
# SEPARATE FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST – DECEMBER 31ST 2021**

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## SEPARATE STATEMENT OF COMPREHENSIVE INCOME

*(PLN '000)*

| | Note | Year ended Dec 31 2021 | Year ended Dec 31 2020 |
|---|---|---|---|
| Revenue | *1* | **275,226** | **236,990** |
| Cost of sales | *3* | **-222,658** | **-190,409** |
| **Gross profit** | | **52,568** | **46,581** |
| Other income | *4* | 2,013 | 3,182 |
| Distribution costs | *3* | -14,964 | -11,661 |
| Administrative expenses | *3* | -23,198 | -23,259 |
| Impairment of receivables and contract assets | *4* | 49 | -1,400 |
| Other expenses | *4* | -2,675 | -1,844 |
| **Operating profit** | | **13,793** | **11,598** |
| Finance income | *5* | 927 | 3,012 |
| Finance costs | *5* | -4,586 | -4,722 |
| **Profit before tax** | | **10,133** | **9,888** |
| Income tax | *6* | -1,808 | -2,031 |
| Net profit from operations | | 8,325 | 7,856 |
| **Net profit** | | **8,325** | **7,856** |

The statement of comprehensive income should be read in conjunction with the notes and additional information.

| | Year ended Dec 31 2021 | Year ended Dec 31 2020 |
|---|---|---|
| **Net profit** | **8,325** | **7,856** |
| **OTHER COMPREHENSIVE INCOME:** | | |
| **Items not to be reclassified to profit/(loss) in subsequent reporting periods** | **-** | **-** |
| Actuarial gains on a defined benefit pension plan | - | - |
| **Items which may be reclassified to profit/(loss) in subsequent reporting periods** | **-415** | **-1,683** |
| Valuation of cash flow hedge derivatives | -415 | -1,683 |
| Other comprehensive income before tax | -415 | -1,683 |
| Income tax on other comprehensive income | | |
| Income tax relating to components of other comprehensive income that will not be reclassified to profit or loss | - | - |

| | | | |
|---|---|---|---|
| Income tax relating to components of other comprehensive income that will be reclassified to profit or loss | | 79 | 320 |
| **Total other comprehensive income, net** | | **-337** | **-1,364** |
| **Total comprehensive income** | | **7,988** | **6,493** |
| | | | |
| **EARNINGS PER SHARE:** | *7* | | |
| - basic earnings (loss) per share | | 0.94 | 0.80 |
| - diluted earnings (loss) per share | | 0.94 | 0.80 |

## SEPARATE STATEMENT OF FINANCIAL POSITION

*(PLN '000)*

| | Note | Dec 31 2021 | Dec 31 2020 restated* |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | *9* | 41,587 | 44,585 |
| Right-of-use assets | *9* | 9,937 | 11,255 |
| Investment property | | 286 | 310 |
| Investments in related entities | *11* | 58,422 | 58,422 |
| Intangible assets | *10* | 46,133 | 44,664 |
| Long-term receivables | *15* | 1,279 | 512 |
| Other financial assets | *16* | 3 | 3 |
| Contract costs | *14* | 65 | 0 |
| **Non-current assets** | | **157,711** | **159,751** |
| Inventories | *13* | 30,045 | 26,331 |
| Trade receivables and other short-term receivables | *15* | 67,342 | 73,109 |
| Other financial assets | *16* | 2,035 | 2,345 |
| Other non-financial assets | *17* | 1,545 | 1,943 |
| Contract costs | *14* | 1,809 | 3,882 |
| Contract assets | *14* | 65,945 | 48,524 |
| Cash and cash equivalents | *18* | 17,878 | 15,940 |
| **Current assets other than held for sale** | | **186,599** | **172,073** |
| Assets classified as held for sale | | - | - |
| **Current assets** | | **186,599** | **172,073** |
| **TOTAL ASSETS** | | **344,310** | **331,823** |

*For details of the presentation changes, see Section VII.

The statement of financial position should be read in conjunction with the notes and additional information.

## SEPARATE STATEMENT OF FINANCIAL POSITION

*(PLN '000)*

| | Note | Dec 31 2021 | December 31st 2020 restated* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Share capital | *19* | 3,616 | 3,616 |
| Share premium reserve | *19* | 78,666 | 78,666 |
| Treasury shares | *19* | -28,532 | -22,338 |
| Other components of equity | *19* | 46,981 | 36,071 |
| Retained earnings | *19* | 78,563 | 88,182 |
| **Equity** | | **179,294** | **184,198** |
| Borrowings | *20* | 12,431 | 10,472 |
| Lease liabilities | *21* | 5,504 | 6,678 |
| Derivative financial instruments | *16* | 90 | 402 |
| Deferred tax liabilities | *6* | 9,442 | 7,860 |
| Employee benefit obligations | *23* | 1,061 | 1,335 |
| Contract liabilities | *14* | 1,357 | 598 |
| **Non-current liabilities** | | **29,884** | **27,344** |
| Borrowings | *20* | 33,370 | 19,612 |
| Lease liabilities | *21* | 1,926 | 2,306 |
| Derivative financial instruments | *16* | 3,782 | 2,682 |
| Other financial liabilities | *16* | - | - |
| Trade and other liabilities | *22* | 52,243 | 46,102 |
| Employee benefit obligations | *23* | 10,767 | 8,196 |
| Other provisions | *24* | 6,636 | 5,019 |
| Contract liabilities | *14* | 26,408 | 36,364 |
| **Liabilities directly related to non-current assets classified as held for sale** | | - | - |
| **Current liabilities** | | **135,132** | **120,281** |
| **Total liabilities** | | **165,016** | **147,625** |
| **TOTAL EQUITY AND LIABILITIES** | | **344,310** | **331,823** |

*For details of the presentation changes, see Section VII.

The statement of financial position should be read in conjunction with the notes and additional information.

## SEPARATE STATEMENT OF CASH FLOWS

*(PLN '000)*

| | *Note* | Year ended Dec 31 2021 | Year ended Dec 31 2020 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| **Profit before tax** | | **10,133** | **9,888** |
| **Total adjustments:** | *25* | **-4,150** | **2,882** |
| Depreciation and amortisation | | 7,320 | 7,737 |
| Foreign exchange gains/(losses) | | -385 | 391 |
| Adjustments due to finance income (cost) | | 551 | 695 |
| Gain/(loss) on investing activities | | 529 | -35 |
| Other adjustments | | -331 | -253 |
| **Changes in items of the statement of financial position:** | | | |
| Change in provisions | | 3,913 | -3,305 |
| Change in inventories | | -3,714 | 5,607 |
| Change in receivables | | 5,000 | -4,700 |
| Change in current liabilities (other than financial liabilities) | | 5,847 | -1,214 |
| Change in contract assets and liabilities | | -24,609 | -5,834 |
| Change in accruals and deferrals | | 398 | 797 |
| Change in currency derivative instruments | | 683 | 851 |
| Adjustments due to share-based payments | | 648 | 2,143 |
| **Cash provided by operating activities** | | **5,983** | **12,770** |
| Income tax paid | | -147 | -114 |
| **Net cash from operating activities** | | **5,836** | **12,656** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of intangible assets and property, plant and equipment | | 1,349 | 59 |
| Other proceeds from financial assets | | 60 | 60 |
| Investments in intangible assets and property, plant and equipment | | -6,340 | -6,050 |
| **Net cash from investing activities** | | **-4,931** | **-5,931** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 15,716 | 2,667 |
| Proceeds from sale or issue of own shares | | 153 | 83 |
| Grants received | | 849 | 870 |
| Repurchase of shares | *19* | -8,750 | -14,615 |
| Dividends and other distributions to owners | *8* | -4,944 | - |
| Payment of lease liabilities | | -1,766 | -1,742 |
| Payment of interest | | -611 | -755 |

| | | |
|---|---|---|
| **Net cash from financing activities** | **648** | **-13,492** |
| **Increase (decrease) in cash and cash equivalents before the effect of exchange rate changes** | **1,553** | **-6,767** |
| Effect of exchange rate changes on cash and cash equivalents | 385 | -391 |
| **Increase (decrease) in cash and cash equivalents** | **1,938** | **-7,159** |
| **Cash at beginning of period** | **15,940** | **23,099** |
| **Cash at end of period** | **17,878** | **15,940** |

The statement of cash flows should be read in conjunction with the notes and additional information.

## SEPARATE STATEMENT OF CHANGES IN EQUITY

*(PLN '000)*

| | Share capital | Share premium reserve | Treasury shares | Other components of equity | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| Note | *19* | *19* | *19* | *19* | *8.19* | |
| **Equity as at Jan 1 2021** | **3,616** | **78,666** | **-22,338** | **36,071** | **88,182** | **184,198** |
| Profit for period | - | - | - | - | 8,325 | 8,325 |
| Other comprehensive income | - | - | - | -336 | - | -336 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-336** | **8,325** | **7,989** |
| Sale of treasury shares under the incentive scheme | - | - | - | 153 | - | 153 |
| Payment of dividends | - | - | - | - | -4,944 | -4,944 |
| Valuation of management stock option plan | - | - | - | 648 | - | 648 |
| Capital reserve for repurchase of shares | - | - | | 13,000 | -13,000 | - |
| Repurchase of shares | - | - | -8,750 | - | - | -8,750 |
| Carrying amount of treasury shares sold under the incentive scheme | - | - | 2,555 | -2,555 | - | - |
| **Changes in equity** | **-** | **-** | **-6,195** | **10,910** | **-9,619** | **-4,904** |
| **Equity as at Dec 31 2021** | **3,616** | **78,666** | **-28,533** | **46,981** | **78,563** | **179,294** |
| **Equity as at Jan 1 2020 restated*** | **3,616** | **78,666** | **-9,107** | **22,757** | **94,941** | **190,873** |
| Profit for period | - | - | - | - | 7,856 | 7,856 |
| Other comprehensive income | - | - | - | -1,364 | - | -1,364 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-1,364** | **7,856** | **6,493** |
| Sale of treasury shares under the incentive scheme | - | - | - | 83 | - | 83 |
| Award of management stock options | - | - | 1,384 | -1,384 | - | - |
| Valuation of management stock option plan | - | - | - | 1,364 | - | 1,364 |
| Capital reserve for repurchase of shares | - | - | - | 14,615 | -14,615 | - |
| Repurchase of shares | - | - | -14,615 | - | - | -14,615 |
| **Changes in equity** | **-** | **-** | **-13,231** | **13,314** | **-6,759** | **-6,675** |
| **Equity as at Dec 31 2020 restated*** | **3,616** | **78,666** | **-22,338** | **36,071** | **88,182** | **184,198** |

*For details of the presentation changes, see Section VII.

The statement of changes in equity should be read in conjunction with the notes and additional information.


# SUPPLEMENTARY INFORMATION TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2021

# I. GENERAL INFORMATION

## 1. Company data

SECO/WARWICK Spółka Akcyjna of Świebodzin (the "Company" or the "Parent") is the Parent of the SECO/WARWICK Group (the "Group" or the "SECO/WARWICK Group"). 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 of the reporting entity or other identification data:** SECO/WARWICK S.A.

**Explanation of changes in the name of the reporting entity or other identification data that occurred after the end of the previous reporting period:** no changes occurred

**Registered office:** ul. Sobieskiego 8, 66-200 Świebodzin, Poland

**Legal form:** Joint-stock company (spółka akcyjna)

**Country of registration:** Poland

**Name of the reporting entity:** SECO/WARWICK S.A.

**Registered office address:** ul. Sobieskiego 8, 66-200 Świebodzin, Poland

**Principal place of business:** Poland

**Principal business activity:** the operations of the SECO/WARWICK Group are divided into four main product groups: vacuum furnaces, aluminium heat treatment systems and CAB lines, melting furnaces, and aftersales services.

**Name of the parent:** SECO/WARWICK S.A.

**Name of the ultimate parent of the group:** SECO/WARWICK S.A.

**Industry Identification Number (REGON):** 970011679

**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 |

## 2. Duration

The company has been established for an indefinite period.

## 3. Presented periods

These separate financial statements of the Company cover the 12 months ended December 31st 2021.

Comparative data is presented:

- as at December 31st 2020 – in the case of the separate statement of financial position,
- for the period January 1st–December 31st 2020 − in the case of the separate statement of comprehensive income,
- for the period January 1st–December 31st 2020 − in the case of the separate statement of cash flows,
- for the period January 1st–December 31st 2020 − in the case of the separate statement of changes in equity.

## 4. Management Board and Supervisory Board of SECO/WARWICK S.A.

As at the date of authorisation of these financial statements for issue and as at December 31st 2021, the Management Board of SECO/WARWICK S.A. consisted of:

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

As at December 31st 2020, the Management 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 authorisation of these financial statements for issue, December 31st 2021 and December 31st 2020, 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:**

On April 27th 2021, the Company received a notice from Mr Jarosław Talerzak, Vice President of the Management Board, of his resignation as Vice President of the Management Board of SECO/WARWICK S.A.

