CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST – DECEMBER 31ST 2020**

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

	Note	Year ended Dec 31 2020	Year ended Dec 31 2019 transformed*
Revenue from sale of finished goods and services		386,454	442,956
Revenue from sale of merchandise and materials		3,026	8,580
Revenue	*1*	**389,480**	**451,536**
Cost of finished goods sold and services rendered		-302,952	-332,358
Cost of merchandise and materials sold		-1,525	-7,816
Cost of sales	*3*	**-304,477**	**-340,174**
Gross profit/(loss)		**85,003**	**111,362**
Other income	*4*	9,897	3,655
Distribution costs	*3*	-24,245	-31,679
Administrative expenses	*3*	-49,105	-52,854
Impairment of receivables and contract assets	*4*	1,025	-3,056
Other expenses	*4*	-3,540	-4,544
Operating profit/(loss)		**19,035**	**22,885**
Finance income	*5*	3,734	722
Finance costs	*5*	-5,765	-3,350
Share of net profit/(loss) of equity-accounted associates		150	-
Profit/(loss) before tax		**17,154**	**20,257**
Income tax	*6*	-3,039	-4 531
Net profit/(loss) from continuing operations		14,115	15,726
Profit/(loss) from discontinued operations	*30*	-	-
Net profit/(loss)		**14,115**	**15,726**
Net profit/(loss) attributable to			
Owners of the parent		**13,773**	**15,295**
Non-controlling interests		342	432
OTHER COMPREHENSIVE INCOME:			
Items not to be reclassified to profit/(loss) in subsequent reporting periods			
Actuarial gains/(losses) on a defined benefit pension plan		565	944
Items which may be reclassified to profit/(loss) in subsequent reporting periods			
Valuation of cash flow hedging derivatives		-1,683	525
Exchange differences on translating foreign operations		-525	456
Actuarial gains/(losses)		-	-176
Income tax on other comprehensive income		320	-66
Total other comprehensive income, net		**-1,323**	**1,682**

Total comprehensive income		**12,791**	**17,409**
Total comprehensive income attributable to			
Non-controlling interests		380	529
EARNINGS PER SHARE:	*7*		
- basic earnings/(loss) per share attributable to owners of the parent		1.41	1.55
- diluted earnings/(loss) per share attributable to owners of the parent		1.40	1.53
- basic earnings/(loss) per share from continuing operations attributable to owners of the parent		1.41	1.55
- diluted earnings/(loss) per share from continuing operations attributable to owners of the parent		1.38	1.53

*Details of changes in the accounting policy are presented in section IX.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2020	Dec 31 2019 transformed*
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	54,331	60,448
Right-of-use assets	*9*	23,649	16,231
Investment property		310	334
Goodwill	*11*	38,931	39,174
Intangible assets	*10*	45,440	44,978
Long-term receivables	*15*	677	2,104
Derivative financial instruments		-	151
Other financial assets	*16*	3	3
Deferred tax assets	*6*	978	95
		164,320	**163,519**
Current assets			
Inventories	*13*	61,555	64,401
Trade receivables	*15*	84,842	56,687
Income tax assets	*15*	481	386
Other short-term receivables	*15*	13,222	12,776
Other financial assets	*16*	345	695
Other non-financial assets	*17*	3,181	4,880
Contract assets	*14*	70,022	101,984
Cash and cash equivalents		52,558	36,595
		286,205	**278,404**
TOTAL ASSETS		**450,525**	**441,923**

*Details of changes in the accounting policy are presented in section IX.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2020	Dec 31 2019 transformed*
EQUITY AND LIABILITIES			
Equity			
Share capital	*19*	3,616	3,616
Statutory reserve funds	*19*	201,557	205,773
Other components of equity	*19*	15,258	13,811
Hedging reserve		-1,524	-161
Translation reserve		20,978	21,541
Retained earnings / accumulated losses		-51,524	-55,461
Equity attributable to owners of the parent		**188,361**	**189,118**
Non-controlling interests		**855**	**475**
		189,215	**189,593**
Non-current liabilities			
Borrowings	*20*	10,690	155
Lease liabilities	*21*	16,908	9,926
Derivative financial instruments	*20*	402	287
Deferred tax liabilities	*6*	16,617	14,689
Provisions for employee benefits	*23*	2,173	2,503
Contract liabilities	*14*	598	2,186
		47,388	**29,745**
Current liabilities			
Borrowings	*20*	21,321	32,858
Lease liabilities	*20*	4,647	4,012
Derivative financial instruments	*20*	2,682	719
Other financial liabilities	*20*	-	419
Trade payables	*22*	42,961	47,647
Other current liabilities	*22*	7,693	7,601
Provisions for employee benefits	*23*	14,325	13,663
Other provisions	*24*	8,056	10,940
Contract liabilities	*14*	112,237	104,724
		213,922	**222,583**
TOTAL EQUITY AND LIABILITIES		**450,525**	**441,923**

*Details of changes in the accounting policy are presented in section IX.

CONSOLIDATED STATEMENT OF CASH FLOWS

(PLN ‘000)

	Note	Year ended Dec 31 2020	Year ended Dec 31 2019 transformed*
OPERATING ACTIVITIES			
Profit/(loss) before tax		**17,154**	**20,257**
Total adjustments:	*25*	**19,964**	**19,137**
Share of net profit/loss of a jointly controlled entity		-150	-
Depreciation and amortisation		12,999	11,329
Foreign exchange gains/(losses)		-465	100
Interest and profit distributions (dividends)		804	2,116
Gain/(loss) on investing activities		-545	-295
Change in provisions		-3,998	-2,305
Change in inventories		3,788	5,764
Change in receivables		-27,974	6,069
Change in current liabilities (other than financial liabilities)		-4,754	469
Change in contract assets and liabilities		42,044	-6,320
Change in accruals and deferrals		1,788	681
Change in currency forward contracts		851	681
Other adjustments (including management stock options)		-4,424	847
Income tax (paid)/refunded		**-742**	**-1,411**
Net cash from operating activities		**36,376**	**37,982**
INVESTING ACTIVITIES			
Cash provided by financing activities		**4,509**	**2,008**
Proceeds from disposal of intangible assets and property, plant and equipment		4,509	1,911
Other proceeds from financial assets		-	97
Cash used in investing activities		**11,538**	**12,061**
Investments in intangible assets, property, plant and equipment, and investment property		11,538	12,061
Net cash from investing activities		**-7,029**	**-10,053**
FINANCING ACTIVITIES			
Cash provided by financing activities		**29,507**	**8,356**
Borrowings		28,553	7,033
Sale of treasury shares under the incentive scheme		83	198
Grants		870	1,125
Cash used in investing activities		**42,500**	**51,848**
Repurchase of shares		14,615	-
Dividends and other distributions to owners		-	4,019
Repayment of borrowings		22,335	42,419

Payment of lease liabilities	4,098	3,363
Interest paid	1,085	2,048
Other financial expenses	367	-
Net cash from financing activities	**-12,994**	**-43,492**
Total net cash	**16,354**	**-15,563**
Net change in cash, including:	**15,962**	**-17,007**
- effect of exchange rate fluctuations on cash held	-391	-93
Cash at beginning of period	**36,595**	**53,602**
Cash at end of period	**52,558**	**36,595**

*Details of changes in the accounting policy are presented in section IX.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Hedging reserve	Other components of equity	Translation reserve	Retained earnings / accumulated losses	**Equity attributable to owners of the parent**	Equity attributable to non-controlling interests	Total equity
Note	*19*			*19*		*19*			
Equity as at Jan 1 2020	**3,616**	**205,773**	**-161**	**13,811**	**21,541**	**-55,462**	**189,119**	**475**	**189,593**
Profit/(loss) for period	-	-	-	-	-	13,773	13,773	342	14,115
Other comprehensive income	-	-	-1,364	-	-563	565	-1,361	38	-1,323
Total comprehensive income for the year	**-**	**-**	**-1,364**	**-**	**-563**	**14,338**	**12,412**	**380**	**12,791**
Management stock options	-	-	-	1,364	-	-	1,364	-	1,364
Transfer of retained earnings to statutory reserve funds	-	10,399	-	-	-	-10,399	-	-	-
Capital reserve for repurchase of shares	-	-14,615	-	14,615	-	-	-	-	-
Repurchase of shares	-	-	-	-14,615	-	-	-14,615	-	-14,615
Sale of treasury shares under the incentive scheme	-	-	-	83	-	-	83	-	83
Equity as at Dec 31 2020	**3,616**	**201,557**	**-1,524**	**15,258**	**20,978**	**-51,525**	**188,363**	**853**	**189,216**
Equity as at Jan 1 2019	**3,616**	**193,449**	**-586**	**12,067**	**21,182**	**-55,358**	**174,372**	**-54**	**174,317**
Profit/(loss) for period	-	-	-	-	-	15,295	15,295	432	15,726
Other comprehensive income	-	-	425	-142	359	944	1,585	97	1,682
Total comprehensive income for the year	**-**	**-**	**425**	**-142**	**359**	**16,238**	**16,880**	**529**	**17,409**
Allocation of profit to dividend payment	**-**	**-**	**-**	**-**	**-**	**-4,019**	**-4,019**	**-**	**-4,019**
Management stock options	-	-	-	1,688	-	-	1,688	-	1,688
Transfer of retained earnings to statutory reserve funds	-	12,323	-	-	-	-12,323	-	-	-
Sale of treasury shares under the incentive scheme	-	-	-	198	-	-	198	-	198
Equity as at Dec 31 2019	**3,616**	**205,773**	**-161**	**13,811**	**21,541**	**-55,462**	**189,119**	**475**	**189,593**

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2020

I. General information

1. Parent

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

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

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

28,21,Z	Manufacture of ovens, furnaces and furnace burners
25	Manufacture of fabricated metal products, except machinery and equipment
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
64,20,Z	Activities of financial holding companies

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

2. Duration of the Group

SECO/WARWICK S.A. and other companies of the SECO/WARWICK Group were incorporated to operate for an unlimited period of time, except SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd., which was established to operate for 27 years, i.e. until May 5th 2037.

The financial statements of all subordinates have been prepared for the same period as the Parent's financial statements, using uniform accounting policies.

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

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

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

3. Presented periods

These consolidated financial statements contain data for the period January 1st–December 31st 2020. The comparative data is presented as at December 31st 2019 (statement of financial position) and for the period

January 1st–December 31st 2019 (statement of comprehensive income, statement of cash flows, and statement of changes in equity).

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

As at the date of issue of these financial statements and as at December 31st 2020 and December 31st 2019, the Supervisory Board of SECO/WARWICK S.A. consisted 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 the date of issue of these financial statements and as at December 31st 2020 and December 31st 2019, the Supervisory Board of SECO/WARWICK S.A. consisted 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:

During the financial year:

In 2020, the composition of the Management Board did not change.

Changes in the composition of the Supervisory Board:

During the financial year:

In 2020, the composition of the Supervisory Board did not change.

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

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

5. Audit firm

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

6. Major holdings of shares

Shareholders holding over 5% of total voting rights at the Company's General Meeting as at December 31st 2020 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)	1,091,952	10.60%	1,091,952	10.60%
Bleauhard Holdings LLC	594,973	5.78%	594,973	5.78%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	5.83%
Metlife OFE	577,470	5.61%	577,470	5.61%

SECO/WARWICK S.A. holds 1,308,904 treasury shares, representing 12.71% of the share capital. The Company does not exercise voting rights in respect of the treasury shares.

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. Pursuant to the resolution, the Company will be able to repurchase up to one million shares by December 31st 2021. Shares repurchased by the Company may be cancelled on the basis of a separate resolution of the General Meeting or, upon prior approval by the Company's Supervisory Board, may be held for the purposes of existing or future incentive schemes at the Company or its subsidiaries, for further resale or for any other purpose defined in a resolution of the Company's Management Board.
On October 29th 2020, the Company acquired 1,000,000 shares covered by the invitation to tender Company shares for sale. The shares conferred the right to 9.71% of total voting rights at the Company's General Meeting. Pursuant to Art. 364.2 of the Commercial Companies Code, the Company will not exercise the rights attached to own shares other than the right to dispose of the shares and the right to take actions to preserve those rights.
On November 3rd 2020, the Company was notified by shareholder Aviva Otwarty Fundusz Emerytalny Aviva Santander of the sale of 656,919 shares in the Company. Prior to the transaction, AVIVA OFE held 1,046,573 Company shares, representing 10.16% of the Company's share capital and 10.16% of total voting rights at the General Meeting. After the transaction settlement, AVIVA OFE holds 389,654 Company shares, representing 3.78% of the share capital and 3.78% of total voting rights at the General Meeting.
Acting on the basis of a resolution of the Company's Supervisory Board dated April 22nd 2020 and Resolution No. 23 of the Annual General Meeting of June 5th 2020 on verification of the achievement of Annual Targets by Incentive Scheme Beneficiaries in 2019, announced by the Company in Current Report No. 13/2020, in the settlement of the Incentive Scheme for 2019 the Company entered into agreements for the purchase of a total of 55,373 treasury shares with the persons covered by the Incentive Scheme.
The shares were sold to the beneficiaries of the Incentive Scheme for PLN 1.50 per share.
The shares represented 0.54% of the Company's share capital and conferred the right to 55,373 votes, or 0.54% of total voting rights, at the General Meeting.
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.

