	-	-	**7,306**
TOTAL	**110,027**	**4,112**	**1,437**	**934**	**519**	**-**	**117,030**

30.5 Credit risk

The Company 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 Company's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Company'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 Company.

The Company 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 Company uses a provision matrix estimated based on historical data on payments of amounts due from customers. The Company 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 15.

Note 31. 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 extend the list of positions eligible for participation in the Incentive Scheme and to amend the Rules of the 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 32. 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

Chief Accountant

Krzysztof Opszalski