**Changes in the composition of the Supervisory Board:**

In the period from January 1st 2021 to the date of issue of these financial statements, there were no changes in the composition of the Supervisory Board.

## 5. Audit firm

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
ul. Inflancka 4A
00-189 Warsaw, Poland

## 6. Significant shareholders

Shareholders holding over 5% of total voting rights at the Company's General Meeting as at December 31st 2021 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%** |
| **Nationale-Nederlanden Otwarty Fundusz Emerytalny** | 600,000 | 5.83% | 600,000 | **5.83%** |
| **Metlife OFE** | 577,470 | 5.61% | 577,470 | **5.61%** |

At the date of issue of these financial statements, SECO/WARWICK S.A. holds 1,802,189 treasury shares, representing 17.50% of the share capital. The Company does not exercise voting rights in respect of the treasury shares.

On October 7th 2021, the Extraordinary General Meeting passed Resolution No. 5 to authorise the Company's Management Board to repurchase Company shares listed on the regulated market operated by the Warsaw Stock Exchange. Pursuant to the resolution, the Company has been authorised to acquire no more than 850,000 Company shares by the earlier of (i) December 31st 2022 and (ii) exhaustion of the capital reserve allocated for the buyback. 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 28th 2021, the Company acquired 595.488 shares covered by the invitation to tender Company shares for sale. The shares conferred the right to 5.78% of total voting rights at the Company's General Meeting. Pursuant to Art. 364.2 of the Commercial Companies Code, the Company may not exercise the rights attached to treasury shares other than the right to dispose thereof and the right to take actions to preserve those rights.

On October 29th 2021, the Company was notified that shareholder BLEAUHARD HOLDINGS LLC had sold 594,973 Company shares. Prior to the transaction, BLEAUHARD HOLDINGS LLC held 594,973 Company shares, representing 5.78% of the Company's share capital and 5.78% of total voting rights at the General Meeting. Following the settlement of the transaction, BLEAUHARD HOLDINGS LLC does not hold any Company shares.

Acting on the basis of a resolution of the Company's Supervisory Board dated April 22nd 2021 and Resolution No. 21 of the Annual General Meeting of June 10th 2021 on verification of the achievement of Annual Targets by Incentive Scheme Beneficiaries in 2020, announced by the Company in Current Report No. 7/2021, in the settlement of the Incentive Scheme for 2020 the Company entered into agreements for the purchase of a total of 102,203 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 0.99% of the Company's share capital and conferred the right to 102,203 votes, or 0.99% of total voting rights, at the General Meeting.
For detailed information on the Incentive Scheme, see Note 31 to these financial statements.
The information presented in the table is based on notifications received by the Company from the shareholders under Art. 69 of the Public Offering Act.

As at the issue date 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, compared with the information as at December 31st 2021 shown in the table below.

**7. Subsidiaries and affiliates**

As at December 31st 2021, SECO/WARWICK S.A. was the parent of the following subsidiaries:

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

As at December 31st 2021, the Group had one jointly-controlled company:

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

**Changes in the composition of the Group:**

In 2021, the composition of the Group did not change.

**Composition of the Group as at December 31st 2021:**

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

## II. AUTHORISATION OF THE FINANCIAL STATEMENTS

The Management Board authorised these financial statements for issue on April 21st 2022.

## III. EFFECT OF THE COVID-19 PANDEMIC AND THE WAR IN UKRAINE ON THE COMPANY'S POSITION

### COVID-19 PANDEMIC

The global coronavirus pandemic which broke out in late 2019 persisted in 2021. The Company continued to suffer from the effects of pandemic sanitary and trade restrictions, which, however, were definitely less of a burden than in 2020, partially due to effective preventive measures taken by the Company, which resulted in a business scale-up and improved performance. Investment activity in some of the Company's customer sectors (such as aviation) has not yet returned to pre-pandemic levels, but it was significantly higher in 2021 than the year before, which, together with growing demand in other industries, made a positive contribution to the value of new business (up 61% year on year).

Adverse developments caused by the pandemic, which resulted in component and raw material shortages and considerable hikes in their prices, coupled with an increase in other operating expenses, did not cease in 2021 – on the contrary, the situation even got worse in certain areas (such as steel, electrical materials, transport services, employee and contractor salaries). Inflation escalated in 2022, driven by the ongoing war caused by the Russian invasion of Ukraine. Due to the nature of the Company's operations and contracts, increasing operating expenses can be offset by the value of contracts to a significant extent. In addition, as the Company skilfully manages the supplies of feedstocks, materials and components and secures them in advance, it has been able to deliver on its contracts in a timely manner. The Company did not face any problems with timely payment of receivables and the Management Board did not identify any significant increase in credit risk among the Company's customers.
The Company remained committed to protecting the safety and health of its employees, collaborators and contractors. The procedures and policies put in place in 2020 to minimise the risk of infection among the Company's workforce, including the rotational work system and a home office option, were maintained.

As at the date of authorisation of these financial statements, the Company did not identify any material impediments to its operations caused by the pandemic in any of the markets. As the number of active COVID-19 cases in most countries is steadily decreasing and sanitary restrictions are being gradually lifted, the economy is returning to normal trading conditions. However, it cannot be ruled out that in subsequent periods, as well as during the cold season in autumn and winter, the number of infections will increase again and, consequently, governments will introduce restrictions that may adversely affect the business, growth prospects and financial condition of the Company and the Group.
Since the situation remains highly uncertain and unpredictable, it is not possible to provide a more precise assessment of the potential impact of the existing pandemic threat on the Company's performance.

The Company's Management Board monitors the situation on an ongoing basis, identifying any pandemic threats and taking appropriate steps to ensure operational continuity and timely contract performance, maintain financial stability, and enable the Company to deliver the best possible financial results, while protecting the safety and health of the Company's employees and trading partners.

## WAR IN UKRAINE

On February 24th 2022, the armed forces of the Russian Federation invaded Ukraine. By the date of authorisation of these financial statements, the war in Ukraine had resulted in many casualties, migration of civilians, damage to infrastructure, restrictions on currency trading and payments, and significant disruptions of business activity, both in Ukraine and in Russia and Belarus (also due to sanctions imposed by the European Union, the United States and a number of other countries).

In accordance with IAS 10, for the purposes of preparing the financial statements as at and for the period ended December 31st 2021, the Group treats the Russian invasion of Ukraine as an event subsequent to the end of the reporting period, which does not necessitate any adjustments as at the reporting date.

As at the date of authorisation of these financial statements, the war in Ukraine and the related ongoing consequences (including the economic sanctions imposed on Russia and Belarus) had a limited direct impact on the Company's operations. The Company has a subsidiary based in Moscow (SECO/WARWICK Rus), operating as an intermediary in the sale of the Group's products in Russia. The Company holds 100% of shares in the share capital of this subsidiary, which is fully consolidated. Another Group member is OOO SCT, a jointly-controlled company based in Solnechnogorsk, which provides heat treatment services in Russia. The Company holds 50% of OOO SCT's share capital and 50% of voting rights at its general meeting (the remaining 50% of its share capital and voting rights are held by an entity governed by Russian law). OOO SCT is equity-accounted. The Company does not hold any assets (companies, non-current assets) situated in Ukraine or Belarus.

The Management Board keeps track of the economic sanctions imposed on the Russian Federation and Belarus and makes sure that all of its business activities are conducted in full compliance with the economic sanctions which must be respected by the Company, whether direct or indirect and whether imposed on persons or on activities. The sanctions imposed by the European Union on the Russian Federation and its related persons, as well as on Belarus, are set out primarily in Council Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine and Council Regulation (EC) No 765/2006 concerning restrictive measures against President Lukashenko and certain officials of Belarus (the "Regulations").

The Company did not advance any loans to SECO/WARWICK Rus or OOO SCT. Furthermore, as at December 31st 2021:

- The carrying amount of shares in the Russian-based companies was PLN 0 (investments written off in previous years);
- The Company's trade receivables from these companies amounted to PLN 4.7m (as at the date of authorisation of these financial statements: PLN 3.1m (unaudited data));
- Trade receivables from customers in Eastern markets (including the companies in the Group) stood at PLN 16.7m (of which PLN 14.6m was repaid by the date of authorisation of these financial statements);
- The Company had PLN 8.1m in outstanding deposits transferred to SECO/WARWICK Rus (of which PLN 0.2m was repaid by the date of authorisation of these financial statements);
- Contingent liabilities under performance bonds issued to SECO/WARWICK Rus amounted to PLN 9.6m;

The Company does not have any material suppliers in Eastern markets. As at the date of authorisation of these financial statements, markets are experiencing considerable price increases and temporary shortages of certain components, materials and feedstocks, but at present these negative factors are not materially affecting the timely execution of current orders or prospects for more business. However, the risk that the situation could deteriorate and supplies of components, materials and feedstocks could be interrupted, leading to suspension of the performance of existing contracts and significant difficulties in acquiring new business cannot be excluded.

As at December 31st 2021, the Company's risk exposure in Eastern markets totalled PLN 23.4m and went down to PLN 11.1m as at the date of authorisation of these financial statements. As at the date of authorisation of these financial statements, the Company did not recognise any impairment losses on these assets since as at the reporting date the recoverable amount of the assets was not lower than their carrying amount. The Company's Management Board is monitoring the situation and, if justified, the assets will be remeasured in the reporting periods in 2022 or later.

In the near future, the Company's Management Board expects that there will be no sales on the Eastern markets due to the economic sanctions imposed on Russia and Belarus and, in the case of Ukraine, due to the war spreading to a large part of the country and the moratorium imposed by the National Bank of Ukraine on cross-border payments.

As at the date of authorisation of these financial statements, it was not possible to fully assess the impact of Russia's invasion of Ukraine on the financial performance of the Group.

The Russian invasion of Ukraine has aggravated many existing adverse macroeconomic trends (some of them initially related to the coronavirus pandemic) and has given rise to new risks. The Company's Management Board has identified the following key factors which could have a direct or indirect adverse effect on the Group's operations and financial performance:

- increased volatility of exchange rate movements,
- a global economic downturn coupled with growing inflation (stagflation),
- increased geopolitical risk, resulting in a risk of lower investment activity in the industries of the Group's customers,
- further supply chain disruptions – shortages of some components, feedstocks and materials, such as steel, and significant price hikes,
- growing costs of energy (electricity, fuels and natural gas),
- rising interest rates resulting in higher finance costs,
- IT risks.

## V. BASIS OF ACCOUNTING

### 1. Basis of accounting

These financial statements have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union, and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (the "Regulation").

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

### 2. Going concern assumption and comparability of accounts

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future comprising a period no shorter than 12 months from the end of the most recent reporting period, i.e., December 31st 2021.

As at December 31st 2021, the Company's Management Board carried out an analysis of the Company's ability to continue as a going concern, taking into account the COVID-19 pandemic as well as other factors, including the current order book, projected cash flow estimates, the amount of working capital, debt and available credit facilities. Based on the analysis, the Management Board did not identify any material uncertainty as to the Company's ability to continue as a going concern for at least 12 months from the reporting date. The Company's Management Board also believes that Russia's invasion of and war on Ukraine have no direct impact on the Company's operations, including on the going concern assumption. However, the Management Board is aware that both the pandemic and the war in Ukraine are highly unpredictable and uncertain, which may affect the Company's financial performance in future periods.

### 3. Events which have not but should have been disclosed in the accounting books for the reporting period

By the date of these financial statements for 2021, no events occurred which have not but should have been disclosed in the accounting records for the reporting period. No material events related to prior years have been disclosed in these financial statements.

## V. APPLIED ACCOUNTING POLICIES, INCLUDING METHODS OF MEASUREMENT OF ASSETS, EQUITY AND LIABILITIES, REVENUE AND EXPENSES

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

Historical cost is generally determined on the basis of fair value of the 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 Company takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

These financial statements are presented in the złoty ("PLN"), and unless stated otherwise, all amounts are given in thousands of PLN. Any differences between the total amounts and the sum of their components are due to rounding. Exchange differences on translating items of the statement of financial position are calculated as differences between the exchange rates applicable to the opening and closing balance.

Other new or amended standards and interpretations which have been applied for the first time in 2021 do not have a material effect on the Company's financial statements.

**Summary of significant accounting policies**

Presentation of the statement of financial position

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

Presentation of the statement of comprehensive income

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

Earnings per share

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

**Intangible assets**

Under intangible assets the Company recognises assets which are identifiable (separable or saleable), are controlled by the Company and are highly probable to bring future economic benefits to the Company.

Intangible assets comprise mainly software and development costs and are initially measured at cost including purchase price, import duties, non-refundable purchase taxes, after deducting trade discounts and rebates, plus any directly attributable cost of preparing the asset for its intended use.

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into:

- a research phase,
- a development phase.

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

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

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

The Company determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful lives and tested for impairment whenever there is an indication of impairment.

The amortisation period and amortisation method for intangible assets with definite useful lives are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates.

Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

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

| Item | Capitalised development costs | Patents and licences | Software |
|---|---|---|---|
| Useful life | 5–20 years | 5–20 years | 5–15 years |
| 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 | Internally 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 Company 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 based on the useful lives of the assets, which are usually 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 Company accounts for the grants in the statement of comprehensive income by reducing the amortisation charges on the assets.

**Property, plant and equipment under construction**

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

**Investment property**

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

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

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

**Shares in related entities**

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

**Financial assets and liabilities**

***Classification of financial assets***

Financial assets are classified into the following categories:

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

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

***Measurement on initial recognition***

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

***Measurement subsequent to initial recognition***

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

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

***Debt instruments – financial assets at amortised cost***

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

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

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

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

- Cash and cash equivalents.

***Recognition and measurement of financial liabilities***

<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 by writing it down to net realisable value.

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

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

**Deferred income tax**

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

Deferred tax liabilities are recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that does not affect profit/loss before tax or taxable income/tax loss. In addition, no deferred tax is recognised if the temporary differences arise on initial recognition of goodwill.

A deferred tax liability is recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets resulting from deductible temporary differences related to such investments and interests are recognised only to the extent that it is probable that there will be sufficient taxable profits against which the tax benefits resulting from the temporary differences can be utilised, and it is expected that the temporary differences will reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.

The Company offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied on the same taxable entity and by the same taxation authority.

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g., customs or foreign exchange control) may be subject to inspections by authorities that are entitled to impose high fines and penalties, and any additional tax liabilities resulting from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws. In accordance with GAAR, no tax advantage can be obtained through an arrangement which is abusive. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

The Company discloses and measures current and deferred tax assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, tax loss carryforwards, unused tax reliefs and the tax rates, taking into consideration uncertainties related to tax settlements.

Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Company discloses such settlement taking into account assessment of the uncertainty.

**Provisions**

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

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

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

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

The Company recognises the following provisions:

- Provision for warranty repairs – on the basis of the estimated future cost of warranty repairs, by reference to the stage of contract completion;
- Provisions for disputes.

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

**Employee benefits**

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

The Company also incurs costs related to the operation of Employee Capital Plans (PPKs) by making contributions to the investment fund. They are post-employment benefits in the form of a defined contribution plan. Costs of PPK contributions are recognised in the same cost item as the cost of salaries and wages on which they are paid. Liabilities under PPKs are presented under other liabilities.

**Share-based payments**

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

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

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

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

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

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

**Contractual assets, liabilities and costs**

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

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

Contract costs include incremental costs of obtaining a contract with a customer, that is costs that the 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.

The value of grants received to finance development work is deducted from the carrying amount of the asset. The Company accounts for the grants in the statement of comprehensive income by reducing the amortisation charges on the assets.

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 over recognised revenue in the reporting period is recognised under contract liabilities.

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

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

**Lease liabilities**

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

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

**Short-term leases and leases of low-value assets**

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

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

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

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

**The Company as a lessor**

Leases where the Company retains substantially all the risks and rewards incidental to the ownership of the asset are classified as operating leases. Initial direct costs incurred in the course of negotiating operating lease contracts are added to the carrying amount of the leased asset and recognised over the term of the lease on the same basis as lease income. Contingent lease payments are recognised as revenue in the period in which they become due.

**Functional currency and presentation currency**

Functional currency and presentation currency

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

Transactions and balances

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

## VI. MATERIAL JUDGEMENTS AND ASSUMPTIONS

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

Depreciation/amortisation charges

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

Amortisation charges for right-of-use assets

If a lease contract includes a purchase option the payment for which has been included in minimum lease payments, the amortisation period is the useful life equal to the economic useful life of the underlying asset. Where the value of a purchase option is not included in minimum lease payments, the amortisation period is the term of the lease contract.

Recognition of development costs

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

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

Impairment of development costs

The Company conducts 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 are conducted at an appropriate level reflecting the allocation of the Company's assets to cash-generating units. Intangible assets in the form of expenditure on development work are tested at the level of a group of cash-generating units together with corporate assets.

Impairment losses on shares in subsidiaries

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

Deferred tax assets

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

Provision for warranty repairs

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

Long-term contracts

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

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

At the end of each reporting period, the Company estimates the profit or loss on each contract. When a loss on a contract is expected, it is immediately recognised in the statement of profit or loss as a provision for future costs of contract performance.

The 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 if both parties to the contract 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 when the Company becomes a party to the contract, and subsequently they are remeasured at fair value as at the end of each reporting period. Changes in fair value are recognised directly in profit or loss, unless the instrument is used as a hedging instrument. In such a case, the moment of recognition depends on the nature of the hedging relationship.

## VII. CHANGES IN ACCOUNTING POLICIES AND ADJUSTMENTS

Save for the changes in presentation described below and resulting from the introduction of new standards or amendments to existing standards effective for reporting periods beginning on or after January 1st 2021, in the preparation of these financial statements the Company applied the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2020.

**Change in presentation of receivables, financial assets, liabilities and equity**

In 2021, the presentation of "Trade receivables" and "Other short-term receivables" was changed by combing these items to make a single line in the statement of financial position: "Trade receivables and other short-term receivables" and the presentation of "Derivative financial instruments" was changed by moving the item to "Other financial assets".

In 2021, the presentation of "Trade payables" and "Other current liabilities" was changed by combining these items to make a single line in the statement of financial position: "Trade and other payables". Also, changes were made in the presentation of equity. "Share premium reserve" was separated from "Statutory reserve funds", with the balance presented under "Retained earnings / accumulated losses". "Treasury shares" were separated from "Other components", with the balance presented under "Other components of equity". "Hedging reserve" is now included under "Other components of equity".

The Company believes that the changes in presentation will improve the transparency and readability of the financial statements. It can also be expected that the enhanced usefulness of reporting disclosures will make it possible to make more informed investment decisions.

## Statement of financial position

| | Dec 31 2020 | presentation change | December 31st 2020 restated* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 44,585 | - | 44,585 |
| Right-of-use assets | 11,255 | - | 11,255 |
| Investment property | 310 | - | 310 |
| Investments in related entities | 58,422 | - | 58,422 |
| Intangible assets | 44,664 | - | 44,664 |
| Long-term receivables | 512 | - | 512 |
| Other financial assets | 3 | - | 3 |
| | **159,751** | **-** | **159,751** |
| **Current assets** | | | |
| Inventories | 26,331 | - | 26,331 |
| Trade receivables and other short-term receivables | - | 73,108 | 73,109 |
| Trade receivables | 58,616 | -58,616 | - |
| Other short-term receivables | 14,493 | -14,493 | - |
| Derivative financial instruments | 345 | -345 | - |
| Other financial assets | 2,000 | 345 | 2,345 |
| Other non-financial assets | 1,943 | - | 1,943 |
| Contract costs | 3,882 | - | 3,882 |
| Contract assets | 48,524 | - | 48,524 |
| Cash and cash equivalents | 15,940 | - | 15,940 |
| | **172,073** | **-** | **172,073** |
| **TOTAL ASSETS** | **331,823** | **-** | **331,823** |

| | Jan 1 2020 | presentation change | January 1st 2020 restated* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 47,370 | - | 47,370 |
| Right-of-use assets | 11,174 | - | 11,174 |
| Investment property | 334 | - | 334 |
| Investments in related entities | 58,422 | - | 58,422 |
| Intangible assets | 44,066 | - | 44,066 |
| Long-term receivables | 2,072 | - | 2,072 |
| Derivative financial instruments | 151 | -151 | - |
| Other financial assets | 3 | 151 | 154 |
| Contract costs | 2,981 | - | 2,981 |
| | **166,572** | **-** | **166,572** |
| **Current assets** | | | |
| Inventories | 31,939 | - | 31,939 |
| Trade receivables and other short-term receivables | - | 66,849 | 66,849 |
| Trade receivables | 58,571 | -58,571 | - |
| Other short-term receivables | 8,278 | -8,278 | - |
| Derivative financial instruments | 695 | -695 | - |
| Other financial assets | 2,000 | 695 | 2,695 |
| Other non-financial assets | 2,740 | - | 2,740 |
| Contract costs | 3,255 | - | 3,255 |
| Contract assets | 73,295 | - | 73,295 |
| Cash and cash equivalents | 23,099 | - | 23,099 |

| | | | |
|---|---|---|---|
| | **203,871** | **-** | **203,871** |
| **Assets held for sale** | **-** | **-** | **-** |
| **TOTAL ASSETS** | **370,443** | **-** | **370,443** |

| | Dec 31 2020 | presentation change | Dec 31 2020 restated* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 3,616 | - | 3,616 |
| Share premium reserve | - | 78,666 | 78,666 |
| Treasury shares | - | -22,338 | -22,338 |
| Other components of equity | - | 36,071 | 36,071 |
| Statutory reserve funds | 137,376 | -137,376 | - |
| Other components | 15,258 | -15,258 | - |
| Hedging reserve | -1,524 | 1,524 | - |
| Retained earnings / accumulated losses | 29,472 | 58,710 | 88,182 |
| | **184,198** | **-** | **184,198** |
| **Non-current liabilities** | | | |
| Borrowings | 10,472 | - | 10,472 |
| Lease liabilities | 6,678 | - | 6,678 |
| Derivative financial instruments | 402 | - | 402 |
| Deferred tax liabilities | 7,860 | - | 7,860 |
| Employee benefit obligations | 1,335 | - | 1,335 |
| Contract liabilities | 598 | - | 598 |
| | **27,344** | **-** | **27,344** |
| **Current liabilities** | | | |
| Borrowings | 19,612 | - | 19,612 |
| Lease liabilities | 2,306 | - | 2,306 |
| Derivative financial instruments | 2,682 | - | 2,682 |
| Trade and other liabilities | - | 46,102 | 46,102 |
| Trade payables | 40,861 | -40,861 | - |
| Other current liabilities | 5,241 | -5,241 | - |
| Employee benefit obligations | 8,196 | - | 8,196 |
| Other provisions | 5,019 | - | 5,019 |
| Contract liabilities | 36,364 | - | 36,364 |
| | **120,281** | **-** | **120,281** |
| **TOTAL EQUITY AND LIABILITIES** | **331,823** | **-** | **331,823** |

| | Jan 1 2020 | presentation change | Jan 1 2020 restated* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 3,616 | - | 3,616 |
| Share premium reserve | - | 78,666 | 78,666 |
| Treasury shares | - | -9,107 | -9,107 |
| Other components of equity | - | 22,757 | 22,757 |
| Statutory reserve funds | 141,372 | -141,372 | - |
| Other components | 13,811 | -13,811 | - |
| Hedging reserve | -161 | 161 | - |
| Retained earnings / accumulated losses | 32,235 | 62,706 | 94,941 |
| | **190,873** | **-** | **190,873** |
| **Non-current liabilities** | | | |
| Borrowings | - | - | - |
| Lease liabilities | 6,331 | - | 6,331 |
| Derivative financial instruments | 287 | - | 287 |
| Deferred tax liabilities | 6,307 | - | 6,307 |
| Employee benefit obligations | 1,243 | - | 1,243 |
| Contract liabilities | 1,777 | - | 1,777 |
| | **15,945** | **-** | **15,945** |
| **Current liabilities** | | | |
| Borrowings | 27,418 | - | 27,418 |
| Lease liabilities | 2,591 | - | 2,591 |
| Derivative financial instruments | 719 | - | 719 |
| Trade and other liabilities | - | 48,142 | 48,142 |
| Trade payables | 42,781 | -42,781 | - |
| Other current liabilities | 5,360 | -5,360 | - |
| Employee benefit obligations | 9,015 | - | 9,015 |
| Other provisions | 7,596 | - | 7,596 |
| Contract liabilities | 68,145 | - | 68,145 |
| | **163,625** | **-** | **163,625** |
| **TOTAL EQUITY AND LIABILITIES** | **370,443** | **-** | **370,443** |

These financial statements have been prepared in accordance with IFRSs as endorsed by the EU, issued and effective for reporting periods beginning on or after January 1st 2021.

## 1. New standards, interpretations and amendments to existing standards effective in 2021

### 1.1. Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, and IFRS 16 *Leases*: Interest Rate Benchmark Reform

The purpose of the amendments is to facilitate the provision of financial statements to users and to assist entities preparing IFRS-compliant financial statements to provide useful information in a case where changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments provide for a practical expedient for certain changes in contractual cash flows and exemption from certain hedge accounting requirements.

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

### 1.2. Amendments to IFRS 4 *Insurance Contracts*

The amendments extend the temporary exemption from applying IFRS 9 *Financial Instruments* by two years, to annual periods beginning on January 1st 2023, to align it with the first-time application of IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*.

The amendments had no impact on the Company's financial statements.