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

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

7. Subsidiaries

As at December 31st 2020, SECO/WARWICK S.A. was the direct or indirect parent of the following companies:

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

Changes in the composition of the Group:

In 2020, the composition of the Group did not change.

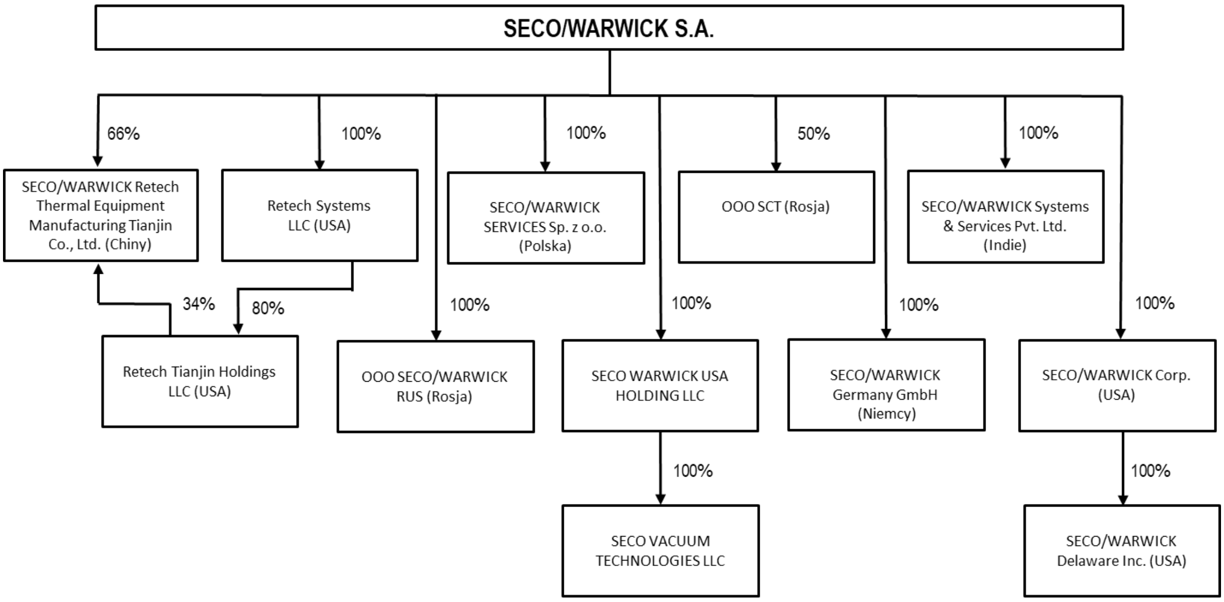
Composition of the Group as at December 31st 2020:

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)	Sales and service activities.	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	Buffalo (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)	Sales and service activities.	100%
SECO/WARWICK Services Sp. z o.o.	Świebodzin (Poland)	Repair and maintenance services	100%
SECO WARWICK USA HOLDING LLC	Wilmington (USA)	Holding company	100%
SECO VACUUM TECHNOLOGIES LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces	100%
SECO/WARWICK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	100%

8. Jointly controlled entities

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

9. Organisation of the Group



II. Authorisation of the financial statements

The Parent's Management Board authorised these consolidated financial statements for issue on April 22nd 2021.

III. The impact of the COVID-19 pandemic on the Company's situation

At the end of 2019, the first news was 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. Similar precautionary measures were implemented in most of the affected countries, including in the world's largest economies. The restrictions have strongly affected business organisations' ability to operate and have a material bearing on the current economic situation. It should also be pointed out that the epidemic 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's Management Board took steps to mitigate the adverse effect of the situation on the operations and financial results of the Company and the Company's capital Group, 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. Full working time was reinstated on August 1st 2020. A Covid19 team has been established to mitigate the effects and risks of the epidemic. Procedures and policies have been put in place, including a rotational work system with a home office option for most of the Company's employees, to minimise the risk of infection among staff. In the case of the departments in which remote work is not possible, an equivalent working time has been introduced.
The Company also decided to apply for aid under various financial assistance and business support programmes as introduced on some of the Group's markets. In the first half of 2020, SECO/WARWICK S.A. received three tranches of employee compensation subsidies totalling PLN 3.4m as part of the anti-crisis shield package in connection with reduced working hours. Grants received were recorded as a reduction of payroll expense within operating expenses. Group companies located in the USA received nearly USD 1.6 million under the PayCheck Protection Program for small and medium-sized companies. According to the PayCheck program,

part or all of the support granted may be redeemed upon fulfillment of the conditions set forth in the program. As the conditions were met and the loan forgiveness request was approved favorably, grants were received in 2020 and recorded in other operating income.
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 Group'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 Group's operations if necessary.
So far, the Group has not experienced any significant problems with the availability of feedstocks, materials or goods. 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.
The Company has identified the following as the main risks that may affect the Group's operations and financial performance and the results for the period 12 months ended at December 31st 2020 :

1. there has been no significant increase in the problem with the repayment of receivables,
2. limiting the number and value of new orders placed by the Group's contractors,
3. implementation of restrictions in the field of work and the possibility of traveling in China, Europe and the USA, causing delays in the implementation of contracts concluded by the Group companies by limiting the possibility of effective sales, as well as commissioning and servicing devices,
4. difficulties in the execution of orders due to the introduction of a remote work system to protect the health and life of employees against COVID-19,
5. potential difficulties in cooperation with key suppliers of raw materials and components for the Group,
6. as at December 31st,2020, the Group performed an impairment test for shares in the related company SECO/WARWICK USA HOLDINGS LLC (see Note 12). No impairment was recognized on the basis of the test results.

The impact of the COVID-19 pandemic on the Company and capital Group, its financial condition and results in subsequent periods depends on many factors beyond the Company's control.
These factors include, among others: the duration and severity of the pandemic, measures taken by the government to reduce the pandemic and protect society from the effects of the crisis, and thus its final impact on the Polish economy.

The company will monitor the situation resulting from COVID-19 and its impact on the Polish economy.

IV. Compliance with International Financial Reporting Standards

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

V. Going concern basis

These financial statements have been prepared on the assumption that the Group will continue as a going concern for the 12 months after the end of the reporting period, i.e. December 31st 2020.
As of December 31st, 2020, the Company's management conducted an analysis of the Company's ability to continue as a going concern taking into account the ongoing COVID-19 pandemic, as well as, among other things, the Company's current order book, projected cash flow estimates, the value of working capital, the current status of its debt and available lines of credit. Based on its analysis, the Company's management has not concluded that there are any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the balance sheet date.

VI. Basis of consolidation

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

a) Subsidiaries
An entity is the Group's subsidiary if the Group has:

- power over the entity,
- exposure, or rights, to its variable returns,
- the ability to use its power over the entity to affect the amount of its own returns.

The acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:
a) the aggregate of:
(i) the payment transferred,
(ii) the amount of any non-controlling interest in the acquiree, and
(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
b) over net identifiable assets acquired, liabilities assumed and contingent liabilities as at the acquisition date.
Following initial recognition, goodwill is recognised at cost less any cumulative impairment losses. Goodwill is not amortised.
Subsidiaries sold during a financial year are consolidated from the beginning of the financial year to the date of disposal. Financial results of entities acquired during a year are recognised in the financial statements from the date of acquisition.
Income and expenses, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, but only to the extent there is no evidence of impairment of the asset transferred in the transaction. The accounting policies of the subsidiaries have been changed whenever it was deemed necessary to align them with the accounting policies applied by the Group.

b) Equity and transactions related to non-controlling interests

Non-controlling interests are initially recognised at the non-controlling interests' share of the acquired entity's net identifiable assets. In subsequent periods, losses attributable to non-controlling interests are attributed to owners of the parent and the non-controlling interests even if this results in a negative value of the non-controlling interests.
Non-controlling interests include interests in consolidated companies which are not owned by the Group. Equity attributable to non-controlling interests is determined as the amount of the related entity's net assets which are attributable as at the acquisition date to shareholders from outside the Group. This amount is reduced/increased by any increase/decrease in equity attributable to non-controlling interests.

c) Associates and jointly controlled entities

Associates and jointly controlled entities are entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of total voting rights in an entity's governing bodies. Investments in associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost.
The Group's share in an associate's or jointly controlled entity's net profit/(loss) is recognised in the statement of comprehensive income, and the Group's share of the movements in the entity's other components of equity after the acquisition date is recognised under other components of equity. The carrying amount of the investment is increased/reduced by the amount of cumulative changes from the acquisition date.

d) Companies included in the consolidated financial statements

The following Group entities are included in these consolidated financial statements for the periods ended December 31st 2020 and December 31st 2019:

Item	% of total voting rights	
	Dec 31 2020	Dec 31 2019
SECO/WARWICK S.A.	Parent	
SECO/WARWICK Corp.	100%	100%
SECO/WARWICK Rus	100%	100%
Retech Systems LLC	100%	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	93%	93%
SECO/WARWICK Germany GmbH	100%	100%
SECO/WARWICK Systems and Services India PVT Ltd	100%	100%
SECO/WARWICK Services Sp. z o.o.	100%	100%

SECO/WARWICK of Delaware, Inc	100%	100%
Retech Tianjin Holdings LLC	80%	80%
SECO WARWICK USA HOLDING LLC	100%	100%
SECO VACUUM TECHNOLOGIES LLC	100%	100%
Jointly controlled entity:		
OOO SCT	50%	50%

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

These consolidated financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value.
Historical cost is generally determined on the basis of fair value of the consideration paid for goods and services.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. When measuring an asset or liability at fair value, the Group takes into account the characteristics of the asset or liability if market participants take these characteristics into account when measuring the assets or liabilities at the measurement date.
These financial statements are presented in the złoty ("PLN"), and unless stated otherwise, all amounts are given in thousands of PLN. Any differences between the total amounts and the sum of their components are due to rounding.

Summary of significant accounting policies

Presentation of the statement of financial position

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

Presentation of the statement of comprehensive income

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

Earnings per share

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

Intangible assets

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

- a research phase,
- a development phase.

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

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

- It is certain that the intangible asset will be completed,
- It is possible to demonstrate that the asset can be used or sold,
- The expenditure incurred can be measured reliably.

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

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

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

Grants received are not recognised as a separate item of equity and liabilities in the statement of financial position but as a reduction of the carrying amount of the asset financed with the grant. At the same time, the Group accounts for the grants in the statement of comprehensive income by reducing the amortisation charges on the assets.

Property, plant and equipment

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses, if any.
Depreciation charges are calculated using the straight-line method by estimating the useful lives of given assets, which are as follows:

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

Any gains and losses arising on sale or retirement of an asset are determined as the difference between net proceeds from the disposal, if any, and the carrying amount of the asset, and are recognised in the statement of comprehensive income.
Grants received are not recognised as a separate item of equity and liabilities in the statement of financial position but as a reduction of the carrying amount of the asset financed with the grant. At the same time, the Group accounts for the grants in the statement of comprehensive income by reducing the depreciation charges on the assets.

Property, plant and equipment under construction

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

Investment property

The Group classifies as investment property all property which is considered a source of income (earns rentals) and/or is held for capital appreciation.
Investment property is carried at cost less cumulative depreciation and impairment losses, if any.
Depreciation is charged over the estimated useful life of investment property using the straight-line method. Land is not depreciated.

Financial assets and liabilities

Classification of financial assets

Financial assets are classified into the following categories:

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

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

Measurement on initial recognition

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

Derecognition

Financial assets are derecognised when:

- The contractual rights to the cash flows from the financial asset expire, or
- Upon transfer of contractual rights to cash flows from the asset following a transaction whereby the Group transferred substantially all risks and rewards related to that financial asset.

Measurement subsequent to initial recognition

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

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

Debt instruments – financial assets at amortised cost

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

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

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

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

Recognition and measurement of financial liabilities

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

Liabilities under bank borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.
Transaction costs directly attributable to the acquisition or issue of a financial liability are added to the carrying amount of the liability because the liability is initially recognised at 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.

<u>Trade payables</u>

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 consolidated financial statements and their tax bases.

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

A deferred tax liability is recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
Deferred tax assets resulting from negative temporary differences related to such investments and shares are recognised only to the extent that it is probable that there will be sufficient taxable profits, on the basis of which it will be possible to use tax benefits resulting from temporary differences and that it is expected that the temporary differences will be reversed in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be realised. An unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.
The Group offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.
Tax settlements and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspections by authorities that are entitled to impose high fines and penalties, and any additional tax liabilities resulting from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.
The amounts presented and disclosed in financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.
On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws. In accordance with GAAR, no tax advantage can be obtained through an arrangement which is abusive. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.
The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.
The Group discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements.
Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into consideration the assessed uncertainty.