## VIII. STANDARDS AND INTERPRETATIONS NOT APPLIED IN THESE FINANCIAL STATEMENTS

| Standards and interpretations | Type of expected change in accounting policies |
|---|---|
| Amendments to IFRS 3 *Business Combinations*, IAS 16 *Property, Plant and Equipment*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and Annual Improvements to IFRSs 2018–2020 Cycle (all issued on May 14th 2020)<br><br>(Effective for annual periods beginning on or after January 1st 2022; early application is permitted) | The package of amendments contains three amendments to the standards:<br>▪ Amendments to IFRS 3 *Business Combinations*, which update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;<br>▪ Amendments to IAS 16 *Property, Plant and Equipment*, which rule out the possibility of deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Such revenue and related costs should be recognised in profit or loss for the period.<br>▪ Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* explain what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.<br>The package also contains Annual Improvements to IFRSs 2018-2020 Cycle, which include explanations and clarifications regarding the provisions of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and illustrative examples for IFRS 16 *Leases*. |
| IFRS 17 *Insurance Contracts* (issued on May 18th 2017); including Amendments to IFRS 17 (issued on June 25th 2020)<br><br>(Effective for annual periods beginning on or after January 1st 2023; prospective application, with early application permitted) | IFRS 17 supersedes the temporary IFRS 4, introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national accounting standards, which resulted in the application of many different solutions.<br>IFRS 17 solves the issue of a lack of comparability resulting from the application of IFRS 4 by requiring consistent recognition of all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. |
| Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting | Amendments to IAS 1 clarify the scope of disclosures of significant accounting policies in the entity's financial statements. In accordance with the amendments, in financial statements entities should disclose their |

| Standards and interpretations | Type of expected change in accounting policies |
|---|---|
| Policies (issued on February 12th 2021)<br><br>(Effective for annual periods beginning on or after January 1st 2023; early application is permitted) | material accounting policies rather than their significant accounting policies. |
| Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates (issued on February 12th 2021)<br><br>(Effective for annual periods beginning on or after January 1st 2023; early application is permitted) | The amendments introduce the definition of accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty and clarify the relationship between accounting policies and accounting estimates, indicating that an entity develops accounting estimates to meet the objectives set out in the accounting policies. |
| 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)<br><br>(Effective for annual periods beginning on or after January 1st 2023; early application is permitted) | The amendments clarify that the presentation of liabilities as current or non-current should only be based on the existence at the end of the reporting period of the entity's right to defer settlement for at least twelve months after the reporting period and on complying with conditions for such deferral as at the reporting date. Such classification is not affected by the management's intentions or expectations about whether and when the entity will exercise its right. The amendments also provide clarifications as to events which are deemed settlement of a liability. |
| Amendments to IAS 12 *Income Taxes:* Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on May 7th 2021)<br><br>(Effective for annual periods beginning on or after January 1st 2023; early application is permitted) | The amendments narrow the scope of application of the deferred tax exemption and indicate that such exemption may not be applied to transactions where an entity recognises both an asset and a liability that give rise to equal taxable and deductible temporary differences. Consequently, an entity should recognise both a deferred tax asset and a deferred tax liability for temporary differences arising from initial recognition of lease contracts and decommissioning obligations. |
| Amendments to IFRS 17 *Insurance Contracts:* First application of IFRS 17 and IFRS 9 – comparative data (issued on December 9th 2021)<br><br>(Effective for annual periods beginning on or after January 1st 2023) | The amendment introduces a new option to apply IFRS 17 for the first time to reduce the operational complexity and the accounting mismatch in the comparative data between insurance contract liabilities and related financial assets at the time of initial application of IFRS 17. The amendment enables comparative data on financial assets to be presented in a manner that is more consistent with IFRS 9 *Financial Instruments*. |

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

The Company's Management Board does not expect the application of the new standards and interpretations to have any material effect on the financial statements.


# NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2021

## Note 1. REVENUE

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

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

Revenue and total revenue and income of the Company:

| Item | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Revenue from sale of finished goods and services | 275,218 | 236,983 |
| *- including revenue recognised over time* | *255,874* | *198,897* |
| Revenue from sale of merchandise and materials | 8 | 7 |
| **TOTAL revenue** | **275,226** | **236,990** |
| Other income | 2,013 | 3,182 |
| Finance income | 927 | 3,012 |
| **TOTAL revenue and income** | **278,166** | **243,183** |

Revenue by geographical markets:

| Item | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| European Union | 102,397 | 92,039 |
| Russia | 60,488 | 44,537 |
| USA | 40,090 | 18,549 |
| Asia | 62,527 | 70,119 |
| Other | 9,724 | 11,746 |
| **TOTAL revenue** | **275,226** | **236,990** |

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

| Revenue by product type | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Vacuum Furnaces | 118,236 | 80,792 |
| Melting Furnaces | 86,256 | 85,028 |
| Atmosphere Furnaces (Thermal) | 1,578 | 21,202 |
| Aluminium Process | 54,456 | 34,623 |
| Aftersales services | 14,623 | 15,345 |
| Other | 77 | - |
| **TOTAL revenue** | **275,226** | **236,990** |

In 2021, due to the execution of a large order in the Melting Furnace segment, revenue from one customer in Russia amounted to PLN 57,059 thousand, representing 21% of the Company's total revenue in 2021. The revenue was recognised in the Melting Furnace segment and in the Vacuum Furnace segment.

## Note 2. OPERATING SEGMENTS

Information on particular operating segments is presented in the consolidated financial statements of the SECO/WARWICK Group (Note 2 to the consolidated financial statements for the 12 months ended December 31st 2021).

## Note 3. OPERATING EXPENSES

| OPERATING EXPENSES, BY NATURE OF EXPENSE | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Depreciation and amortisation | 7,320 | 7,713 |
| Raw materials and consumables used | 130,562 | 95,763 |
| Services | 69,830 | 43,986 |
| Taxes and charges | 891 | 854 |
| Salaries and wages | 56,181 | 46,419 |
| Social security and other benefits | 11,686 | 10,054 |
| Other expenses | 6,895 | 6,469 |
| **Total operating expenses, including:** | **283,366** | **211,257** |
| Distribution costs | -14,964 | -11,661 |
| Administrative expenses | -23,198 | -23,259 |
| Change in products | -15,295 | 20,279 |
| Cost of work performed by entity and capitalised | -7,257 | -6,231 |
| **Cost of products sold and services rendered** | **222,652** | **190,384** |

| DEPRECIATION/AMORTISATION CHARGES RECOGNISED IN THE STATEMENT OF COMPREHENSICE INCOME | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| **Items recognised as cost of sales** | **5,356** | **5,323** |
| Depreciation of property, plant and equipment | 2,132 | 2,477 |
| Depreciation of right-of-use assets | 1,081 | 1,023 |
| Amortisation of intangible assets | 2,143 | 1822 |
| **Items recognised as distribution costs** | **1,001** | **1,275** |
| Depreciation of property, plant and equipment | 501 | 810 |
| Depreciation of right-of-use assets | 188 | 118 |
| Amortisation of intangible assets | 312 | 346 |
| **Items recognised as administrative expenses** | **939** | **1,116** |
| Depreciation of property, plant and equipment | 172 | 186 |
| Depreciation of right-of-use assets | 667 | 811 |
| Amortisation of intangible assets | 99 | 119 |
| **Items recognised as other expenses** | **24** | **24** |
| Depreciation of investment property | 24 | 24 |

| PERSONNEL COSTS | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Salaries and wages | 56,181 | 46,419 |
| Social security | 11,686 | 10,054 |
| **Total employee benefits expense, including:** | **67,867** | **56,472** |
| Items recognised as cost of sales | 46,512 | 39,923 |
| Items recognised as distribution costs | 5,773 | 3,556 |
| Items recognised as administrative expenses | 15,582 | 12,993 |

## Note 4. OTHER INCOME AND EXPENSES

| OTHER INCOME | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Gain on disposal of property, plant and equipment | - | 35 |
| Reversal of provision for liquidated damages under contracts | - | 730 |
| Penalties and compensation received | 1 | 90 |
| Income from lease of property, plant and equipment and investment property | 897 | 913 |
| Licence revenue | - | 241 |
| Services provided to subsidiaries | 362 | 403 |
| Accounting for lease in connection with decision not to exercise the right to purchase the leased asset | 331 | 253 |
| Other | 422 | 518 |
| **Total other income** | **2,012** | **3,181** |

| OTHER EXPENSES | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Inventory write-downs | 1,381 | 851 |
| Loss on disposal of property, plant and equipment | 529 | - |
| Court expenses, compensation/damages, penalties | 38 | 143 |
| Donations | 4 | 35 |
| Cost related to income from lease of property, plant and equipment | 552 | 417 |
| Other | 171 | 397 |
| **Total other expenses** | **2,675** | **1,844** |

| Impairment of receivables and contract assets | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Change in impairment loss | -127 | 1,464 |
| - including impairment losses on receivables from SECO/WARWICK Germany GmbH | - | 1,000 |
| - including impairment losses on receivables from Retech Systems LLC | - | 460 |
| - including impairment losses on receivables from SECO/WARWICK Corporation | -193 | 193 |
| - including impairment losses on receivables from SECO/WARWICK Retech | 28 | -240 |
| Change in impairment loss on contract assets | 78 | -64 |
| **Impairment of receivables and contract assets** | **-49** | **1,400** |

## Note 5. FINANCE INCOME AND COSTS

| FINANCE INCOME | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Interest income | 131 | 216 |
| Net foreign exchange gains | 795 | 2,796 |
| **Total finance income** | **927** | **3,012** |

| FINANCE COSTS | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| Interest on bank borrowings | 897 | 794 |
| Interest on leases | 333 | 345 |
| Net loss on derivative instruments | 3,327 | 3,554 |
| Impairment losses on loans | 29 | 29 |
| **Total finance costs** | **4,586** | **4,722** |

## Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2021 and December 31st 2020 were as follows:

| INCOME TAX DISCLOSED IN THE STATEMENT OF COMPREHENSIVE INCOME | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| **Current income tax** | **147** | **114** |
| Withholding tax | 147 | 114 |
| **Deferred income tax** | **1,661** | **1,917** |
| **Income tax disclosed in profit or loss** | **-1,808** | **-2,031** |
| **Income tax on other comprehensive income** | **-79** | **-320** |

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 | 2021 | 2020 |
|---|---|---|
| **Profit before tax (PLN)** | **10,133** | **9,888** |
| Tax rate applicable in Poland | **19%** | **19%** |
| **Income tax calculated at the tax rate applicable in Poland** | **1,925** | **1,879** |
| **Income tax calculated at the applicable tax rate** | **1,925** | **1,879** |
| Tax effect of expenses that are not deductible in determining taxable profit | 315 | 2,778 |
| Non-deductible income | -90 | -288 |
| Use of tax losses | - | -1,683 |
| Development tax credit | -732 | -655 |
| Other | 389 | - |
| **Deductible expense** | **1,808** | **2,031** |
| **Effective tax rate** | **18%** | **21%** |

The use of tax losses is mainly related to losses brought forward that are offset against profits, with respect to which no deferred tax assets have been recognised.

## Note 7. EARNINGS PER SHARE

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

Diluted earnings per share are calculated as the quotient of net profit for the reporting period attributable to ordinary equity holders (after adjustment by costs generated by instruments convertible in the future into dilutive ordinary shares) and the weighted average number of ordinary shares outstanding in the period adjusted for the effect of potential shares resulting from financial instruments issued by the parent which may in the future result in emissions of parent's shares below the market price.

| Item | 2021 | 2020 |
|---|---|---|
| Net profit from continuing operations attributable to shareholders | 8,325 | 7,856 |
| Loss from discontinued operations attributable to shareholders | | |
| Net profit attributable to owners of the parent | 8,325 | 7,856 |
| Interest on redeemable preference shares convertible into ordinary shares | | |
| **Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share** | **8,325** | **7,856** |
| Weighted average number of outstanding ordinary shares used to calculate basic earnings per share | 8,845,099 | 9,765,601 |
| **Earnings per share** | **0.94** | **0.80** |
| Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share | 8,845,099 | 9,850,711 |
| **Diluted earnings per share** | **0.94** | **0.80** |

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

On April 22nd 2021, the Management Board resolved on its recommendation for the Annual General Meeting as regards net profit appropriation. It recommended that the Company's net profit for 2020, of PLN 7,856,447.93 (seven million, eight hundred and fifty-six thousand, four hundred and forty-seven złoty, 93/100), should be allocated as follows:

- PLN 4,944,307.50 (four million, nine hundred and forty-four thousand, three hundred and seven złoty, 50/100) of the net profit to be distributed as dividend to the shareholders (PLN 0.55 per share);
- PLN 2,912,140.43 (two million, nine hundred and twelve thousand, one hundred and forty złoty, forty-three grosz) of the net profit – to the Company's statutory reserve funds.

Furthermore, the Management Board recommended that the dividend record date (Day R) should be July 1st 2021 and that the dividend payment (Day P) should be July 15th 2021.

On the same day, the Supervisory Board approved the Management Board's recommendation.

On June 10th 2021, the Annual General Meeting resolved on the appropriation of the Company's net profit for 2020, including distribution of PLN 4,944,307.50 as dividend to the shareholders. Dividend per share was PLN 0.55.
The dividend record date was set in accordance with the Management Board's recommendation for July 1st 2021. The dividend was paid on July 15th 2021.