Provisions

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

recognised as a separate asset, but only when it is practically certain that such reimbursement will actually take place.
Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements. If the effect of the time value of money is material, the amount of provision is determined by discounting the projected future cash flows to their present value using a gross discount rate reflecting current market estimates of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.
Estimates of the financial result and impact are based on the judgement of the management of the companies, supported by their past experience with similar transactions and, in some cases, by reports of independent experts.
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.
The Group recognises the following provisions:

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

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

Employee benefits

Employee benefit obligations include obligations in respect of current salaries and wages, estimated employee bonuses, and accrued holiday entitlements – in an amount equivalent to the number of days of accrued unused holidays multiplied by average gross daily pay.
The Group also incurs costs related to the operation of Employee Capital Plans (PPKs) by making contributions to the investment fund. They are post-employment benefits in the form of a defined contribution plan. Costs of PPK contributions are recognised in the same cost item as the cost of salaries and wages on which they are paid. Liabilities under PPKs are presented under other liabilities.
Employee benefit obligations also include defined benefit plans. In the case of such plans, the Group pays fixed contributions to a separate entity (a fund), as a consequence of which the actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested will be insufficient to meet the expected benefits) are borne by the Group.

Share-based payments

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

Share-based payment transactions are measured by reference to the fair value of the equity instruments as at the grant date, and the fair value is measured by an independent expert using a binomial model. When measuring equity-settled transactions, market vesting conditions (related to the Group's share price) and non-vesting conditions are taken into account.
The cost of equity-settled share-based payment transactions is recognised with a corresponding increase in equity in the period in which the performance conditions and/or service conditions are satisfied and which ends on the date when the rights are fully vested in eligible employees (the "'vesting date"). The accumulated cost recognised under equity-settled transactions as at each reporting date until the vesting date reflects the passage of the vesting period and the number of awards which, in the opinion of the Group's Management Board as at that date, based on best estimate of the number of equity instruments, will finally vest.
No costs are recognised in respect of awards which do not finally vest, except for the awards where the rights are vested depending on market vesting conditions or non-vesting conditions. Such rights are treated as acquired regardless of whether such market vesting conditions or non-vesting conditions are satisfied, provided that all other performance conditions or service conditions are met.
If the terms on which equity-settled awards were granted are modified, the Group recognises, at a minimum, the cost of the original award as if they were not modified. Furthermore, costs of any increase in the value of a share-based payment transaction as a result of such modifications, measured as at the modification date, are recognised.
When an equity-settled award is cancelled, it receives the same treatment as if it vested on the date of cancellation and any unrecognised award-related costs are recognised immediately. It also applies to awards where the non-vesting conditions under the control of the Group or the employee are not met. However, if the cancelled award is replaced with a new one, both the new award, which is identified as a replacement award

on the grant date, as well as the cancelled award are accounted for as if they were a modification of the original award (as described in the above paragraph).

Contractual assets, liabilities and costs

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

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

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

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

Any excess of invoiced revenue is recognised under contract liabilities.

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

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

Leases

Right-of-use assets

The Group recognises right-of-use assets at the lease commencement date (i.e. the date when the underlying asset is made available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, the initial direct costs incurred and any lease payments made at or before the commencement date, less any lease incentives received. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term. A right-of-use asset is tested for impairment if there is any indication of impairment.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Group applies the short-term exemption to its short-term lease contracts (i.e. contracts with a lease term of 12 months or less from the commencement date, containing no purchase options). The Group also applies the low value lease exemption. Lease payments under short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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

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

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

Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

VIII. Material judgements and assumptions

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

<u>Depreciation/amortisation charges</u>

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

<u>Depreciation rates for property, plant and equipment used under lease contracts</u>

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 Group. If a lease includes an option to purchase the leased asset and the Group assumes that it will exercise this option, it does not apply useful lives equal to the contract term.

<u>Recognition of development costs</u>

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

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

<u>Impairment of development costs</u>

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

<u>Goodwill impairment</u>

The Group carried out goodwill impairment tests, which required estimation of the value in use of a cash-generating unit. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The underlying assumptions are presented in Note 12.

<u>Deferred tax assets</u>

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.

<u>Pension benefit obligations</u>

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

<u>Provision for warranty repairs</u>

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

<u>Provision for disputes concerning exposure to asbestos</u>

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

Long-term contracts

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

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

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

The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of contract completion, or the amount of profits expected to arise on other contracts.

Revenue recognised over time is revenue guaranteed under the original contract, adjusted to account for any subsequent contract modifications (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.

IX. 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 2020, in the preparation of these financial statements the Group applied the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2019.

Change of recognition and presentation of grants received

In 2020, there was a change to the accounting policies applied in the recognition and presentation of grants for development projects received to finance purchases of property, plant and equipment and intangible assets. The Group decided that starting from the financial statements for the year ended December 31st 2020, such grants will not be recognised as a separate item of equity and liabilities in the statement of financial position but as a reduction of the carrying amount of the asset financed with the grant. At the same time, the Group will account for the grants in the statement of comprehensive income by reducing the depreciation or amortisation charges on the assets. Previously, grants received were recognised in the statement of financial position under development projects, in non-current and current liabilities, and were accounted for in the statement of comprehensive income under other income.

Allocation of grants to individual asset items and recognition of depreciation and amortisation charges on asset values reduced by the amounts of grants received will enable the Group to provide a presentation of operating expenses that is more adequate from the perspective of profitability of individual projects at the gross margin level. In the opinion of the Group's Management Board, the change will also facilitate investors' assessment of the profitability of the Group's operations and its distribution costs and administrative expenses.

In addition, the Group has corrected an error to apply IFRS 16 for the lease agreement entered into by SWR (China) in 2019.

The following tables summarise the effect of changes in accounting policies on the recognition and presentation of grants received:

Statement of comprehensive income	Year ended Dec 31 2019	Effect of change in accounting policies	IFRS 16 adjustment	Year ended Dec 31 2019 – after the change
Revenue from sale of finished goods and services	442,956	-	-	442,956
Revenue from sale of merchandise and materials	8,580	-	-	8,580
Revenue	**451,536**	**-**	**-**	**451,536**
Cost of finished goods sold and services rendered	-332,712	354	-	-332,358
Cost of merchandise and materials sold	-7,816	-	-	-7,816
Cost of sales	**-340,528**	**354**	**-**	**-340,174**
Gross profit/(loss)	**111,008**	**354**	**-**	**111,362**
Other income	4,324	-669	-	3,655
Distribution costs	-31,990	311	-	-31,679
Administrative expenses	-52,858	4	-	-52,854
Impairment of receivables and contract assets	-3,056	-	-	-3,056
Other expenses	-4,544	-	-	-4,544
Operating profit/(loss)	**22,885**	**-**	**-**	**22,885**
Finance income	722	-	-	722
Finance costs	-3,350	-	-	-3,350
Profit/(loss) before tax	**20,257**	**-**	**-**	**20,257**
Income tax	-4,531	-	-	-4,531
Net profit/(loss) from continuing operations	15,726	-	-	15,726
Net profit/(loss)	**15,726**	**-**	**-**	**15,726**

Statement of financial position	Dec 31 2019	Effect of change in accounting policies	IFRS 16 adjustment	Dec 31 2019 – after the change
ASSETS				
Non-current assets				
Property, plant and equipment	65,823	-5,375	-	60,448
Right-of-use assets	13,508	-	2,723	16,231
Investment property	334	-	-	334
Goodwill	39,174	-	-	39,174
Intangible assets	55,984	-11,006	-	44,978
Long-term receivables	2,104	-	-	2,104
Other financial assets	155	-	-	155
Deferred tax assets	95	-	-	95
	177,177	**-16,381**	**2,723**	**163,518**
Current assets				
Inventories	64,401	-	-	64,401
Trade receivables	56,687	-	-	56,687
Income tax assets	386	-	-	386
Other short-term receivables	12,776	-	-	12,776
Cash and cash equivalents	36,595	-	-	36,595
Other financial assets	695	-	-	695

Other non-financial assets	4,880	-	-	4,880
Contract assets	101,984	-	-	101,984
	278,404	**-**	**-**	**278,404**
TOTAL ASSETS	**455,581**	**-16,381**	**2,723**	**441,922**

Statement of financial position	Dec 31 2019	Effect of change in accounting policies	IFRS 16 adjustment	Dec 31 2019 – after the change
EQUITY AND LIABILITIES				
Equity				
Share capital	3,616	-	-	3,616
Statutory reserve funds	205,773	-	-	205,773
Other components of equity	13,811	-	-	13,811
Hedging reserve	-161	-	-	-161
Translation reserve	21,541	-	-	21,541
Retained earnings / accumulated losses	-55,461	-	-	-55,461
Equity attributable to owners of the parent	**189,118**	**-**	-	**189,118**
Non-controlling interests	**475**			**475**
	189,593	**-**	**-**	**189,593**
Non-current liabilities				
Borrowings	155	-	-	155
Lease liabilities	7,638	-	2,287	9,926
Derivative financial instruments	287	-	-	287
Deferred tax liabilities	14,689	-	-	14,689
Provision for retirement and similar benefits	2,503	-	-	2,503
Grants for development projects	15,698	-15,698	-	-
Contract liabilities	2,186	-	-	2,186
	43,156	**-15,698**	**2,287**	**29,746**
Current liabilities				
Borrowings	32,858	-	-	32,858
Lease liabilities	3,577	-	435	4,012
Derivative financial instruments	719	-	-	719
Other financial liabilities	419	-	-	419
Trade payables	47,647	-	-	47,647
Other current liabilities	12,047	77	-	12,124
Provision for retirement and similar benefits	9,140	-	-	9,140
Other provisions	10,940	-	-	10,940
Grants for development projects	760	-760	-	-
Contract liabilities	104,724	-	-	104,724
	222,831	**-683**	**435**	**222,583**
TOTAL EQUITY AND LIABILITIES	**455,581**	**-16,381**	**2,723**	**441,922**

SECO/WARWICK
INVENTION MEETS RELIABILITY

Statement of cash flows	Year ended Dec 31 2019	Effect of change in accounting policies	IFRS 16 adjustment	Year ended Dec 31 2019 – after the change
OPERATING ACTIVITIES				
Profit/(loss) before tax	**20,257**	**-**	**-**	**20,257**
Total adjustments:	**17,786**	**-**	**-**	**17,786**
Share of net profit of associates	-	-	-	-
Depreciation and amortisation	11,998	-669	-	11,329
Foreign exchange gains/(losses)	100	-	-	100
Interest and profit distributions (dividends)	2,116	-	-	2,116
Gain/(loss) on investing activities	-295	-	-	-295
Change in provisions	-2,305	-	-	-2,305
Change in inventories	5,764	-	-	5,764
Change in receivables	6,069	-	-	6,069
Change in current liabilities (other than financial liabilities)	469	-	-	469
Change in grants for development projects	-669	669	-	-
Change in accruals, deferrals and contracts	-6,990	-	-	-6,990
Change in currency forward contracts	681	-	-	681
Management stock options	1,688	-	-	1,688
Other adjustments	-842	-	-	-842
Income tax (paid)/refunded	**-1,411**	**-**	**-**	**-1,411**
Net cash from operating activities	**36,632**	**-**	**-**	**36,632**
INVESTING ACTIVITIES				
Cash provided by financing activities	**2,008**	**-**	**-**	**2,008**
Proceeds from disposal of intangible assets and property, plant and equipment	1,911	-	-	1,911
Other proceeds from financial assets	97	-	-	97
Cash used in investing activities	**12,061**	**-**	**-**	**12,061**
Investments in intangible assets, property, plant and equipment, and investment property	12,061	-	-	12,061
Acquisition of financial assets	-	-	-	-
Net cash from investing activities	**-10,053**	**-**	**-**	**-10,053**
FINANCING ACTIVITIES				
Cash provided by financing activities	**8,356**	**-**	**-**	**8,356**
Borrowings	7,033	-	-	7,033
Sale of treasury shares under the incentive scheme	198	-	-	198
Grants	1,125	-	-	1,125
Cash used in investing activities	**51,848**	**-**	**-**	**51,848**
Dividends and other distributions to owners	4,019	-	-	4,019

Repayment of borrowings	42,419	-	-	42,419
Payment of lease liabilities	3,363	-	-	3,363
Interest paid	2,048	-	-	2,048
Other cash used in financing activities	-	-	-	-
Net cash from financing activities	**-43,492**			**-43,492**
Total net cash flows	**-16,914**	**-**	**-**	**-16,914**
Net change in cash, including:	**-17,007**	**-**	**-**	**-17,007**
- effect of exchange rate fluctuations on cash held	-93	-	-	-93
Cash at beginning of period	**53,602**	**-**	**-**	**53,602**
Cash at end of period	**36,595**	**-**	**-**	**36,595**

Presentation changes

In 2020, the presentation of employee benefit liabilities was changed by renaming the line in the statement of financial position from "Provision for pensions and similar benefits" to "Employee benefit liabilities". At the same time, liabilities on account of current remuneration in the amount of PLN 4,523 thousand, which were previously presented under "Current liabilities other", were moved to "Liabilities on account of employee benefits".