## Note 9. PROPERTY, PLANT AND EQUIPMENT

**Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2021**

| Item | Land | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2021** | **32** | **36,153** | **25,971** | **1,284** | **4,217** | **67,657** |
| **Increase, including:** | **-** | **189** | **645** | **18** | **70** | **923** |
| acquisitions | - | 189 | 645 | 18 | 70 | 923 |
| **Decrease, including:** | **-** | **-** | **4,798** | **217** | **148** | **5,162** |
| disposal | - | - | 3,956 | 197 | - | 4,153 |
| retirement | - | - | 842 | 20 | 148 | 1,009 |
| **Gross carrying amount as at Dec 31 2021** | **32** | **36,343** | **21,819** | **1,085** | **4,140** | **63,418** |
| **Cumulative depreciation as at Jan 1 2021** | **-** | **7,803** | **12,334** | **979** | **2,360** | **23,476** |
| **Increase, including:** | **-** | **1,061** | **1,482** | **90** | **286** | **2,918** |
| depreciation | - | 1,061 | 1,482 | 90 | 286 | 2,918 |
| **Decrease, including:** | **-** | **-** | **2,958** | **109** | **148** | **3,214** |
| disposal | - | - | 2,190 | 16 | - | 2,206 |
| retirement | - | - | 768 | 93 | 148 | 1,008 |
| **Cumulative depreciation as at Dec 31 2021** | **-** | **8,865** | **10,858** | **960** | **2,498** | **23,181** |
| **Impairment losses as at Jan 1 2021** | - | - | - | - | - | - |
| **Impairment losses as at Dec 31 2021** | - | - | - | - | - | - |
| **Net carrying amount as at Dec 31 2021** | **32** | **27,478** | **10,961** | **125** | **1,642** | **40,237** |

**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 Jan 1 2020** | **32** | **35,989** | **25,524** | **1,499** | **4,261** | **67,305** |
| **Increase, including:** | **-** | **164** | **669** | **-** | **41** | **874** |
| acquisitions | - | 164 | 669 | - | 41 | 874 |
| **Decrease, including:** | **-** | **-** | **222** | **215** | **85** | **522** |
| disposal | - | - | 16 | 215 | - | 231 |
| retirement | - | - | 206 | - | 85 | 291 |
| **Gross carrying amount as at Dec 31 2020** | **32** | **36,153** | **25,971** | **1,284** | **4,217** | **67,657** |
| **Cumulative depreciation as at Jan 1 2020** | **-** | **6,713** | **10,688** | **948** | **2,139** | **20,488** |
| **Increase, including:** | **-** | **1,091** | **1,856** | **228** | **300** | **3,475** |
| depreciation | - | 1,091 | 1,856 | 228 | 300 | 3,475 |
| **Decrease, including:** | **-** | **-** | **210** | **197** | **79** | **487** |
| disposal | - | - | 9 | 197 | - | 206 |
| retirement | - | - | 201 | - | 79 | 281 |
| **Cumulative depreciation as at Dec 31 2020** | **-** | **7,803** | **12,334** | **979** | **2,360** | **23,476** |
| **Impairment losses as at Jan 1 2020** | - | - | - | - | - | - |
| **Impairment losses as at Dec 31 2020** | - | - | - | - | - | - |
| **Net carrying amount as at Dec 31 2020** | **32** | **28,350** | **13,637** | **304** | **1,857** | **44,181** |

As at December 31st 2021, the Company analysed information from external and internal sources for any indication of the need to test assets for impairment. As no indication of impairment of the Company's property, plant and equipment was found, no impairment testing was performed.

Property, plant and equipment under construction

| *Property, plant and equipment under construction as at Jan 1 2021* | *Expenditure incurred in the financial year* | *Allocation of the expenditure* | | | | *As at Dec 31 2021* |
|---|---|---|---|---|---|---|
| | | *Buildings, premises and civil engineering structures* | *Machinery and equipment* | *Vehicles* | *Other property, plant and equipment* | |
| 404 | **1,986** | 268 | 772 | - | - | **1,349** |

| *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 property, plant and equipment* | |
| 552 | **777** | 216 | 710 | - | - | **404** |

**RIGHT-OF-USE ASSETS**

**Changes in right-of-use assets (by type) – for the period Jan 1 2021 – Dec 31 2021**

| Item | Land | Buildings and structures | Plant and equipment | Vehicles | Total |
|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2021** | **2,625** | **1,244** | **4,144** | **6,722** | **14,734** |
| **Increase, including:** | **-** | **14** | **-** | **911** | **925** |
| new lease contracts | - | - | - | 911 | 911 |
| modification of contracts | - | 14 | - | - | 14 |
| **Decrease, including:** | **-** | **-** | **-** | **1,506** | **1,506** |
| modification of contracts | - | - | - | 1,506 | 1,506 |
| **Gross carrying amount as at Dec 31 2021** | **2,625** | **1,258** | **4,144** | **6,126** | **14,153** |
| **Cumulative depreciation as at Jan 1 2021** | **59** | **612** | **299** | **2,509** | **3,480** |
| **Increase, including:** | **37** | **323** | **184** | **1,393** | **1,936** |
| depreciation | 37 | 323 | 184 | 1,393 | 1,936 |
| **Decrease, including:** | **-** | **-** | **-** | **1,201** | **1,201** |
| modification of contracts | - | - | - | 1,201 | 1,201 |
| **Cumulative depreciation as at Dec 31 2021** | **96** | **935** | **483** | **2,701** | **4,216** |
| **Net carrying amount as at Dec 31 2021** | **2,529** | **323** | **3,661** | **3,425** | **9,937** |

**Changes in right-of-use assets (by type) – for the period Jan 1 – Dec 31 2020**

| Item | Land | Buildings and structures | Plant and equipment | Vehicles | Total |
|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2020** | **2,625** | **1,357** | **4,144** | **5,957** | **14,083** |
| **Increase, including:** | **-** | **15** | **-** | **3,119** | **3,134** |
| new lease contracts | - | - | - | 3,119 | 3,119 |
| modification of contracts | - | 15 | - | - | 15 |
| **Decrease, including:** | **-** | **129** | **-** | **2,354** | **2,483** |
| modification of contracts | - | 129 | - | 2,354 | 2,483 |
| **Gross carrying amount as at Dec 31 2020** | **2,625** | **1,244** | **4,144** | **6,722** | **14,734** |
| **Cumulative depreciation as at Jan 1 2020** | **23** | **267** | **115** | **2,505** | **2,909** |
| **Increase, including:** | **37** | **345** | **184** | **1,387** | **1,953** |
| depreciation | 37 | 345 | 184 | 1,387 | 1,953 |
| **Decrease, including:** | **-** | **-** | **-** | **1,382** | **1,382** |
| modification of contracts | - | - | - | 1,382 | 1,382 |
| **Cumulative depreciation as at Dec 31 2020** | **59** | **612** | **299** | **2,509** | **3,480** |
| **Net carrying amount as at Dec 31 2020** | **2,565** | **632** | **3,845** | **4,213** | **11,255** |

## Note 10. INTANGIBLE ASSETS

**Changes in intangible assets (by type) in the period January 1st–December 31st 2021**

| Item | Development costs | Patents and licences, software | Other intangible assets | Total |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2021** | **45,035** | **11,004** | **4,955** | **60,994** |
| **Increase, including:** | **3,672** | **396** | **-** | **4,068** |
| acquisitions | 3,624 | 394 | - | 4,017 |
| other | 48 | 2 | - | 50 |
| **Decrease, including:** | **18** | **179** | **-** | **197** |
| retirement | - | 158 | - | 158 |
| other | 18 | 21 | - | 39 |
| **Gross carrying amount as at Dec 31 2021** | **48,689** | **11,220** | **4,955** | **64,865** |
| **Cumulative amortisation as at Jan 1 2021** | **6,700** | **5,895** | **3,736** | **16,331** |
| **Increase, including:** | **1,736** | **560** | **263** | **2,560** |
| amortisation | 1,736 | 560 | 263 | 2,560 |
| **Decrease, including:** | **-** | **158** | **-** | **158** |
| retirement | - | 158 | - | 158 |
| **Cumulative amortisation as at Dec 31 2021** | **8,436** | **6,297** | **3,999** | **18,732** |
| **Impairment losses as at Jan 1 2021** | - | - | - | **-** |
| **Impairment losses as at Dec 31 2021** | - | - | - | **-** |
| **Net carrying amount as at Dec 31 2021** | **40,253** | **4,923** | **956** | **46,133** |

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

| Item | Development costs | Patents and licences, software | Other intangible assets | Total |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2020** | **42,455** | **10,881** | **4,955** | **58,292** |
| **Increase, including:** | **2,580** | **676** | **-** | **3,256** |
| acquisitions | 2,580 | 533 | - | 3,114 |
| other | - | 142 | - | 142 |
| **Decrease, including:** | **-** | **553** | **-** | **553** |
| other | - | 553 | - | 553 |
| **Gross carrying amount as at Dec 31 2020** | **45,035** | **11,004** | **4,955** | **60,994** |
| **Cumulative amortisation as at Jan 1 2020** | **5,611** | **5,167** | **3,448** | **14,225** |
| **Increase, including:** | **1,266** | **732** | **288** | **2,287** |
| amortisation | 1,266 | 732 | 288 | 2,287 |
| **Decrease, including:** | **177** | **4** | **-** | **181** |
| other | 177 | 4 | - | **181** |
| **Cumulative amortisation as at Dec 31 2020** | **6,700** | **5,895** | **3,736** | **16,331** |
| **Impairment losses as at Jan 1 2020** | - | - | - | **-** |
| **Impairment losses as at Dec 31 2020** | - | - | - | **-** |
| **Net carrying amount as at Dec 31 2020** | **38,336** | **5,108** | **1,219** | **44,664** |

No intangible assets are pledged as security for liabilities.

As at December 31st 2021 and December 31st 2020, the Company had no intangible assets held for sale.

In 2021, the research costs recognised in the statement of comprehensive income were PLN 1,087 thousand (2020: PLN 1,107 thousand).

As at December 31st 2021, PLN 28,531 thousand of costs of completed development work and PLN 11,722 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 18,549 thousand allocated to the vacuum furnace segments;
- PLN 997 thousand allocated to the atmosphere furnace segments;
- PLN 3,088 thousand allocated to the aluminium furnace segments;
- PLN 4,976 thousand allocated to the melting furnace segments;
- PLN 921 thousand in other costs.

Costs of ongoing development work include:
- PLN 7,135 thousand allocated to the vacuum furnace segments;

- PLN 3,447 thousand allocated to the atmosphere furnace segments;
- PLN 479 thousand allocated to the aluminium furnace segments;
- PLN 10 thousand allocated to the melting furnace segments;
- PLN 651 thousand in other costs.

The Company distinguishes between research work and development work for its projects irrespective of the segment in which the work is carried out, in accordance with internal determinations already at the beginning of work on a new project envisaged in the budget. Any project that does not meet the criteria for recognition as intangible assets is treated as a project carried out as part of research work. The Company's criteria that allow capitalisation of expenditure on development projects are consistent with IAS 38, and all research and development expenditure which does not meet the criteria is recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised under assets in the next period.

Expenditure on ongoing development work was tested for impairment. The tests are conducted within identified cash-generating units. Capitalised development costs are tested at the level of a group of cash-generating units together with corporate assets.

The total recoverable amount of the individual cash-generating units was determined by reference to their value in use calculated on the basis of cash flow projections based on five-year financial budgets approved by the senior management, additionally taking into account the residual value after the end of the five-year period considering the expected long-term use of the technologies being developed based on the Company's existing experience.

**Kay assumptions for the calculation of value in use**

In order to calculate the value in use of individual cash-generating units, the following is taken into account:

- The sales level of a group of units;
- The gross margin based on the average percentage margins generated by the unit;
- The average annual EBITDA growth in the forecast period and a long-term growth rate after the forecast period;
- Discount rates estimated based on the risk level for each unit.

**Sensitivity to changes of assumptions**

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

## Note 11. INVESTMENTS IN RELATED ENTITIES

**Investments in related entities**

| As at Dec 31 2021 | Gross amount of equity interests | Impairment losses on shares | Carrying amount of equity interests | Ownership interest (%) | % of total voting rights |
|---|---|---|---|---|---|
| SECO/WARWICK Corporation | 21,806 | 21,806 | - | 100% | 100% |
| SECO/WARWICK Rus | 172 | 172 | - | 100% | 100% |
| Retech Systems LLC | 50,863 | 12,399 | 38,464 | 100% | 100% |
| SECO/WARWICK Retech | 7,601 | | 7,601 | 93% | 93% |
| OOO SCT Russia | 4,228 | 4,228 | - | 50% | 50% |
| SECO/WARWICK Germany GmbH | 6,035 | 6,035 | - | 100% | 100% |
| SECO/WARWICK Systems and Services India PVT Ltd | 1,268 | - | 1,268 | 100% | 100% |
| SECO/WARWICK Service Sp. z o.o. | 3,412 | 26 | 3,386 | 100% | 100% |
| SECO WARWICK USA Holding | 7,703 | - | 7,703 | 100% | 100% |
| **Total** | **103,088** | **44,666** | **58,421** | | |

| As at Dec 31 2020 | Gross amount of equity interests | Impairment losses on shares | Carrying amount of equity interests | Ownership interest (%) | % of total voting rights |
|---|---|---|---|---|---|
| SECO/WARWICK Corporation | 21,806 | 21,806 | - | 100% | 100% |
| SECO/WARWICK Rus | 172 | 172 | - | 100% | 100% |
| Retech Systems LLC | 50,863 | 12,399 | 38,464 | 100% | 100% |
| SECO/WARWICK Retech | 7,601 | | 7,601 | 93% | 93% |
| OOO SCT Russia | 4,228 | 4,228 | - | 50% | 50% |
| SECO/WARWICK Germany GmbH | 6,035 | 6,035 | - | 100% | 100% |
| SECO/WARWICK Systems and Services India PVT Ltd | 1,268 | - | 1,268 | 100% | 100% |
| SECO/WARWICK Service Sp. z o.o. | 3,412 | 26 | 3,386 | 100% | 100% |
| SECO WARWICK USA Holding | 7,703 | - | 7,703 | 100% | 100% |
| **Total** | **103,088** | **44,666** | **58,421** | | |

**Change in investments in related entities**

| Item | 2021 | 2020 |
|---|---|---|
| **At beginning of period** | **58,421** | **58,421** |
| ***Increase during the period*** | **-** | **-** |
| ***Decrease during the period*** | - | - |
| **At end of period** | **58,421** | **58,421** |

## Note 12. IMPAIRMENT TESTS

As at December 31st 2021, the Company did not identify any changes in impairment losses relating to the subsidiaries, therefore no share impairment tests were conducted.

## Note 13. INVENTORIES

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Materials | 21,917 | 16,085 |
| Semi-finished products and work in progress | 8,128 | 10,247 |
| **Total inventories (carrying amount)** | **30,045** | **26,331** |
| Inventory write-downs | 7,232 | 5,852 |
| **Gross inventories** | **37,278** | **32,183** |

**CHANGE IN WRITE-DOWNS**

| WRITE-DOWNS | Materials | Semi-finished products and work in progress | Finished goods | Merchandise | Total |
|---|---|---|---|---|---|
| **Jan 1 2020** | **1,014** | **3,987** | **-** | **-** | **5,001** |
| **Increase, including:** | **401** | **450** | **-** | **-** | **851** |
| - inventory write-downs recognised | 401 | 450 | - | - | 851 |
| **Decrease, including:** | **-** | **-** | - | - | **-** |
| - inventory write-downs reversed | - | - | - | - | - |
| **Dec 31 2020** | **1,415** | **4,437** | **-** | **-** | **5,852** |
| **Increase, including:** | **793** | **588** | **-** | **-** | **1,381** |
| - inventory write-downs recognised | 793 | 588 | - | - | 1,381 |
| **Decrease, including:** | **-** | **-** | **-** | **-** | **-** |
| - inventory write-downs reversed | - | - | - | - | - |
| **Dec 31 2021** | **2,207** | **5,025** | **-** | **-** | **7,233** |

Based on an analysis of the value of inventories as at December 31st 2021 and December 31st 2020, inventory was revalued by recognising write-downs on inventories which got damaged or became partly or entirely useless, or in the case of which selling prices fell and estimated costs of preparation for sale or costs to sell increased.

Due to the use within the Company of inventories which had been written down, in the period in which the inventories were used the impairment write-down was reversed in correspondence with the other expenses account.

## Note 14. CONTRACT ASSETS/LIABILITIES

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

**Contract assets**

Contract assets reflect the amounts payable by customers in connection with provision of services or delivery of equipment.
In view of the performance of large contracts for individual customers, the Company believes that there is a concentration of credit risk with respect to contract assets and receivables. Therefore, in order to determine impairment losses the Company analyses balances on a case-by-case basis. The Company's maximum exposure to credit risk at the end of the reporting period corresponds to the carrying amount of these assets.

Changes in contract assets in the twelve months ended December 31st 2021 were as follows:

| | 2021 | 2020 |
|---|---|---|
| **Opening balance** | **48,524** | **73,296** |
| Recognition of an impairment loss | 78 | 64 |
| Increase | 260,589 | 176,700 |
| Invoiced amounts transferred to trade receivables | -243,246 | -201,536 |
| **Closing balance** | **65,945** | **48,524** |

As the amount of expected credit losses changed, the impairment losses as at December 31st 2021 were increased by PLN 78 thousand, from PLN 146 thousand to PLN 224 thousand.

**Contract liabilities**

The balance of contract liabilities of approximately PLN 60,000 thousand as at January 1st 2021 was recognised as revenue generated in the 12 months ended December 31st 2021.

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 2021, the transaction price allocated to unsatisfied performance obligations under contracts with customers was PLN 27,766 thousand. The following table shows the time periods during which the Company expects to satisfy those performance obligations and recognise related revenue.

| | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Up to 1 year | 26,408 | 36,364 |
| 1–2 years | 1,357 | 598 |
| **Total unsatisfied performance obligations** | **27,766** | **36,962** |

**Contract costs**

As at December 31st 2021, the Company also recognised the following costs of obtaining a contract with a customer:

| | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| **As at Jan 1** | **3,882** | **6236** |
| - contract costs capitalised in the period | 992 | - |
| - amortisation for period | 3,001 | 2,354 |
| - impairment losses | - | - |
| **As at Dec 31, including:** | **1,874** | **3,882** |
| - long-term contract costs | 65 | - |
| - short-term contract costs | 1,809 | 3,882 |

## Note 15. TRADE AND OTHER RECEIVABLES

**Long-term receivables**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| **Trade receivables** | **-** | **-** |
| a) from related entities | - | - |
| b) from other entities | - | - |
| **Other receivables** | **1,279** | **512** |
| a) from related entities | - | - |
| b) from other entities | 1,279 | 512 |
| **Total long-term receivables** | **1,279** | **512** |

**Short-term receivables**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| a) from related entities | **22,973** | **32,031** |
| - trade receivables, with maturities of up to 12 months | 14,340 | 24,045 |
| - prepayments and security deposits paid | 8,633 | 7,986 |
| b) from other entities | **44,369** | **41,077** |
| - trade receivables, with maturities of up to 12 months | 34,345 | 34,571 |
| - taxes, customs duties, social security | 7,081 | 4,081 |

| | | |
|---|---|---|
| and other benefits receivable | | |
| - other, including: | 2,943 | 2,425 |
| *advance payments to suppliers* | *2,034* | *502* |
| *receivables from sale of S/W Brasil shares* | *328* | *1,518* |
| **Total net trade and other receivables** | **67,342** | **73,108** |
| Impairment losses on receivables | 7,980 | 9,888 |
| **Total gross trade and other receivables** | **75,322** | **82,995** |

As at December 31st 2021, trade receivables of PLN 7,980 thousand PLN (2020: PLN 9,888 thousand) were classified as uncollectible and an impairment loss was recognised. Impairment losses recognised following an individual analysis of balances amounted to PLN 2,762 thousand. Expected credit losses recognised for all receivables stood at PLN 5,218 thousand.

Changes in impairment losses on receivables were as follows:

| CHANGE IN IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Change in impairment losses in related entities | | |
| At beginning of period | **7,910** | **6,956** |
| **a) increase:** | **232** | **1,194** |
| - recognition of impairment loss on trade receivables | 232 | 1,194 |
| **b) decrease:** | **2,178** | **240** |
| - reversal of impairment loss on trade receivables | 397 | **240** |
| - write-off of receivables | 1,781 | - |
| **Balance of impairment losses on trade receivables from related entities at end of period** | **5,965** | **7,910** |
| | | |
| Change in impairment losses at other entities | | |
| At beginning of period | **1,978** | **1,360** |
| **a) increase:** | **55** | **718** |
| - recognition of impairment loss on trade receivables | 55 | 718 |
| **b) decrease:** | **17** | **101** |
| - reversal of impairment loss on trade receivables | 17 | 92 |
| - write-off of receivables | - | 8 |
| **Balance of impairment losses on trade receivables from other entities at end of period** | **2,016** | **1,978** |
| **Balance of impairment losses on trade receivables at end of period** | **7,980** | **9,888** |

Ageing of trade receivables (net):

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| short-term | 38,986 | 40,596 |
| past due more than 1 month, up to 6 months | 4,666 | 5,058 |
| past due more than 6 months, up to 12 months | 484 | 4,658 |
| past due over 12 months | 4,549 | 8,303 |
| **Total trade receivables (net)** | **48,686** | **58,616** |
| impairment losses on trade receivables | 7,980 | 9,888 |
| **Total trade receivables (gross)** | **56,666** | **68,503** |

In the years ended December 31st 2021 and December 31st 2020, the Company did not claim any trade receivables in court.

**Contingent receivables**

As at December 31st 2021, the Company held guarantees for a total amount of PLN 11,211 thousand. As at December 31st 2020, the Company held guarantees for a total amount of PLN 13,899 thousand.

## Note 16. OTHER FINANCIAL ASSETS AND LIABILITIES

**Other financial assets**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Derivative financial instruments | 35 | 345 |
| Loans advanced* | 2,000 | 2,000 |
| Other | 3 | 3 |
| **Total financial assets, including:** | **2,038** | **2,348** |
| - long-term | 3 | 3 |
| - short-term | 2,035 | 2,345 |

* Loan advanced to SECO/WARWICK Services Sp. z o.o., repaid on February 24th 2022.

**Other financial liabilities**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| **Other financial liabilities:** | **11,301** | **12,068** |
| - derivative financial instruments | 3,872 | 3,084 |
| - lease liabilities | 7,429 | 8,984 |
| **Total financial liabilities, including:** | **11,301** | **12,068** |
| - long-term | 5,594 | 7,080 |
| - short-term | 5,707 | 4,988 |

**Derivative financial instruments**

| | Dec 31 2021 | | Dec 31 2020 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Derivative financial instruments | 38 | 3,872 | 348 | 3,083 |
| **Total hedging instruments** | | | | |
| - non-current | 3 | 90 | 3 | 401 |
| - short-term | 35 | 3,782 | 345 | 2,682 |

**Disclosures of derivative financial instruments which qualify for hedge accounting**

In 2021, SECO/WARWICK S.A. used currency forwards to hedge on average 55% of its export cash flows denominated in EUR, 66% of its cash flows denominated in USD, and 30% 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 IFRS 9 paragraph 6.4.1 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 Company assumed that the transactions affect profit or loss in proportion to the percentage of completion of a given contract. The Company 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 Company hedges the currency risks of future cash flows. The Company determines its net position for future cash flows in specific time ranges. This position is hedged by forward contracts for a given currency. The hedging strategy envisages hedging the entire net position. The strategy also provides for rollovers of derivatives in cases where actual settlement dates for net positions are delayed for reasons beyond the Company's control.

The net position is determined based on highly probable future cash flows. This high probability is verified by hedging only future cash flows resulting from existing supply contracts. The hedging policy in place helps mitigate the risk of exchange rate fluctuations resulting from the Company's inflows in currencies other than its functional currency. The hedges are for periods ranging from several months to several years. Forward contracts for cash flows denominated in foreign currencies remove uncertainty as to the amount of net proceeds from sale of products to customers.

The economic relationship between the hedged item and the hedging instrument is determined at three levels:

- the hedging contract is denominated in the currency of the hedged transaction;
- The term of the derivative contract corresponds to the period of execution of the hedged transaction to an accuracy of one month of execution;
- The amount of the derivative instrument corresponds to the net position of the cash flows scheduled for a given month.

For foreign currency purchase hedges, the Company enters into hedging relationships in which the key terms of the hedging instrument correspond exactly to the terms of the hedged item.

The Company believes that the main sources of ineffectiveness that may affect the hedging relationship are:

- impact of the credit risk of the bank providing the derivative instrument;
- time differences in the settlement of hedged transactions;
- changes in expected transactions occurring at a different point in time in relation to initial estimates;
- accepting the entire forward contract value as a hedging instrument.

As at December 31st 2021 and December 31st 2020, the Company did not identify any sources of ineffectiveness other than those mentioned above.

In 2021 and 2020, there was no significant hedge ineffectiveness.

As part of cash flow hedges, the Company does not intend to execute a transaction for which hedge accounting was used in the previous period, but which is no longer expected to occur.