The purpose of this change is to present the entire employee benefit liabilities in one position in the statement of financial position, which in the Group's opinion better reflects the economic nature of such liabilities.

The amendments to standards and interpretations made in 2020 did not have a material effect on the accounting policies applied by the Group.

a) Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

b) Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

c) Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

d) Conceptual Framework for Financial Reporting issued on March 29th 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

e) Amendments to IFRS 16 Covid-19 Related Rent Concessions

On May 28th 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The Company is currently analysing the effect of amendments to IAS 37 which clarify what costs should be considered in the measurement of provisions for onerous contracts. The amendments introduce an approach based on costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling a contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling the contract (an example would be the allocation of the depreciation charge for machinery used in fulfilling the contract or the costs of project management or supervision). General and administrative expenses are not considered direct costs and are excluded from the calculation, unless the contract expressly provides that they are borne by the customer.

The Management Board does not expect any other amendments to the standards and interpretations to have any material bearing on the accounting policies applied by the Company.
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.

X. 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) including Amendments to IFRS 17 (issued on June 25th 2020) – effective for annual periods beginning on or after January 1st 2023; not endorsed by the EU by the date of authorisation of these financial statements for issue;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* and *Classification of Liabilities as Current or Non-Current – Deferral of Effective Date* (issued on January 23rd 2020 and July 15th 2020, respectively) – effective for annual periods beginning on or after January 1st 2023; not endorsed by the EU as at the date of authorisation of these financial statements for issue;
- Amendments to IFRS 3*: Amendments to References to the Conceptual Framework in IFRS Standards* (issued on May 14th 2020) – effective for annual periods beginning on or after January 1st 2022; not endorsed by the EU by the date of authorisation of these financial statements for issue;
- Amendments to IFRS 16: *Property, Plant and Equipment – Proceeds before Intended Use* (issued on May 14th 2020) – effective for annual periods beginning on or after January 1st 2022; not endorsed by the EU by the date of authorisation of these financial statements for issue;
- Amendments to IFRS 37: *Onerous Contracts – Cost of Fulfilling a Contract* (issued on May 14th 2020) – effective for annual periods beginning on or after January 1st 2022; not endorsed by the EU by the date of authorisation of these financial statements for issue;
- *Annual Improvements to IFRS Standards 2018–2020* (issued on May 14th 2020) – effective for annual periods beginning on or after January 1st 2022; not endorsed by the EU by the date of authorisation of these financial statements for issue;
- Amendments to IFRS 4: *Insurance Contracts – Deferral of Effective Date of IFRS 9* (issued on June 25th 2020) − effective for annual periods beginning on or after January 1st 2021;

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: *Interest Rates Benchmark Reform – Phase 2* (issued on August 27th 2020) – effective for annual periods beginning on or after January 1st 2021;
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies* (issued on February 12th 2021) – effective for annual periods beginning on or after January 1st 2023; not endorsed by the EU as at the date of authorisation of these financial statements for issue;
- Amendments to IAS 8: *Definition of Accounting Estimates* (issued on February 12th 2021) – effective for annual periods beginning on or after January 1st 2023; not endorsed by the EU by the date of authorisation of these financial statements for issue.

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.
The Group is currently in the process of analysing the impact of the amendments to IAS 37, which clarify which costs should be included in the measurement of the provision for onerous contracts. The amendments introduce an approach based on direct contract costs. Costs directly related to the contract are both incremental costs (e.g. costs of salaries and direct materials) and properly allocated part of costs directly related to the contract (e.g. depreciation of machinery used during contract execution or costs of project management and supervision). General and administrative costs are not considered direct costs and are excluded from the calculation unless such costs are explicitly charged to the client under the contract.
According to the Group's estimates, the new standards, interpretations and amendments to the existing standards awaiting endorsement by the EU will have no material effect on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2020

Note 1. REVENUE

Contracts with customers provide for the design, manufacture and installation of metal heat treatment equipment, as well as sale of spare parts and maintenance services.
Equipment of this type is often dependent on the customer's infrastructure, such as existing units and foundations. Furthermore, the design process of a unit is highly complex given the need to set up the equipment parameters in line with the customer's expectations.

Revenue and total revenue and income of the Group:

Item	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019 transformed
Revenue from sale of finished goods and services	386,454	442,956
including revenue recognised over time	*305,402*	*353,969*
Revenue from sale of merchandise and materials	3,026	8,580
TOTAL revenue	**389,480**	**451,536**
Other income	10,244	3,655
Finance income	3,734	722
TOTAL revenue and income	**403,459**	**455,913**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
European Union	108,417	181,377
Commonwealth of Independent States	51,800	18,761
USA	108,534	133,289
Asia	102,102	96,553
Other	18,628	21,556
TOTAL revenue	**389,480**	**451,536**

All revenue is recognised by the Group in accordance with IFRS 15.
In 2020, the Group also recognised revenue under a licence agreement in accordance with IFRS 15. The revenue amounted to PLN 241 thousand and was recognised under other income, and in 2019 - PLN 413 thousand.

Note 2. OPERATING SEGMENTS

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

Vacuum Furnaces (Vacuum)
Vacuum furnaces have multiple applications in a number of industries, including machine tool, aviation, power, electrical engineering, medical equipment, automotive and specialised industries. Vacuum furnaces are used in a wide variety of processes, such as heat treatment of steel and alloys, brazing, sintering, and degassing.
Melting Furnaces
Vacuum melting furnaces are used in the metallurgical industry for consolidation, smelting and refining of specialty metals, Including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Their physical properties require processing in technologically advanced equipment and in high vacuum conditions.
A separate group of melting furnaces are melting and holding furnaces used for the manufacture of precision castings (such as components of jet engines, power turbines and medical implants).
Atmosphere Furnaces (Thermal)
Atmosphere furnaces are widely used in the process of thermal and thermochemical treatment of steel and metals in protective atmospheres for improved hardness. Atmosphere furnaces designed for thermochemical treatment are used for gas carburising, gas nitriding and in other processes. Such furnaces are used chiefly in the automotive and metal industries, including for the manufacturing of roller bearings, as well as in commercial hardening plants and specialty industries.
On October 1st 2020, following a review of the solutions offered in the ATM segment, a decision was made to wind up the ATM segment and most of the segment's technologies were transferred to other business units.
Aluminium heat treatment systems (Aluminium Process)
The Aluminium Process solutions offered by the Group are used in the manufacturing of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. Aluminium Process systems are also used to heat treat aluminium castings. CAB systems are used primarily in the automotive industry for brazing of heat exchangers mounted in passenger cars and heavy goods vehicles (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive industry, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.
Aftersales
The Aftersales Segment offers conversion, upgrades and modification of customer-owned equipment, including equipment manufactured by third parties. This segment also includes sale of spare parts and all after sale services.

In the case of the business lines (vacuum furnaces, melting furnaces, atmosphere furnaces, aluminium heat treatment lines), contracts with customers provide for the design, manufacture and installation of metal heat treatment equipment, as well as sale of spare parts and maintenance services.
Equipment of this type is often dependent on the customer's infrastructure, such as existing units and foundations. Furthermore, the design process of a unit is highly complex given the need to set up the equipment parameters in line with the customer's expectations.
Therefore, the vast majority of the segments' revenue is recognised throughout contract performance. In the case of aftersales, revenue is recognised upon service completion or product transfer.

OPERATING SEGMENTS – 2020

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces (Vacuum)	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Total		
Total segment revenue	97,215	129,428	22,419	52,967	87,085	389,115	365	389,480
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	-	-	-
Segment cost of sales	-76,472	-107,998	-21,500	-37,766	-58,465	-302,201	-2,276	-304,477
Gross profit/(loss)	20,743	21,431	919	15,201	28,621	86,915	-1,911	85,003

OPERATING SEGMENTS – 2019

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces (Vacuum)	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Total		
Total segment revenue	126,161	103,218	55,540	74,523	92,018	451,461	75	451,536
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	-	-	-
Total segment expenses	-98,892	-89,308	-46,772	-48,037	-56,170	-339,120	-1,054	-340,174
Gross profit/(loss)	27,269	13,910	8,768	26,487	35,848	112,282	-920	111,362

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019 transformed
Depreciation and amortisation	12,975	11,329
Raw materials and consumables used	183,207	208,382
Services	54,578	86,825
Taxes and charges	2,011	2,348
Salaries and wages	76,677	87,172
Social security and other benefits	17,188	20,430
Other expenses	15,746	23,776
Total operating expenses, including:	**362,381**	**440,263**
Distribution costs	-24,245	-31,679
Administrative expenses	-49,105	-52,854
Change in products	20,153	-8,403
Cost of work performed by entity and capitalised	-6,231	-14,969
Cost of products sold and services rendered	**302,952**	**332,357**

DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019 transformed
Items recognised as cost of sales	**9,661**	**8,195**
Depreciation of property, plant and equipment	4,206	3,959
Depreciation of right-of-use assets	3,051	2,237
Amortisation of intangible assets	2,404	1,999
Items recognised as distribution costs	**1,352**	**1,395**
Depreciation of property, plant and equipment	838	689
Depreciation of right-of-use assets	167	56
Amortisation of intangible assets	346	651
Items recognised as administrative expenses	**1,963**	**1,715**
Depreciation of property, plant and equipment	407	758
Depreciation of right-of-use assets	1,317	482
Amortisation of intangible assets	239	475
Items recognised as other expenses	**24**	**24**
Depreciation of investment property	24	24

EMPLOYEE BENEFITS EXPENSE

PERSONNEL COSTS	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Salaries and wages	76,677	87,172
Social security and other benefits	17,188	20,430
Total employee benefits expense, including:	**93,865**	**107,602**
Items recognised as cost of sales	54,418	59,082

Items recognised as distribution costs	13,942	15,928
Items recognised as administrative expenses	25,504	32,592

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019 transformed**
Reversal of provisions	730	811
Gain on disposal of property, plant and equipment	300	516
Licence revenue	241	413
Penalties and compensation received	95	383
Income from lease of property, plant and equipment and investment property	914	785
PPP (Payroll Protection Program) loan forgiveness*	6,465	-
Impairment losses on property, plant and equipment	9	-
Settlement of the lease in connection with the failure to exercise the right to purchase the leased asset	253	-
Exemption from lease payments	236	-
Other	655	747
Total other income	**9,897**	**3,655**

OTHER EXPENSES	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Inventory write-downs	2,094	1,779
Loss on disposal of property, plant and equipment	-	39
Court expenses, compensation/damages, penalties	179	577
Impairment losses on an item of property, plant and equipment	-	730
Cost related to income from lease of property, plant and equipment	418	355
Retirement of property, plant and equipment	-	323
Provision for compensation/damages	27	-
Other	822	748
Total other expenses	**3,540**	**4,552**

* Paycheck Protection Program (PPP) - a U.S. government program designed to preserve employment, the loan upon meeting certain conditions (mainly use for certain purposes) can be forgiven. As the Group's U.S. companies have received positive decisions on the cancellation of PPP loans, the cancellation has been recognized as other operating income in 2020.

Impairment of receivables and contract assets	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Impairment of receivables	-1,025	3,056
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**-677**	**3,056**

Reversal of write-downs in the amount of PLN 1,025 thousand PLN results mainly from receiving from contractors the repayments of receivables historically considered at risk.

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Interest income	360	491
Net foreign exchange gains	3,147	231
Other	227	1
Total finance income	**3,734**	**722**

FINANCE COSTS	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Interest paid	1,090	2,120
Interest on leases	573	543
Loss on derivative instruments at maturity	3,554	-
Net gain/(loss) on derivative instruments	-	75
Impairment losses on shares in OOO SCT	-	241
Other	367	371
Total finance costs	**5,765**	**3,350**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2020 and December 31st 2019 were as follows:

INCOME TAX DISCLOSED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Current income tax	**1,630**	**1,270**
Current income tax expense	1,630	1,270
Adjustments for prior years	151	91
Deferred income tax	**1,410**	**3,261**
Related to recognition and reversal of temporary differences	1,410	3,261
Income tax expense disclosed in the statement of profit or loss	**3,039**	**4,531**

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

Item	Dec 31 2020 deferred income tax base	Dec 31 2020 other comprehensive income	Dec 31 2020 amount recognised in the statement of comprehensive income	Dec 31 2019 deferred income tax base	Dec 31 2019 other comprehensive income	Dec 31 2019 amount recognised in the statement of comprehensive income
Deferred tax liabilities						
Property, plant and equipment and intangible assets	7,077	-	387	6,690	-	-1,414
Contract assets	9,581	-	-511	10,092	-	3,123
Foreign exchange gains	130	-	159	-	-	-
Measurement of forward contracts	66	-80	-52	197	-52	-132
Right-of-use assets	555	-	100	455	-	1,526
Tax goodwill on acquisition of RETECH	7,794	-	-	7,794	-	-
Other	18	-	-302	320	-	247
Deferred tax liabilities	**25,221**	**-80**	**-219**	**25,548**	**-52**	**3,348**
Deferred tax assets						
Provision for disability severance payments and retirement bonuses	253	33	46	240	33	43
Provision for length-of-service awards and bonuses	903	-	-16	919	-	-222
Provision for accrued holiday entitlements	369	-	3	366	-	-15
Provision for losses on contracts	112	-	80	32	-	-163
Provision for warranty repairs	873	-	-358	1,231	-	301
Other provisions	333	-	87	246	-	15
Tax losses to be settled	289	-	-2,338	2,627	-	-3,043
Contract liabilities	1,458	-	-628	2,086	-	2,400
Foreign exchange losses	-23	-	-37	43	-	104
Salaries, wages and social security contributions payable in subsequent periods	319	-	-2	322	-	13
Inventory write-downs	1,112	-	162	950	-	143
Lease liabilities	134	-	-2	136	-	52
Impairment losses on receivables	1,396	-	251	1,145	-	748
R&D relief	902	-	666	236	-	-342
Measurement of forward contracts	619	285	110	191	-40	5
Other	515	-	330	184	-	51
Deferred tax assets	**9,562**	**318**	**-1,648**	**10,954**	**-7**	**88**

Note 7. EARNINGS PER SHARE

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

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

Item	Dec 31 2020	Dec 31 2019
Net profit/(loss) from continuing operations attributable to owners of the parent	13,773	15,295
Net profit/(loss) attributable to owners of the parent	13,773	15,295
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**13,773**	**15,295**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	9,765,601	9,858,453
Earnings per share	**1.41**	**1.55**
Dilutive effect:		
Number of potential shares to be issued under the incentive scheme	203,367	102,318
Number of potential shares to be issued at market price	9 870	11,007
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	9,850,711	9,960,771
Diluted earnings per share	**1.40**	**1.53**

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

In 2020, the Company did not propose or pass a resolution to pay any dividend.

On April 22nd 2020, the Supervisory Board gave a positive assessment of the Management Board's proposal to allocate SECO/WARWICK S.A.'s total net profit for 2019, of PLN 10,619,707.32 (ten million, six hundred and nineteen thousand, seven hundred and seven złoty, 32/100), to the Company's statutory reserve funds.

On June 5th 2020, the Annual General Meeting decided to retain the Company's net profit for 2019 and allocate it in full to the Company's statutory reserve funds.

Note 9. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2020

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Dec 31 2019 transformed	**649**	**45,526**	**56,938**	**4,080**	**8,740**	**115,932**
Increase, including:	**-**	**344**	**1,028**	**600**	**1,969**	**3,941**
acquisitions	-	344	748	600	1,969	3,661

Decrease, including:	**641**	**8,243**	**9,968**	**372**	**100**	**19,280**
sale	641	8,073	9,761	327	15	18,818
retirement	-	51	206	-	85	343
other	-	119	-	-	-	119
Gross carrying amount as at Dec 31 2020	**8**	**37,627**	**47,998**	**4,353**	**10,608**	**100,592**
Cumulative depreciation as at Dec 31 2019 transformed	**-**	**12,609**	**37,012**	**3,421**	**6,144**	**59,186**
Increase, including:	**-**	**1,168**	**2,107**	**325**	**1,851**	**5,451**
depreciation	-	1,168	2,107	325	1,851	5,451
Decrease, including:	**-**	**3,891**	**8,571**	**197**	**79**	**12,739**
sale	-	3,891	8,370	197	-	12,458
retirement	-	-	201	-	79	281
Cumulative depreciation as at Dec 31 2020	**-**	**9,886**	**30,547**	**3,579**	**7,915**	**51,898**
Impairment losses as at Dec 31 2019	**63**	**1,527**	**1,232**	**3**	**-**	**2,825**
Increase, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss recognition	-	-	-	-	-	-
Decrease, including:	**63**	**1,527**	**1,232**	**-**	**-**	**2,822**
use	63	1,262	1,232	-	-	2,557
impairment loss reversal	-	265	-	-	-	265
Impairment losses as at Dec 31 2020	**-**	**-**	**-**	**3**	**-**	**4**
Net exchange differences on translating financial statements into presentation currency	24	959	549	199	504	2,234
Net carrying amount as at Dec 31 2020	**32**	**28,699**	**17,998**	**1,001**	**3,195**	**50,924**

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 1 2018 transformed	**649**	**43,743**	**55,803**	**5,056**	**8,514**	**113,764**
Increase, including:	**-**	**1,791**	**2,465**	**564**	**294**	**5,114**
acquisitions	-	1,791	2,348	494	294	4,927
assets generated internally	-	-	117	-	-	117
other	-	-	-	70	-	70
Decrease, including:	**-**	**9**	**1,330**	**1,539**	**68**	**2,946**
sale	-	9	1,210	1,360	68	2,647
retirement	-	-	120	179	-	299

Gross carrying amount as at Dec 31 2019 transformed	**649**	**45,526**	**56,938**	**4,080**	**8,739**	**115,932**
Cumulative depreciation as at Dec 31 2018 transformed	**-**	**11,412**	**34,765**	**4,103**	**5,290**	**55,570**
Increase, including:	**-**	**1,234**	**3,045**	**265**	**854**	**5,398**
depreciation	-	1,234	3,045	265	854	5,398
Decrease, including:	**-**	**37**	**798**	**947**	**4**	**1,782**
sale	-	37	678	944	4	1,659
retirement	-	-	120	3	-	124
Cumulative depreciation as at Dec 31 2019 transformed	**-**	**12,609**	**37,012**	**3,421**	**6,144**	**59,186**
Impairment losses as at Jan 1 2018	**-**	**1,087**	**1,005**	**3**	**-**	**2,095**
Increase, including:	**63**	**441**	**227**	**-**	**-**	**730**
impairment loss recognition	63	441	227	-	-	730
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss reversal	-	-	-	-	-	-
Impairment losses as at Dec 31 2019	**63**	**1,527**	**1,232**	**3**	**-**	**2,825**
Net exchange differences on translating financial statements into presentation currency	94	2,693	2,120	191	404	5,502
Net carrying amount as at Dec 31 2019 transformed	**680**	**34,082**	**20,814**	**847**	**3,000**	**59,422**

Property, plant and equipment under construction:

Property, plant and equipment under construction as at Jan 1 2020	*Expenditure incurred in the financial year*	*Allocation of the expenditure*				*As at Dec 31 2020*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	
1,026	**3,403**	216	809	-	-	**3,404**

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

RIGHT-OF-USE ASSETS

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Total
Gross carrying amount as at Dec 31 2019 transformed	**2,625**	**7,000**	**4,144**	**6,969**	**20,738**
Increase, including:	**-**	**9,276**	**-**	**3,281**	**12,556**
new lease contracts	-	9,260	-	3,281	12,556
modification of contracts	-	15	-	-	15
Decrease, including:	**-**	**136**	**-**	**2,474**	**2,609**
liquidation	-	-	-	119	119
modification of contracts	-	136	-	2,354	2,490
Gross carrying amount as at Dec 31 2020	**2,625**	**16,140**	**4,144**	**7,777**	**30,685**
Cumulative depreciation as at Dec 31 2019 transformed	**23**	**1,562**	**115**	**2,807**	**4,507**
Increase, including:	**37**	**2,725**	**184**	**1,591**	**4,536**
depreciation	37	2,725	184	1,591	4,536
Decrease, including:	**-**	**-**	**-**	**1,382**	**1,382**
retirement	-	-	,	1,382	1,382
Cumulative depreciation as at Dec 31 2020	**59**	**4,287**	**299**	**3,016**	**7,661**
exchange differences	**-**	**625**	**-**	**-**	625
Net carrying amount as at Dec 31 2020	**2,565**	**12,478**	**3,845**	**4,761**	**23,650**

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Total
Gross carrying amount as at Dec 31 2018	**2,625**	**2,019**	**3,133**	**5,701**	**13,478**
Increase, including:	**-**	**4,981**	**1,011**	**1,566**	**7,557**
new lease contracts	-	4,540	1,011	1,566	7,117
modification of contracts	-	440	-	-	440
Decrease, including:	-	-	-	**297**	**297**
retirement	-	-	-	297	297
Gross carrying amount as at Dec 31 2019 transformed	**2,625**	**7,000**	**4,144**	**6,969**	**20,738**
Cumulative depreciation as at Dec 31 2018	**-**	**-**	**-**	**-**	**-**
Increase, including:	**23**	**1,562**	**97**	**1,094**	**2,775**
depreciation	23	1,562	97	1,094	2,775
Decrease, including:	**-**	**-**	**-**	**247**	**247**
retirement	-	-	-	247	247
Cumulative depreciation as at Dec 31 2019	**23**	**1,562**	**115**	**2,807**	**4,507**
Net carrying amount as at Dec 31 2019 transformed	**2,602**	**5,438**	**4,029**	**4,162**	**16,231**

Note 10. INTANGIBLE ASSETS

Changes in intangible assets (by type) in the period January 1st–December 31st 2020

Item	*Patents and licences, software*	*Development costs*	*Other intangible assets*	*Total*
Gross carrying amount as at Dec 31 2019 transformed	**15,260**	**42,449**	**5,093**	**62,801**
Increase, including:	**1,217**	**4,389**	-	**5,601**
acquisitions	1,075	4,389	-	5,644
other	142	-	-	142
Decrease, including:	**553**	**-**	**-**	**553**
other	553	-	-	553
Gross carrying amount as at Dec 31 2020	**15,924**	**45,029**	**5,093**	**66,045**
Cumulative amortisation as at Jan 1 2020	**8,334**	**5,615**	**3,859**	**17,809**
Increase, including:	**1,430**	**1,266**	**292**	**2,988**
amortisation	1,430	1,266	292	2,988
Decrease, including:	**4**	**177**	**-**	**181**
other	4	177	-	**181**
Cumulative amortisation as at Dec 31 2020	**9,760**	**6,704**	**4,151**	**20,616**
Impairment losses as at Jan 1 2020	-	-	-	-
Impairment losses as at Dec 31 2020	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	-1	10	**-**	9
Net carrying amount as at Dec 31 2020	**6,162**	**38,336**	**942**	**45,440**

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

Item	*Patents and licences, software*	*Costs of completed development work*	*Other intangible assets*	*Total*
Gross carrying amount as at Dec 31 2018 transformed	**13,506**	**34,848**	**5,093**	**53,447**
Increase, including:	**1,753**	**7,601**	**-**	**9,355**
acquisitions	1,753	6,670	**-**	8,424
other	-	931	**-**	931
Decrease, including:	**-**	**-**	**-**	**-**
other	-	-	-	-

Gross carrying amount as at Dec 31 2019 transformed	**15,260**	**42,449**	**5,093**	**62,802**
Cumulative amortisation as at Jan 1 2019	**6,379**	**4,742**	**3,503**	**14,624**
Increase, including:	**1,962**	**1,157**	**356**	**3,474**
amortisation	1,899	1,157	356	3,411
other	63	-	-	63
Decrease, including:	**7**	**284**	**-**	**-**
other	7	284	-	-
Cumulative amortisation as at Dec 31 2019	**8,334**	**5,615**	**3,859**	**17,808**
Impairment losses as at Jan 1 2019	-	-	-	-
Impairment losses as at Dec 31 2019	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	-23	8	-	-15
Net carrying amount as at Dec 31 2019	**6,902**	**36,842**	**1,234**	**44,978**

No intangible assets are pledged as security for liabilities.

As at December 31st 2020 and December 31st 2019, the Group had no intangible assets held for sale.
In 2020, the research costs recognised in the statement of comprehensive income were PLN 1,831 thousand (2019: PLN 3,047 thousand).

As at December 31st 2020, PLN 26,134 thousand of costs of completed development work and PLN 12,202 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 14,155 thousand allocated to the vacuum furnace segments;
- PLN 5,471 thousand allocated to the atmosphere furnace segments;
- PLN 1,248 thousand allocated to the aluminium furnace segments;
- PLN 1,615 thousand allocated to the melting furnace segments;
- PLN 3,645 thousand in other costs.

Costs of ongoing development work include:
- PLN 4,113 thousand allocated to the vacuum furnace segments;
- PLN 6,833 thousand allocated to the atmosphere furnace segments;
- PLN 419 thousand allocated to the aluminium furnace segments;
- PLN 2,690 thousand allocated to the melting furnace segments;
- PLN 1,257 thousand in other costs.

The Group tested expenditure on ongoing development work for impairment. To this end, each development project was analysed in terms of its progress status against the project schedule and budget, as well as confirmation of the project's business objectives. In addition, ongoing development work was analysed at the level of the operating segment of Seco/ Warwick S.A., which incurs expenditure on development work.
The total recoverable amount of segment assets was determined by reference to their value in use, calculated on the basis of cash flow projections based on financial budgets approved by the senior management and covering a five-year period, and additionally the residual value after the end of the five-year period, taking into account the expected long-term use of the technologies being developed, as anticipated from the Company's past experience.