As at December 31st 2021 and December 31st 2020, the Company held the following instruments to hedge its exposure to foreign currency fluctuations:

**As at Dec 31 2021**

| Currency risk | Maturity of up to 1 year | Maturity between 1 and 3 years | Maturity of more than 3 years |
|---|---|---|---|
| Currency forwards (PLN) | 126,273 | 1,997 | - |
| EUR – forward exchange rate* | 4.5820 | 4.6441 | - |
| USD – forward exchange rate* | 3.8632 | - | - |
| GBP – forward exchange rate* | 5.3890 | - | - |

* weighted average exchange rate

As at Dec 31 2020

| Currency risk | Maturity of up to 1 year | Maturity between 1 and 3 years | Maturity of more than 3 years |
|---|---|---|---|
| Currency forwards (PLN) | 83,290 | 12,064 | - |
| EUR – forward exchange rate* | 4.4145 | 4.4914 | - |
| USD – forward exchange rate* | 3.7664 | - | - |
| GBP – forward exchange rate* | 5.0084 | - | - |

* weighted average exchange rate

**The table below presents total values of hedging relationships open as at December 31st 2021.**

| Dec 31 2021 | Notional amount of contract (EUR '000) | Initial notional amount of hedging instrument | Outstanding notional amount of hedging instrument as at Dec 31 2021 | 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** | **65,408** | **29,901** | **21,115** | **-1,677** | **-974** | **-703** | **Jan 31 2022 – Apr 13 2023** |
| Dec 31 2021 | Notional amount of contract (USD '000) | Initial notional amount of hedging instrument | Outstanding notional amount of hedging instrument as at Dec 31 2021 | 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** | **12,463** | **8,119** | **7,859** | **-2,128** | **-563** | **-1,565** | **Jan 31 2021 – Dec 30 2022** |
| Dec 31 2021 | Notional amount of contract (GBP '000) | Initial notional amount of hedging instrument | Outstanding notional amount of hedging instrument as at Dec 31 2021 | 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** | **210** | **210** | **210** | **-31** | **-2** | **-29** | **Jun 30 2022 – Jun 30 2022** |

**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 2020 | 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 2020 | 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 | Initial notional | Outstanding | Fair value of | Amount recognised | Amount recognised in | Date of final settlement of |

| | contract (USD '000) | amount of hedging instrument | notional amount of hedging instrument as at Dec 31 2020 | instrument (PLN '000) | in profit or loss (PLN '000) | equity (PLN '000) | hedging instrument |
|---|---|---|---|---|---|---|---|
| **TOTAL** | **1,275** | **830** | **580** | **-45** | **-** | **-45** | **Jun 30 2021 – Nov 30 2021** |

**Impact of hedge accounting on financial position and results:**

| Instrument type | Unit | Notional amount Dec 31 2021 | Assets Dec 31 2021 | Liabilities Dec 31 2021 | Statement of financial position item that includes the hedging instrument | Changes in fair value of the hedged item (as a basis for determining the ineffective portion in the period) | Hedging gains or losses for the reporting period, recognised in other comprehensive income | Hedge ineffectiveness amount taken to profit or loss | Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment | Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included |
|---|---|---|---|---|---|---|---|---|---|---|
| **Forward – sale of currency** | **EUR** | 21,116 | 35 | 1,712 | Other financial assets/liabilities | 68 | 540 | - | -974 | finance costs |
| **Forward – sale of currency** | **USD** | 7,859 | - | 2,128 | Other financial assets/liabilities | - | - | - | -563 | finance costs |
| **Forward – sale of currency** | **GBP** | 210 | - | 31 | Other financial assets/liabilities | - | - | - | -2 | finance costs |

| Instrument type | Unit | Notional amount Dec 31 2020 | Assets Dec 31 2020 | Liabilities Dec 31 2020 | Statement of financial position item that includes the hedging instrument | Changes in fair value of the hedged item (as a basis for determining the ineffective portion in the period) | Hedging gains or losses for the reporting period, recognised in other comprehensive income | Hedge ineffectiveness amount taken to profit or loss | Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment | Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included |
|---|---|---|---|---|---|---|---|---|---|---|
| **Forward – sale of currency** | **EUR** | 15,852 | 23 | 2,832 | Other financial assets/liabilities | -840 | -547 | - | -1,066 | finance costs |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Forward – sale of currency** | **USD** | 5,579 | 322 | 207 | Other financial assets/liabilities | 225 | -11 | - | 209 | finance costs |
| **Forward – sale of currency** | **GBP** | 830 | - | 45 | Other financial assets/liabilities | - | - | - | - | finance costs |

| Hedged items | Balance of cash flow hedge reserve for continuing hedges Dec 31 2021 | Balance of cash flow hedge reserve for continuing hedges Dec 31 2020 |
|---|---|---|
| | Currency risk | |
| **Net position (EUR)** | -703 | -1,743 |
| **Net position (USD)** | -1,565 | -94 |
| **Net position (GBP)** | -29 | -45 |

## Note 17. OTHER NON-FINANCIAL ASSETS

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Prepayments and accrued income | 1,545 | 1,943 |
| **Total other non-financial assets** | **1,545** | **1,943** |

The main items of prepayments and accrued income are insurance and software.

## Note 18. CASH AND CASH EQUIVALENTS

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Cash at banks and cash in hand | 17,284 | 15,683 |
| Short-term deposits | 594 | 257 |
| **Total cash and cash equivalents** | **17,878** | **15,940** |

## Note 19. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

**Share capital**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Number of shares | 10,298,554 | 10,298,554 |
| Par value of shares | 0.2 | 0.2 |
| **Share capital** | 2,060 | 2,060 |
| **Restatement due to hyperinflationary conditions** | 1,557 | 1,557 |
| **Share capital at end of period** | **3,616** | **3,616** |

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

**Shareholding structure:**

| Shareholders as at Dec 31 2021 | 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%** |

| | | | | |
|---|---|---|---|---|
| **Nationale-Nederlanden Otwarty Fundusz Emerytalny** | None | - | 600,000 | **5.83%** |
| **SECO/WARWICK S.A.** | None | - | 1,802,189 | **17.50%** |
| **Metlife OFE** | None | - | 577,470 | **5.61%** |
| **Other** | None | - | 2,839,804 | **27.57%** |
| **TOTAL** | | | **10,298,554** | **100%** |

| 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 | **26.58%** |
| **TOTAL** | | | **10,298,554** | **100%** |

**Other components of equity**

| Other components of equity: | Share-based payment reserve | Share buyback reserve | Hedging reserve | Actuarial gains/(losses) | Total other components of equity |
|---|---|---|---|---|---|
| **Other components of equity as at Jan 1 2021** | **7,973** | **29,765** | **-1,524** | **-142** | **36,071** |
| Other comprehensive income | **-** | - | -336 | - | **-336** |
| Valuation of management stock option plan | 648 | - | - | - | **648** |
| Award of management stock options | -2,555 | - | - | - | **-2,555** |
| Repurchase of shares | - | 13,000 | - | - | **13,000** |
| Sale of treasury shares under the incentive scheme | 153 | - | - | - | **153** |
| **Other components of equity as at Dec 31 2021** | **6,219** | **42,765** | **-1,861** | **-142** | **46,981** |
| **Other components of equity as at Jan 1 2020** | **7,911** | **15,150** | **-161** | **-142** | **22,758** |
| Other comprehensive income | - | - | -1,364 | - | **-1,364** |
| 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** |
| **Other components of equity as at Dec 31 2020** | **7,973** | **29,765** | **-1,524** | **-142** | **36,071** |

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.

**Hedging reserve**

The Company's hedging reserve is related to the following financial instruments:

| | Cash flow hedge reserve – fair value of a forward contract |
|---|---|
| **As at Jan 1 2020** | **-161** |
| Plus: change in fair value of hedging instruments recognised in other comprehensive income | 68 |
| Minus: reclassification from other comprehensive income to profit or loss | -1,751 |
| Minus: Deferred income tax | 320 |
| **As at Dec 31 2020** | **-1,524** |
| Plus: change in fair value of hedging instruments recognised in other comprehensive income | -37 |
| Minus: reclassification from other comprehensive income to profit or loss | -378 |
| Minus: Deferred income tax | 79 |
| **As at Dec 31 2021** | **-1,861** |

**Share buyback reserve and treasury shares**

The acquisition of treasury shares by the Company and its purpose are disclosed in Section I General information, Section 6 Major holdings of shares. As at December 31st 2021, the Company held 1,802,189 treasury shares, representing 17.50% of the share capital, and as at December 31st 2020 – 1,308,904 treasury shares, representing 12.71% of the share capital. In 2021, the Group acquired 595,488 treasury shares worth PLN 8,750 thousand. 102,203 treasury shares worth PLN 2,555 thousand were issued under the incentive scheme.

The Company presents the acquired treasury shares in accordance with IAS 1 as a separate item of equity, deducting their value from equity. As at December 31st 2021, the amount was PLN -28,533 thousand (PLN -22,338 thousand as at December 31st 2020). The acquisition, sale, issue or retirement of treasury shares does not result in the recognition of any gains or losses in the entity's profit or loss.

The treasury shares are shares in SECO/WARWICK S.A. held by Biuro Maklerskie mBanku (mBank Brokerage Office) for the purpose of issuing shares under an agreement for the purchase of treasury shares with participants of the Incentive Scheme, as discussed in more detail in Note 31 Management stock options.
The share buyback reserve is used to recognise fair value as at the date of allotment of shares issued in connection with the Incentive Scheme.

**Share premium reserve**

As at December 31st 2021 and December 31st 2020, the share premium reserve, created as a result of issue of Company shares, stood at PLN 78,666 thousand.

**Retained earnings**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| **Retained earnings** | **78,563** | **88,183** |
| Current period's result | 8,325 | 7,856 |
| Statutory reserve funds | 48,623 | 58,711 |
| Retained earnings | 21,615 | 21,615 |

## 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 2021, the total amount drawn under the facility was PLN 10,472 thousand. As at December 31st 2020, the total amount drawn under the facility was PLN 13,694 thousand.

On October 5th 2021, SECO/WARWICK S.A. executed a PLN 10,400 thousand investment credit facility agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 850,000 Company shares under the share buyback programme established pursuant to Resolution No. 5 of the Company's Extraordinary General Meeting of October 7th 2021. As at the date of signing Annex 1, i.e., November 26th 2021, the amount drawn under the facility was PLN 6,908 thousand. As at December 31st 2021, the total amount drawn under the facility was PLN 6,562 thousand.

The facilities are secured by a contractual mortgage over a property comprising the following plots of land held in perpetual usufruct:

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

**As at December 31st 2021**

| Lender | Amount in PLN '000 | Currency | Limit/amount as per agreement | Interest | Repayment date | Security |
|---|---|---|---|---|---|---|
| mBANK S.A. | 10,472 | PLN | 14,500 | variable interest rate | Mar 31 2025 | mortgage, financial pledge over securities |
| mBANK S.A. | 6,562 | PLN | 6,908 | variable interest rate | Sep 30 2026 | mortgage, financial pledge over securities |
| mBank – credit card limit | 46 | PLN | - | variable interest rate | None | None |
| mBank – credit card limit | 2 | USD | - | variable interest rate | None | None |
| mBank – credit card limit | 101 | EUR | - | variable interest rate | None | None |
| SANTANDER S.A. – overdraft facility | 14,535 | PLN | 19,000 | variable interest rate | Feb 28 2022 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |

| | | | | | | |
|---|---|---|---|---|---|---|
| BNP Paribas S.A. – overdraft facility | 14,082 | PLN | 20,000 | variable interest rate | Sep 30 2022 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |
| PEKAO – overdraft facility | - | PLN | 25,000 | variable interest rate | Aug 31 2022 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |
| **Total** | **45,801** | | | | | |

**As at Dec 31 2020**

| Lender | Loan amount | Currency | Limit/amount as per agreement | Interest | Repayment date | Security |
|---|---|---|---|---|---|---|
| mBANK S.A. | 13,694 | PLN | 14,500 | variable interest rate | Mar 31 2025 | mortgage, financial pledge over securities |
| mBank – credit card limit | 30 | PLN | - | variable interest rate | None | None |
| mBank – credit card limit | 42 | EUR | - | variable interest rate | None | None |
| SANTANDER S.A. – overdraft facility | 11,492 | PLN | 19,000 | variable interest rate | Feb 28 2021 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |
| BNP Paribas S.A. – overdraft facility | 4,827 | PLN | 20,000 | variable interest rate | Sep 30 2021 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |
| PEKAO – overdraft facility | - | PLN | 25,000 | variable interest rate | Aug 31 2021 | representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure |
| **Total** | **30,085** | | | | | |

**Borrowings by maturity:**

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Short-term borrowings | 33,370 | 19,612 |
| Long-term borrowings | 12,431 | 10,472 |
| *- repayable in more than 1 year, up to 3 years* | 9,208 | 9,667 |
| *- repayable in more than 3 year, up to 5 years* | 3,223 | 806 |
| **Total borrowings** | **45,801** | **30,085** |

| Borrowings | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Overdrafts | 28,617 | 16,318 |
| Investment credit facility | 17,035 | 13,694 |
| Credit card limits | 150 | 72 |
| **Total** | **45,801** | **30,085** |

| Borrowings | |
|---|---|
| **As at Jan 1 2021** | **30,085** |
| **Increase, including:** | **19,284** |
| - funds borrowed under overdraft facilities | 12,299 |
| - funds borrowed under investment credit facility | 6,908 |
| – funds borrowed within credit card limit | 78 |
| **Decrease, including:** | **3,568** |
| - repayment of investment credit facility | 3,568 |
| **As at Dec 31 2021** | **45,801** |

## Note 21. LEASES

**The Company as a lessee**

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

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

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

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

| Item | 2021 |
|---|---|
| **Liability amount as at Dec 31 2021** | **8,984** |
| Increase (new leases) | 911 |
| Amendments to lease contracts | -700 |
| Payment of interest | 333 |
| Payments | -2,099 |
| **As at Dec 31 2021** | **7,429** |
| Short-term | 1,926 |
| Long-term | 5,504 |

| Item | 2020 |
|---|---|
| **Liability amount as at Jan 1 2020** | **8,923** |
| Increase (new leases) | 3,119 |
| Amendments to lease contracts | -1,340 |
| Payment of interest | 345 |
| Payments | -2,063 |
| **As at Dec 31 2020** | **8,984** |
| Short-term | 2,306 |
| Long-term | 6,678 |

For information on the maturities of the lease liabilities, see Note 30.4. 'Liquidity risk'.