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

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

Sensitivity to changes of assumptions

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

Note 11. GOODWILL

Item	Dec 31 2020	Dec 31 2019
Consolidation goodwill at beginning of period	39,175	38,817
Exchange differences on translation of goodwill	-243	358
Total goodwill at end of period	**38,932**	**39,175**

Consolidation goodwill	Dec 31 2020	Dec 31 2019
Retech Systems LLC- gross value	67,061	67,449
Retech Systems LLC- balance of the impairment loss	-30,004	-30,004
SW Germany	1,874	1,730
SW Germany- balance of the impairment loss	-	-
Total goodwill at end of period	**38,932**	**39,175**

In 2020, no increase/decrease in goodwill was recognised.

The Parent carried out impairment tests on goodwill in the subsidiaries Retech Systems LLC and SECO/WARWICK Germany GmbH. The tests revealed no goodwill impairment. The recoverable amounts attributable to individual cash-generating units were determined based on their calculated value in use.
The recoverable amount was determined based on future cash flow projections according to the 2021 budget and projections covering the next four years. The projections reflect the management's business experience to date and analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH (Germany)*
Average discount rate (pre-tax)	8.00%	1.10%
Average revenue growth rate	9.30%	26.20%
Growth rate after the forecast period	0%	2.00%
Goodwill	38,116	1,874
Net assets	28,962	-8,755
Value of cash generating unit	67,078	1,874
Recoverable amount	79,295	6,545

Goodwill impairment (PLN '000)	NO	NO

Other important assumptions for the calculation of the value in use:
Estimates of the value in use of a cash-generating unit are sensitive to changes of the following variables:
• Free cash flows,
• Discount rates,
• Market share in the forecast period.
Free cash flows are estimated based on historical data concerning individual cash-generating units and forecast operating profit, depreciation and amortisation, replacement capital expenditure, changes in non-cash current assets and non-financial liabilities.
Discount rate – the weighted average cost of capital (WACC) was used as a discount rate for the purposes of the impairment tests; WACC was adjusted on a case-by-case basis for premiums and discounts related to risks specific to a given tested asset (as well as for country risk and differences in the inflation rates expected in the countries in which the individual companies of the Seco/Warwick Group operate).
Growth rates are estimated based on the published findings of industry research.
Market assumptions – these assumptions are important because, in addition to the use of industry data for growth rates, the management assesses how the assets and financial position of individual cash-generating units may change during the financial period against competitors. Looking at the current volume of orders won and inquiries in one of the Group's core businesses - the US market, management expects a rebound in this market and a return to pre-Covid-19 status in 2021.

Sensitivity to changes of assumptions
In testing goodwill for impairment, a projection was made of the recoverable amount for different discount rate levels in the years 2021–2025, for each company covered by the impairment test.

Item	*Recoverable amount* *SWG (Germany)*	
Discount rates assumed in the test	6,545	
+1/-1% change in discount rate	-652	827
+10/-10% change in average revenue growth rate	1,759	-120
+1/-1% change in growth rate after forecast period	1,340	-1,376

Item	*Recoverable amount* *Retech (USA)*	
Discount rates assumed in the test	79,295	
+1/-1% change in discount rate	-7,356	+9,314
+10/-10% change in average revenue growth rate	17,250	-14,112
+1/-1% change in growth rate after forecast period	6,525	-5,074

In 2019, the recoverable amount was determined based on future cash flow projections according to the 2020 budget and projections covering the next four years. The projections reflect the management's business experience to date and analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH*

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

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

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

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

Note 12. EQUITY-ACCOUNTED INVESTEES

OOO SCT
The Group holds 50% of ordinary shares in OOO SCT (a company operating under Russian law), representing 50% of total voting rights in the company. The Russian shareholder holds the other 50% of the voting rights. The investment in OOO SCT is measured with the equity method in accordance with IAS 28.

Carrying amount of investment	
As at Dec 31 2019	**-**
Share of profit of jointly controlled entity 2020	150
Exchange differences on translating foreign operations	-377
Impairment losses	227
As at Dec 31 2020	**-**

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

As prescribed by IAS 12.44, the Group recognises deferred tax for temporary differences arising from investments in associates only to the extent it is probable that the temporary difference will reverse in the foreseeable future.
The Parent's Management Board considers the investment in OOO SCT to be a long-term investment (currently there are no plans to sell the shares). Therefore, in accordance with IAS 12.44, no deferred tax was recognised in respect of the temporary differences arising from investments in associates.

Note 13. INVENTORIES

Item	Dec 31 2020	Dec 31 2019
Materials	25,340	26,303
Semi-finished products and work in progress	30,457	32,996
Finished goods	5,151	4,339
Merchandise	606	763
Total inventories (carrying amount)	**61,555**	**64,401**
Inventory write-downs	8,010	7,714
Gross inventories	**69,564**	**72,115**

CHANGE IN WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	Total
Jan 1 2019	**279**	**5,990**	**-**	**5**	**6,273**
Increase, including:	**1,779**	**-**	**-**	**-**	**1,779**
- write-downs recognised in correspondence with other expenses	1,779	-	-	-	1,779
Decrease, including:	**-**	**338**	**-**	**-**	**338**
- use	-	323	-	-	323
Net exchange differences on translating financial statements into presentation currency	-	15	-	-	15
Dec 31 2019	**2,058**	**5,652**	**-**	**5**	**7,714**
Increase, including:	**911**	**450**	**733**	-	**2,094**
- write-downs recognised in correspondence with other expenses	911	450	733	-	2,094
Decrease, including:	**1,783**	**17**	**-**	**-**	**1,800**
- use	1,783	-	-	-	1,783
Net exchange differences on translating financial statements into presentation currency	-	17	-	-	17
Dec 31 2020	**1,187**	**6,085**	**733**	**5**	**8,009**

Note 14. CONTRACT ASSETS/LIABILITIES

Contract assets

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

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

Changes in contract assets in the twelve months ended December 31st 2020 were as follows:

	2020	2019
Opening balance	**101,984**	**102,524**
Increase	296,257	334,806
Invoiced amounts transferred to trade receivables	-328,622	-335,543
Exchange differences	403	197
Closing balance	**70,022**	**101,984**

As at December 31st 2020, expected credit losses for contract assets were at 0.44% (compared to 0.53% as at 31 December 2019). As a result, as at December 31st 2020 impairment losses were reduced by PLN 229 thousand from PLN 541 thousand up to PLN 312 thousand.

Contract liabilities

The balance of contract liabilities of approximately PLN 79,572 thousand as at January 1st 2020 was recognised as revenue generated in the 12 months ended December 31st 2020.
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 2020, the transaction price allocated to unsatisfied performance obligations under contracts with customers was PLN 112,835 thousand. The following table shows the time periods during which the Company expects to satisfy those performance obligations and recognise related revenue.

	Dec 31 2020	Dec 31 2019
Up to 1 year	112,237	104,724
1–2 years	598	2,186
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
In more than 5 years	-	-
Total unsatisfied performance obligations	**112,835**	**106,910**

Note 15. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2020	Dec 31 2019
Trade receivables (net)	**85,519**	**57,532**
long-term	**677**	**845**
- from other entities	677	845
short-term	**84,842**	**56,687**
- from other entities	85,842	56,687
Impairment losses (positive value)	**14,497**	**15,174**
Trade receivables (gross)	**100,016**	**72,706**
Other receivables:		
long-term	**-**	**1,259**
short-term	**13,703**	**13,162**
taxes, customs duties and social security receivable	5,058	5,063
sale of S/W Brasil shares	1,518	1,534
prepayments	3,879	6,061
other	3,248	504
Other receivables (gross)	**13,703**	**14,421**

As at December 31st 2020, trade receivables of PLN 14,497 thousand (2019: PLN 15,174 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised. Impairment losses recognised following an individual analysis of balances amounted to PLN 9,113 thousand. Expected credit losses recognised for all receivables stood at PLN 5,384 thousand.

Changes in impairment losses on receivables were as follows:

Item	Dec 31 2020	Dec 31 2019
At beginning of period	**15,174**	**12,376**
Increase	503	3,141
Reversal (-)	-1,140	-85
Net exchange differences on translating financial statements into presentation currency	-41	-258
At end of period	**14,497**	**15,174**

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

Item	Dec 31 2020	Dec 31 2019
up to 1 month	45,302	30,014
more than 1 month, up to 6 months	21,733	17,714
more than 6 months, up to 1 year	16,881	5,928
more than 1 year	120	845
past due	1,483	3,031
Total trade receivables (net)	**85,519**	**57,532**
Long-term receivables	677	845
Short-term receivables	84,842	56,687

Impairment losses on trade receivables	14,497	15,174
Total trade receivables (gross)	**100,016**	**72,706**

Note 16. OTHER FINANCIAL ASSETS AND LIABILITIES

Financial assets

Item	Dec 31 2020	Dec 31 2019
Financial assets available for sale	3	3
Derivative financial instruments	345	846
Total financial assets, including:	**348**	**849**
- non-current	3	155
- current	345	695

Financial liabilities

Item	Dec 31 2020	Dec 31 2019
Bank borrowings	32,011	33,013
Other financial liabilities	24,639	15,363
- derivative financial instruments	3,033	1,005
- lease liabilities	21,555	13,938
- other	51	420
Total financial liabilities, including:	**56,650**	**48,376**
- non-current	28,000	10,265
- current	28,650	38,111

	Dec 31 2020		Dec 31 2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivative financial instruments	348	3,033	849	1,005
Total financial assets and liabilities at fair value through profit or loss				
- non-current	-	-	-	-
- current	-	-	-	-
Total hedging instruments				
- non-current	3	2,856	154	287
- current	345	177	695	719

Disclosures of derivative financial instruments which qualify for hedge accounting

In 2020, the SECO/WARWICK Group used currency forwards to hedge on average 55% of its export cash flows denominated in EUR, 76% of its cash flows denominated in USD, and 65% of its cash flows denominated in GBP. The purpose was to hedge the budgeted exchange rates for contracts. Any changes in the amounts of EUR-, USD-, or GBP-denominated cash flows are offset by changes in the fair value of the hedging instrument. Hedge accounting is applied if the criteria provided for in IAS 39:88 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 2020.

Dec 31 2020	Notional amount of contract (EUR '000)	Initial notional amount of hedging instrument	Outstanding notional amount of hedging instrument as at Dec 31 2019	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	48,086	19,524	15,542	-2,808	-1,065	-1,743	Feb 26 2021 – Nov 30 2022

Dec 31 2020	Notional amount of contract (USD '000)	Initial notional amount of hedging instrument	Outstanding notional amount of hedging instrument as at Dec 31 2019	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	11,781	8,980	6,340	115	208	-93	Feb 26 2021 – Jun 30 2021

Dec 31 2020	Notional amount of contract (GBP '000)	Initial notional amount of hedging instrument	Outstanding notional amount of hedging instrument as at Dec 31 2019	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	1,275	830	580	-45	-	-45	Jun 30 2021 – Nov 30 2021

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 2018	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	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 2018	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	43,406	24,502	10,579	-417	-368	-49	Jan 31 2020 – Mar 15 2021

Note 17. OTHER NON-FINANCIAL ASSETS

Item	Dec 31 2020	Dec 31 2019
Prepayments and accrued income	3,181	4,880
Total other non-financial assets	**3,181**	**4,880**

Note 18. CASH AND CASH EQUIVALENTS

Item	Dec 31 2020	Dec 31 2019
Cash at banks and cash in hand	52,176	35,050
Short-term deposits	382	1,546
Total cash and cash equivalents	**52,558**	**36,595**

Note 19. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Item	Dec 31 2020	Dec 31 2019
Number of shares	10,298,554	10,298,554
Par value of shares	0.2	0.2
Share capital	2,059	2,059
Restatement due to hyperinflationary conditions	1,557	1,557
Share capital at end of period	**3,616**	**3,616**

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

Shareholding structure:

Shareholders as at Dec 31 2020	Share preference	Type of limitation on rights to shares	Number of shares	Ownership interest (%)
SW Holding	None	-	3,387,139	32.89%
Spruce Holding Limited Liability Company (USA)	None	-	1,091,952	10.60%
Bleauhard Holdings LLC	None	-	594,973	5.78%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	-	600,000	5.83%
SECO/WARWICK S.A.	None	-	1,308,904	12.71%

Metlife OFE	None	-	577,470	5.61%
Other	None	-	2,738,116	26.59%
TOTAL			**10,298,554**	**100%**

Other components of equity:	**Share-based payment reserve**	**Share buyback reserve**	**Actuarial gains/(losses)**	**Treasury shares**	**Total other components of equity**
Other components of equity as at Jan 1 2020	**7,910**	**15,150**	**-142**	**-9,107**	**13,811**
Valuation of management stock option plan	1,364	-	-	-	**1,364**
Award of management stock options	-1,384	-	-	1,384	**-**
Repurchase of shares	-	14,615	-	-14,615	-
Sale of treasury shares under the incentive scheme	83	-	-	-	**83**
Actuarial gains/(losses)	-	-	-	-	**-**
Other components of equity as at Dec 31 2020	**7,973**	**29,765**	**-142**	**-22,338**	**15,258**
Other components of equity as at Jan 1 2019	**9,325**	**15,150**	**-**	**-12,408**	**12,067**
Valuation of management stock option plan	1,688	-	-	-	**1,688**
Award of management stock options	-3,301	-	-	3,301	**-**
Sale of treasury shares under the incentive scheme	198	-	-	-	**198**
Actuarial gains/(losses)	-	-	-142	-	**-142**
Other components of equity as at Dec 31 2019	**7 910**	**15 150**	**-142**	**-9 107**	**13 811**

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

Note 20. BORROWINGS

On March 12th 2020, SECO/WARWICK S.A. executed a PLN 15,000 thousand investment credit facility agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 1,000,000 Company shares under the share buyback programme established pursuant to Resolution No. 5 of the Company's Extraordinary General Meeting of February 12th 2020. As at the date of signing Annex 3, i.e. November 10th 2020, the amount drawn under the facility was PLN 14,500 thousand. As at December 31st 2020, the total amount drawn under the facility was PLN 13,694 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:

- No. 195/94, situated at ul. Zachodnia 76, Świebodzin
- No. 195/80, situated at ul. Zachodnia 76, Świebodzin

As at Dec 31 2020

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	PLN '000	In foreign currency ('000)						
HSBC Bank	577	1,004	CNY	CNY 1,004	Mar 15 2021	SBLC	*fixed*	Overdraft facility
Huntington National Bank	121	32	USD	32 USD	Jan 31 2026		*fixed*	Overdraft facility
Volkswagen Credit	97	26	USD	26 USD	Sep 30 2026		*fixed*	Overdraft facility
SANTANDER	1,077	-	PLN	2,000	Jan 31 2020	-	variable	Overdraft facility
mBank	35	-	PLN	-	-	-	-	Credit card limit
mBank	20	4	EUR	-	-	-	-	Credit card limit
mBank	30	-	PLN	-	-	-	promissory note	Credit card limit
mBank	-		USD	-	-	-	promissory note	Credit card limit
mBank	42	9	EUR	-	-	-	promissory note	Credit card limit
BNP Paribas	4,827	-	PLN	20,000	Sep 30 2021	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
PEKAO	-	-	PLN	25,000	Aug 31 2021	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
mBank	13,694	-	PLN	14,500	Mar 31 2025	mortgage, surety provided by SWE, hold on securities account	variable	Investment facility
Santander	11,492	-	PLN	19,000	Feb 28 2021	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
Total	**32,011**							

As at December 31st 2019

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	PLN '000	In foreign currency ('000)						
Citibank	188	345	CNY	CNY 345	Oct 15 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Jun 10 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Nov 11 2020	SBLC	fixed	Overdraft facility
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Dec 10 2020	SBLC	fixed	Overdraft facility
HSBC Bank	49	12	EUR	EUR 90	Dec 3 2020	-	fixed	Overdraft facility
Toyota Kreditbank	27	6	EUR	EUR 6	May 15 2021	-	fixed	Overdraft facility
Toyota Kreditbank	29	7	EUR	EUR 7	Jun 15 2021	-	fixed	Overdraft facility
Huntington National Bank	119	31	USD	USD 31	Dec 31 2022		fixed	Overdraft facility
SANTANDER	1,866	-	PLN	PLN 2,000	Jan 31 2020	-	variable	Overdraft facility
mBank	108	-	PLN	PLN 108	-	-	-	Credit card limit
mBank	20	5	USD	USD 20	-	-	promissory note	Credit card limit
mBank	116	27	EUR	EUR 116	-	-	promissory note	Credit card limit
BNP Paribas	2,786	-	PLN	PLN 20,000	Aug 28 2020	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
PEKAO	22,867	-	PLN	PLN 25,000	Sep 30 2020	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
mBank	1,565	-	PLN	PLN 26,845	Jan 31 2020	mortgage, surety provided by SWE, hold on securities account	variable	Investment facility
Santander	-	-	PLN	PLN 19,000	Jan 31 2020	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
Total	**33,013**							

Borrowings by maturity:

Item	Dec 31 2020	Dec 31 2019
Short-term borrowings	21,321	32,858
Long-term borrowings	10,690	155
- repayable in more than 1 year, up to 3 years	9,884	155
- repayable in more than 3 year, up to 5 years	806	-
Total borrowings	**32,011**	**33,013**

Borrowings by currency:

Item	Dec 31 2020		Dec 31 2019	
	amount in foreign currency	amount in PLN	amount in foreign currency	amount in PLN
PLN		31,154	-	29,191
EUR	13	62	52	222
USD	58	218	37	139
CNY	1,004	577	6,345	3,461
Total borrowings		**32,011**		**33,013**

Note 21. LEASES

The Group as a lessee

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

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

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

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

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

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

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

Item		2019
As at Jan 1 2020	13,939	9,894
Increase (new leases)	12,741	7,116
Amendments to lease contracts	-1,051	-101
Interest paid	753	550
Payments	-4,826	-3,520
As at Dec 31 2020	21,556	13,939
Current	4,648	4,012
Non-current	16,908	9,926

The largest item increasing the level of leases at the end of 2020, i.e. PLN 8,999 thousand. PLN is a new office and production complex of Retech Systems in Buffalo, Pennsylvania (USA).

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

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

Item	2020	2019
Depreciation of right-of-use assets	4,536	2,654
Interest expense on lease liabilities	753	550
Cost of short-term leases (included in cost of products and services sold)	2,691	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	7,980	3,654

Receivables under operating leases – the Group as a lessor

As at December 31st 2020 and December 31st 2019, the maturities of lease payments were as follows (at undiscounted amounts):

Item	Dec 31 2020	Dec 31 2019
In the 1st year	886	906
In the 2nd year	599	512
In the 3rd year	587	508
In the 4th year	587	498
In the 5th year	587	498

In more than 5 years	373	747
Total	**3,619**	**3,669**

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

Note 22. TRADE AND OTHER PAYABLES

Item	Dec 31 2020	Dec 31 2019
short-term	50,654	55,248
long-term	-	-
Total	**50,654**	**55,248**

TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Item	Dec 31 2020	Dec 31 2019
Trade payables		
To other entities	42,961	47,647
Total	**42,961**	**47,647**
Taxes, customs duties, social security and other charges payable	5,523	5,164
Income tax payable	117	41
Other liabilities	2,053	2,396
Total other liabilities	**7,693**	**7,601**
Total trade and other payables	**50,654**	**55,249**

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 31,571 thousand as at the end of 2020, and PLN 44,563 thousand as at the end of 2019. The following guarantees were issued:

Item	Dec 31 2020	Dec 31 2019
advance payment guarantee	24,299	37,974
bid bond payment guarantee	166	-
performance bond	1,961	1,519
bid bond	5,145	5,070
Total	**31,571**	**44,563**

As at December 31st 2020, there were no material expected credit losses under financial guarantees issued.

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

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

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

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

Item	Dec 31 2020	Dec 31 2019
Loans to employees	12	29
Cash	441	643
Liabilities to the fund	441	670
Net balance	12	2
Contributions to the fund during the year	565	672

Capital commitments

As at December 31st 2020, the Group had commitments of PLN 5 thousand to incur capital expenditure on property, plant and equipment.

Note 23. EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

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

Provision for retirement bonuses and similar benefits

LONG-TERM PROVISION FOR EMPLOYEE BENEFIT OBLIGATIONS	Jan 1 – Dec 31 2020	Jan 1 – Dec 31 2019
at beginning of period	**2,503**	**2,808**
increase	122	470
recognition	122	470
use	31	-
reversal	421	775
at end of period	**2,173**	**2,504**

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

Item	Dec 31 2020	Dec 31 2019
Discount rate (%)	1.25	2.00

Expected inflation rate (%)	3.00	5.00
Expected rate of growth of salaries and wages (%)	5.00	5.00

SHORT-TERM PROVISION FOR EMPLOYEE BENEFIT OBLIGATIONS/ ACCRUED HOLIDAY ENTITLEMENTS, ETC.	**Jan 1 – Dec 31 2020**	**Jan 1 – Dec 31 2019**
1. Accrued holiday entitlements		
at beginning of period	**3,845**	**4,763**
- recognition	6,383	4,578
- use	6,839	5,497
at end of period	**3,389**	**3,845**
2. Accrued bonuses		
at beginning of period	**5,419**	**4,985**
- recognition	2,689	4,089
- use	2,531	3,655
at end of period	**5,577**	**5,419**
3. Employee benefit obligations		
at beginning of period	**23**	**25**
- recognition	-	-
- use	10	3
at end of period	**12**	**23**
4. Current payroll liabilities	**5,346**	**4,376**

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

Item	**Dec 31 2020**	**Dec 31 2019**
Discount rate (%)	2.01	2.89
Expected rate of return on assets (%)	6.00	6.00

RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)

Item	**2020**	**2019**
Change in plan's obligation		
Obligation as at beginning of period	**15,524**	**14,510**
Administration costs	-	-
Interest expense	445	559
Actuarial gain/(loss)	1,593	1,375
Contributions paid	- 1,140	-1,067
Effect of currency translation on presentation currency	- 196	147
Obligation as at end of period	**16,226**	**15,524**
Change in plan's assets		
Fair value of plan's assets at beginning of period	**15,006**	**13,129**

Interest income/(loss) on plan's assets	429	510
Additional gain/(loss) on plan's assets	2,198	2,336
Benefits paid	-1,140	-1,080
Effect of currency translation on presentation currency	-212	111
Fair value of plan's assets at end of period	**16,280**	**15,006**

Note 24. OTHER PROVISIONS

Item	*Provision for warranty repairs and returns*	*Provision for contractual penalties*	*Provision for loss-making contracts*	*Other provisions – contingent liability*	*Total*
As at Dec 31 2018	**11,053**	**1,557**	**337**	**-**	**12,947**
Provisions recognised during the financial year	6,444	-	-	-	6,444
Increase	**6,444**	**-**	**-**	**-**	**6,444**
Provisions used	-7,709	-	-	-	-7,709
Provisions reversed	-	-571	-165	-	-736
Decrease	**-7,709**	**-571**	**-165**	-	**-8,445**
As at Dec 31 2019	**9,788**	**986**	**172**	**-**	**10,946**
Provisions recognised during the financial year	2,436	87	419	-	3,689
Increase	**2,436**	**87**	**419**	**-**	**3,689**
Provisions used	-5,044	-45	-	-	-5,089
Provisions reversed	-	-730	-	-	-730
Decrease	**-5,044**	**-775**	**-**	**-**	**-5,819**
As at Dec 31 2020	**7,179**	**298**	**579**	**-**	**8,056**

Note 25. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	Dec 31 2020	Dec 31 2019
Cash in the statement of financial position	**52,558**	**36,595**
Exchange differences on measurement of cash	-	-
Monetary assets classified as cash equivalents for the purposes of the statement of cash flows	-	-
Total cash and cash equivalents in the statement of cash flows	**52,558**	**36,595**

Item	Dec 31 2020	Dec 31 2019
Depreciation and amortisation:	**12,999**	**11,330**
Amortisation of intangible assets	2,988	3,125

Depreciation of right-of-use assets	4,535	2,775
Depreciation of property, plant and equipment	5,451	5,406
Depreciation of investment property	24	24
Change in provisions (excluding elimination of income tax liabilities) results from the following items:	**-3,999**	**-2,305**
Net change in provisions	-624	336
Elimination of change in deferred tax liabilities	-1,929	-3,280
Exchange differences	-881	-164
Provisions for employee benefits	-565	803
Change in inventories results from the following items:	**3,789**	**5,764**
Net change in inventories	2,847	2,858
Reclassification of property, plant and equipment to inventories	-	2,626
Exchange differences	942	280
Change in receivables (excluding elimination of income tax receivable) results from the following items:	**-27,974**	**6,069**
Net change in receivables	-27,269	3,603
Elimination of income tax receivable	95	63
Exchange differences	-799	2,402
Change in liabilities (excluding financial liabilities) results from the following items:	**-4,754**	**470**
Net change in liabilities	4,682	7,200
Change in investment commitments	825	-562
Exchange differences	-566	-1,540
Change in lease liabilities	-7,617	-4,820
Valuation of derivative instruments	-2,078	192
Change in contract assets and liabilities results from the following items:	**42,044**	**-6,320**
net change in contract assets and liabilities	37,887	-4,925
Exchange differences	4,157	-1,395

Note 26. RELATED ENTITIES

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

Note 27. REMUNERATION OF KEY PERSONNEL

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

Remuneration of the Management Board

Name and surname	Remuneration in the period	Other benefits	Accrued incentive scheme costs	Total remuneration in the period
Dec 31 2020	**(PLN ‘000)**	**(PLN ‘000)**	**(PLN ‘000)**	**(PLN ‘000)**

Sławomir Woźniak	448	441	351	1,240
Jarosław Talerzak	364	143	16	522
Piotr Walasek	336	180	118	634
Earl Good	1,124	-	123	1,247
Bartosz Klinowski	336	136	306	778
Total	**2,608**	**899**	**914**	**4,422**
Dec 31 2019				
Sławomir Woźniak	444	174	379	998
Paweł Wyrzykowski(1)	181	807	285	1,273
Jarosław Talerzak(2)	228	14	20	262
Piotr Walasek(3)	210	5	125	339
Earl Good(4)	1,040	-	74	1,114
Bartosz Klinowski	345	247	618	1,210
Total	**2,448**	**1,248**	**1,501**	**5,197**

(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 2020	**Dec 31 2019**
Andrzej Zawistowski, including:	211	218
- for his service as Chairman of the Supervisory Board	147	120
- under contract for advisory services(1)	64	98
Jeffrey Boswell, including:	135	165
- under employment contract(2)	135	165
Henryk Pilarski	51	54
Marcin Murawski	40	43
Jacek Tucharz	39	43
Total	**477**	**523**

Remuneration of the SUPERVISORY BOARD

(1) Under a service contract between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities as USŁUGI DORADCZE Andrzej Zawistowski. The contract of July 2nd 2012 is for the provision of technical and product development advisory services.
(2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.

Note 28. FINANCIAL INSTRUMENTS

Item	Category under IFRS 9	Carrying amount		Maximum credit risk exposure in 2020
		Dec 31 2020	Dec 31 2019	
Financial assets				
Loans advanced	At amortised cost	-	-	-
Trade and other receivables	At amortised cost	98,545	69,849	98,545
Long-term receivables	At amortised cost	677	2,104	677
Hedging instruments	At fair value	345	695	345
Cash and cash equivalents	At amortised cost	52,558	36,595	52,558
Financial liabilities				
current				
Short-term bank borrowings	At amortised cost	21,321	32,858	-
Lease liabilities	At amortised cost	4,647	4,012	-
Trade and other liabilities	At amortised cost	47,411	55,250	-
Hedging instruments	At fair value	2,682	719	-
non-current				
Long-term bank borrowings	At amortised cost	10,690	155	-
Hedging instruments	At fair value	402	287	-
Lease liabilities	At amortised cost	16,908	9,926	-

At amortised cost – measurement at amortised cost

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

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

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

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

2020

	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	98	-	-29	-	-	-
Trade and other receivables	135	841	-1,424	1,200	-	-
Long-term receivables	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-82	265	-
Cash and cash equivalents	102	1,086	-	391	-	-
TOTAL	**335**	**1,927**	**-1,453**	**1,510**	**265**	**-**

	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	-913	-2	-	-7	-	-
Lease liabilities	-753	-	-	-	-	-
Trade and other payables	-152	409	-	-679	-	-
Hedging instruments	-	-	-	-507	-3,157	-
non-current	-	-	-	-	-	-
Long-term bank borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Hedging instruments	-	-	-	-73	-	-
TOTAL	**-1,818**	**407**	**-**	**-1,277**	**-3,157**	**-**

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

2019

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

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

Changes in liabilities arising from financing activities

2020

	Jan 1 2020	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2020
Interest-bearing borrowings (long-term)	155	**10,536**	**-**	**-**	**-**	**10,690**
Lease liabilities (long-term)	9,926	**-1,491**	**8,473**	**-**	**-**	**16,908**
Interest-bearing borrowings (short-term)	32,858	**-11,055**	**-**	**-482**	**-**	**21,321**
Lease liabilities (short-term)	4,012	**-2,262**	**2,897**	**-**	**-**	**4,647**
Derivative financial instruments	719	**-**	**-**	**-**	**1,963**	**2,682**
Total liabilities arising from financing activities	47,669	**-4,272**	**11,370**	**-482**	**1,963**	**56,248**

2019

	Jan 1 2019	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2019
Interest-bearing borrowings (long-term)	1,719	**-1,564**	**-**	**-**	**-**	**155**
Lease liabilities (long-term)	4,914	**-**	**4,994**	**-**	**-**	**9,926**
Interest-bearing borrowings (short-term)	67,794	**-33,821**	**-**	**-1,115**	**-**	**32,858**
Lease liabilities (short-term)	1,481	**-3,362**	**5,857**	**-**	**-**	**4,012**
Other financial liabilities	488	**-**	**-**	**-**	**-**	**488**
Total liabilities arising from financing activities	77,594	**-38,748**	**10,801**	**-1,115**	**-192**	**47,439**

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

	2020		
	Level 1	Level 2	Level 3
	PLN '000	PLN '000	PLN '000
Financial assets			
Investments in related entities	-	-	-
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-
Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	345	-
- *Currency forwards*	-	345	-
Cash and cash equivalents	-	-	-
Sureties issued	-	-	-
		-	
Total	-	345	-
Financial liabilities			
current			
Interest-bearing borrowings, including:	-	-	-
- *Overdraft facility*	-	-	-
- *Short-term borrowings*	-	-	-
- *Finance lease liabilities (short-term)*	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	2,682	-
long-term	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- *Finance lease liabilities*	-	-	-
		-	
Total	-	2,682	-

	2019		
	Level 1	Level 2	Level 3
	PLN '000	PLN '000	PLN '000
Financial assets			
Investments in related entities	-	-	-

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

Note 29. EMPLOYMENT STRUCTURE

Item	Dec 31 2020	Dec 31 2019
Production and product unit employees	555	596
White-collar employees	198	174
Employees on parental leaves	1	1
Total	**754**	**771**

Note 30. DISCONTINUED OPERATIONS

No operations were discontinued in 2020.

Note 31. CAPITAL MANAGEMENT

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

The Group manages its capital structure and modifies it in response to changes in the economic environment. In order to maintain or adjust the capital structure, the Company may change dividend payments, return capital to shareholders or issue new shares. In the year ended December 31st 2020, no changes were introduced to the objectives, principles and processes applicable in this area.

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

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

	As at Dec 31 2020	**As at Dec 31 2019**
	PLN '000	**PLN '000**
Debt	53,566	37,810
Cash and cash equivalents	-52,558	-36,595
Net debt	1,008	1,215
Equity	189,215	189,593
Net debt to equity	**0.53%**	**0.64%**

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

Note 32. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

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

32.1. Currency risk

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

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

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

	As at Dec 31 2020 in foreign currency	As at Dec 31 2020 in PLN	As at Dec 31 2019 in foreign currency	As at Dec 31 2019 in PLN
Liabilities				
EUR	4,442	20,497	4,998	21,284
USD	1,833	6,889	2,613	9,924
Assets				
EUR	26,755	123,467	24,171	102,934
USD	31,013	116,558	15,682	59,557
Notional amount of the hedging instrument – for currency sale transactions				
EUR	15,542	71,723	13,618	57,992
USD	6,340	23,828	10,579	40,176
Goodwill				
EUR	367	1,693	398	1,693
USD	9,133	34,325	9,038	34,325

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

Assumptions:

- exchange rate at reporting date Dec 31st 2020

+ 10% increase in exchange rate

- 10% decrease in exchange rate

Exchange rate at Dec 31 2020	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.7584	0.376	-0.376
EUR	4.6148	0.461	-0.461

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

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

Effect on equity		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2020	Dec 31 2019	Dec 31 2020	Dec 31 2019
ASSETS					
Increase in exchange rate	10%	15,088	9,388	12,516	10,463
Decrease in exchange rate	-10%	-15,088	-9,388	-12,516	-10,463
LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-3,072	-5,010	-9,222	-7,928
Decrease in exchange rate	-10%	3,072	5,010	9,222	7,928
TOTAL					
Increase in exchange rate	10%	12,017	4,378	3,294	2,535
Decrease in exchange rate	-10%	-12,017	-4,378	-3,294	-2,535

Effect on profit/loss		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2020	Dec 31 2019	Dec 31 2020	Dec 31 2019
ASSETS					
Increase in exchange rate	10%	11,656	5,956	12,347	10,293
Decrease in exchange rate	-10%	-11,656	-5,956	-12,347	-10,293
LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-3,072	-5,010	-9,222	-7,928
Decrease in exchange rate	-10%	3,072	5,010	9,222	7,928
TOTAL					
Increase in exchange rate	10%	8,584	946	3,125	2,366
Decrease in exchange rate	-10%	-8,584	-946	-3,125	-2,366

32.2. Interest rate risk

Group companies have interest-bearing borrowings of PLN 32,011 thousand and lease liabilities of PLN 8,589 thousand, which bear interest at variable rates, while lease liabilities of PLN 12,966 thousand bear interest at fixed rates. Accordingly, the Group is exposed to interest rate risk. The risk is estimated on the basis of interest rate increase/decrease by 1%.

	Effect on net profit/loss	Effect on net profit/loss
	+ 1%/- 1%	+ 1%/- 1%
	Year ended Dec 31 2020	**Year ended Dec 31 2019**
Lease liabilities	+/- 191	+/- 111
Other financial liabilities at	+/- 320	+/- 330

amortised cost

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

32.3. Liquidity risk

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

The Group also manages liquidity risk by maintaining open and undrawn credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Group recognises bank borrowings as financial instruments which may potentially cause concentration of liquidity risk as the Group maintains relationships with selected financial institutions only. As at December 31st 2020, bank borrowings represented 10% of total current liabilities (December 31st 2019: 26%).

The table below presents the Group's financial liabilities by maturity as at December 31st 2020 and December 31st 2019, based on contractual payments.

The Company has undrawn credit facilities of PLN 63,762 thousand; for summary information see Note 20 to these financial statements.

Dec 31 2020	**up to 1 year**	**1–2 years**	**2-3 years**	**3-4 years**	**4–5 years**	**over 5 years**	**Total as at Dec 31 2019**
Trade payables	42,961	402	-	-	-	-	**42,961**
Leases	4,647	6,457	2,480	2,658	1,197	10,412	**27,851**
Derivatives	2,631	402	-	-	-	-	**3,033**
Interest-bearing borrowings	21,321	3,440	3,222	3,222	806	-	**32,011**
Other liabilities	51	-	-	-	-	-	**51**
TOTAL	**71,611**	**10,701**	**5,702**	**5,880**	**2,003**	**10,412**	**105,907**

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

32.4. Credit risk

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

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

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

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

The maturity structure of receivables is presented in Note 16.

Note 33. MANAGEMENT STOCK OPTIONS

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

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018−2020 Incentive Scheme, approve the Rules of the Incentive Scheme, and allocate the Company's treasury shares for the purposes of the Incentive Scheme. The Meeting also passed Resolution No. 21 approving the list of participants of the 2018−2020 Incentive Scheme. The Incentive Scheme beneficiaries are the Group's senior management staff. The Incentive Scheme includes a total of 494,000 shares. The annual equity volumes for the years 2018, 2019, 2020, and the assessment parameter, which is determined by the Company's Supervisory Board and approved by the General Meeting, have been established for each beneficiary. The assessment parameter is closely linked to the net profit of the SECO/WARWICK Group, the separate net profit, or operating profit of an operating segment. After the end of each financial year, the Company's Supervisory Board and General Meeting determine and approve the achievement of individual targets by the beneficiaries.
On June 5th 2019, the Supervisory Board passed Resolution No. 01/2019 approving the results of the review of the annual targets for the 2018 Incentive Scheme, and indicating the proposed number of shares to be acquired by each of the beneficiaries, subject to the condition that they remain employed with the Company in the period from January 1st 2019 to December 31st 2019. On the same day, the Annual General Meeting approved the resolution passed by the Supervisory Board and decided to 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 of the Incentive Scheme 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 2020, the maximum number of options that may be granted to the beneficiaries of the 2018−2020 Incentive Scheme was 227,200 (December 31st 2019: 361,943; December 31st 2018 494,000). The cost of option vesting recognised in 2020 was PLN 1,364 thousand.

Note 34. LITIGATION

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

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

To the best of the Company's knowledge, by the date of these financial statements, 799 Asbestos Claims had been filed against SWC, of which 311 Claims were dismissed, 55 Claims ended in settlement with the insurers for a total amount of USD 3,755 thousand, and with respect to 427 Claims verification procedures are underway or the terms of potential settlement with the injured parties are being negotiated.

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

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

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

Note 35. TAX SETTLEMENTS

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

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

In the opinion of the Management Board, as at December 31st 2020, there was no need to recognise provisions for known and quantifiable tax risk. The Company pays its tax liabilities when due.

Note 36. EVENTS SUBSEQUENT TO THE REPORTING DATE

On February 17th 2021, a multi-facility agreement was signed with Santander Bank Polska Spółka Akcyjna, with the final facility repayment date set at February 28th 2022. The amount of the granted Loan in the Current Account is PLN 19 million, intended for the financing of current business activities.

Date: April 22nd 2021

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