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

| Item | 2021 | 2020 |
|---|---|---|
| Depreciation of right-of-use assets | 1,936 | 1,953 |
| Interest expense on lease liabilities | 333 | 345 |
| Cost of short-term leases (included in cost of products and services sold) | 253 | 324 |
| Cost of leases of low-value assets (included in administrative expenses) | 46 | 69 |
| **Total amount recognised in the statement of comprehensive income** | **2,569** | **2,691** |

The total cash outflow from the Company's lease contracts in 2021 was PLN 2,362 thousand (2020: PLN 2,630 thousand).

**Receivables under operating leases – the Company as a lessor**

The lease income recognised by the Company under other income amounted to PLN 897 thousand in 2021.

As at December 31st 2021 and December 31st 2020, the maturities of lease payments were as follows (at undiscounted amounts):

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| In the 1st year | 897 | 886 |
| In the 2nd year | 574 | 599 |
| In the 3rd year | 563 | 587 |
| In the 4th year | 563 | 587 |
| In the 5th year | 563 | 587 |
| In more than 5 years | 281 | 373 |
| **Total** | **3,441** | **3,619** |

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

## Note 22. TRADE PAYABLES AND OTHER LIABILITIES

| TRADE PAYABLES AND OTHER CURRENT LIABILITIES | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| a) trade payables, with maturities of up to 12 months | 47,059 | 40,861 |
| b) taxes, duties, social security and other benefits (excluding income tax) payable | 4,670 | 3,699 |
| c) capital commitments | 300 | 5 |
| e) other | 214 | 1,537 |
| **TOTAL** | **52,243** | **46,101** |

**Contingent liabilities**

Contingent liabilities under guarantees and sureties issued were PLN 44,317 thousand as at the end of 2021, and PLN 47,957 thousand as at the end of 2020. The following guarantees were issued:

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| performance bond | 749 | 1,962 |
| stand-by letter of credit | 9,338 | 16,913 |
| payments | 5,592 | - |
| bid bond | 2,070 | 166 |
| warranty obligations guarantee | 3,810 | 5,145 |
| **Total** | **21,559** | **24,186** |

As at December 31st 2021, there were no material expected credit losses under financial guarantees issued. For information on sureties issued, see section 17 of the Directors' Report on the operations of SECO/WARWICK S.A.

**Social assets and liabilities of the Company Social Benefits Fund**

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

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

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

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Loans to employees | 32 | 12 |
| Cash | 169 | 441 |
| Liabilities to the fund | 207 | 441 |
| **Net balance** | **-6** | **12** |
| Contributions to the fund during the year | - | 565 |

## Note 23. EMPLOYEE BENEFITS

**Retirement benefits and other post-employment benefits**

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

| Long-term employee benefit obligations | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| at beginning of period | 1,334 | 1,243 |
| increase | - | 122 |
| *- recognition* | - | *122* |
| decrease | 274 | 31 |
| *- use* | *10* | *31* |
| *- reversal of provisions* | *264* | |
| **at end of period** | **1,060** | **1,334** |

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

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Discount rate (%) | 3.60% | 1.25% |
| Expected rate of growth of salaries and wages (%) in year 1 | 5% | 3% |
| Expected rate of growth of salaries and wages (%) in next years | 5% | 5% |

| Short-term employee benefit obligations | Jan 1–Dec 31 2021 | Jan 1–Dec 31 2020 |
|---|---|---|
| - accrued holiday entitlements | 1,891 | 1,596 |
| - accrued bonuses | 5,190 | 3,641 |
| - accrued retirement bonuses | 42 | 10 |
| - current salaries and wages | 3,643 | 2,949 |
| | **10,767** | **8,196** |

## Note 24. OTHER PROVISIONS

| Item | Provision for warranty repairs | Provision for penalties | Provision for loss-making contracts | Total |
|---|---|---|---|---|
| **As at Jan 1 2020** | **6,477** | **950** | **170** | **7,596** |
| recognised during the financial year | 1,485 | - | 419 | 1,904 |
| use | -3,750 | - | - | -3,750 |
| reversed | - | -730 | - | -730 |
| **As at Dec 31 2020** | **4,211** | **220** | **589** | **5,020** |
| recognised during the financial year | 5,286 | - | - | 5,286 |
| use | -3,505 | - | - | -3,505 |
| reversed | - | - | -164 | -164 |
| **As at Dec 31 2021** | **5,992** | **220** | **424** | **6,637** |

The Company reviews its provisions as at the end of each reporting period and adjusts them 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. Accordingly, all other provisions are recognised as current provisions as in each case they will be used or settled within the next 12 months.

Provision for warranty repairs

The provision for warranty repairs is calculated on a case-by-case basis for each contract and reflects the contractual obligations towards the Customer during the warranty period. The amount of the provision is planned in accordance with internal guidance for each technology. On average, it ranges from 1.5% to 2% of the contract value. The assumptions adopted for the current period are consistent with those applied in the previous year. The Company calculates the provision for warranty repairs based on planned costs updated for the purpose of calculating the warranty provisions, less the costs of warranties, taking into account the stage of completion measured by reference to contract costs incurred.
Recognising the provision for warranties, the Company considers the percentage of contract completion (pro rata to revenue recognition), planning the costs of complaints until the contract is 100% complete (the final acceptance report is signed). As warranty costs arise or at the start of the warranty period, the provision is gradually reduced by the costs of warranty repairs incurred or by the amounts stated by the entity performing the contract if it determines that the claims for which the provision was recognised will not occur in the future. The provision is fully reversed at the end of the warranty period or once all outstanding warranty repairs have been completed.

As at December 31st 2021, the carrying amount of the provision was PLN 5,992 thousand (December 31st 2020: PLN 4,211 thousand).

A 10% difference in the cost of warranty claims relative to management estimates would result in an increase or decrease in the provision for warranty costs of approximately PLN 599.2 thousand (as at December 31st 2020 – an increase or decrease by PLN 421.1 thousand).

Provision for penalties

A provision for penalties is recognised if contractual penalties are highly likely to be paid in the future under ongoing contracts.

In 2021, no provision for penalties was recognised or reversed. In 2020, a provision of PLN 730 thousand was reversed.

Provision for loss-making contracts

The provision for loss-making contracts is calculated on a case-by-case basis for each contract. It is recognised if the difference between planned revenue and planned costs under the contract is lower than the difference in revenue and expenses recognised in the period.

As at December 31st 2021, the carrying amount of the provision was PLN 424 thousand (December 31st 2020: PLN 589 thousand).

## Note 25. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| **Gain/(loss) on investing activities** | **529** | **-35** |
| Disposal of property, plant and equipment | 529 | -35 |
| Impairment losses on shares in subsidiaries and associates | - | - |
| Retirement of property, plant and equipment | - | - |
| **Change in provisions results from the following items:** | **3,913** | **-3,305** |
| net change in provisions | 5,565 | -1,752 |
| actuarial gains/(losses) | - | - |
| elimination of change in deferred tax liabilities | -1,652 | -1,553 |
| **Change in liabilities (excluding financial liabilities) results from the following items:** | **5,847** | **-1,214** |
| net change in liabilities | 5,375 | 101 |
| elimination of lease liabilities | 1,555 | -62 |
| elimination of liabilities under forward contracts | -788 | -2,078 |
| elimination of capital commitments | -295 | 825 |
| **Other** | **-331** | **-253** |
| Accounting for lease in connection with decision not to exercise the right to purchase the leased asset | -331 | -253 |
| Adjustment to recognition of research expense | - | 780 |

## Note 26. RELATED ENTITIES

| Related party (subsidiaries) | year | Sales to related entities | Purchases from related entities | Receivables from related entities | Liabilities to related entities |
|---|---|---|---|---|---|
| **SECO/WARWICK Corporation** | | | | | |
| | *2021* | 46 | 482 | 2,309 | 324 |
| | *2020* | 37 | 695 | 4,769 | - |
| **SECO/WARWICK Rus** | | | | | |
| | *2021* | 6,557 | 955 | 4,584 | 32 |
| | *2020* | 11 | 993 | 1,415 | - |
| **RETECH SYSTEMS LLC** | | | | | |
| | *2021* | 11,579 | 36,123 | 990 | 13,542 |

| | | | | | |
|---|---|---|---|---|---|
| | *2020* | 15,677 | 7,540 | 663 | 2,304 |
| **SECO/WARWICK RETECH Thermal Equipment Manufacturing Tianjin Co., Ltd.** | | | | | |
| | *2021* | 1,289 | 3,049 | 1,232 | 6,209 |
| | *2020* | 1,061 | 5,833 | 2,259 | 8,201 |
| **SECO/WARWICK Germany GmbH** | | | | | |
| | *2021* | 409 | 688 | 3,323 | - |
| | *2020* | 197 | 673 | 4,317 | 1,675 |
| | | | | | |
| | *2021* | 4,451 | 895 | 1,078 | 157 |
| | *2020* | 4,089 | 806 | 1,308 | 10 |
| **SECO VACUUM TECHNOLOGIES LLC** | | | | | |
| | *2021* | 3,635 | 267 | 711 | 32 |
| | *2020* | 18,342 | 539 | 9,179 | 547 |
| **SECO/WARWICK Systems and Services India** | | | | | |
| | *2021* | 135 | 933 | 113 | 543 |
| | *2020* | 147 | 492 | 134 | 60 |

## Note 27. REMUNERATION OF KEY PERSONNEL

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

**REMUNERATION OF THE MANAGEMENT BOARD**

| Name and surname | Base salary for period | Other benefits, including bonuses, awards | Accrued incentive scheme costs | Total remuneration in the period |
|---|---|---|---|---|
| **Dec 31 2021** | **PLN '000** | **PLN '000** | **PLN '000** | **PLN '000** |
| Sławomir Woźniak | 480 | 365 | 262 | 1,107 |
| Jarosław Talerzak (1) | 130 | 43 | - | 173 |
| Piotr Walasek | 360 | 250 | 87 | 697 |
| Earl Good | 1,162 | - | 87 | 1,249 |
| Bartosz Klinowski | 360 | 215 | 87 | 662 |
| **Total** | **2,492** | **873** | **524** | **3,888** |
| **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** |

(1) The remuneration amount relates to the term of office on the Management Board: from January 1st 2021 to April 27th 2021.

**REMUNERATION OF THE SUPERVISORY BOARD:**

| Name and surname | Total remuneration | |
|---|---|---|
| | Dec 31 2021 | Dec 31 2020 |
| Andrzej Zawistowski, including: | 325 | 211 |
| - for his service as Chairman of the Supervisory Board | 205 | 147 |
| - under contract for advisory services[(1)] | 120 | 64 |
| Jeffrey Boswell, including: | 169 | 135 |
| - under employment contract[(2)] | 169 | 135 |
| Henryk Pilarski | 54 | 51 |
| Marcin Murawski | 45 | 40 |
| Jacek Tucharz | 42 | 39 |
| **Total** | **635** | **477** |

[(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 Dec 31 2021 | Carrying amount Dec 31 2020 | Maximum credit risk exposure as at Dec 31 2021 |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Loans advanced | At amortised cost | 2,000 | 2,000 | 2,000 |
| Trade and other receivables | At amortised cost | 67,342 | 73,108 | 67,342 |
| Long-term receivables | At amortised cost | 1,279 | 512 | 1,279 |
| Hedging instruments | At fair value through profit or loss | 35 | 345 | 35 |
| Cash and cash equivalents | At amortised cost | 17,878 | 15,940 | 17,878 |
| Contract assets | At amortised cost | 67,818 | 52,618 | 67,818 |
| Sureties issued | - | - | - | 22,758 |
| ***Financial liabilities*** | | | | |
| **Current** | | | | |
| Short-term bank borrowings | At amortised cost | 33,370 | 19,612 | - |
| Lease liabilities | At amortised cost | 1,926 | 2,306 | - |
| Trade and other liabilities | At amortised cost | 52,243 | 46,101 | - |
| Hedging instruments | At fair value through profit or loss | 3,782 | 2,682 | - |
| **Non-current** | | | | |
| Long-term bank borrowings | At amortised cost | 12,431 | 10,472 | - |
| Hedging instruments | At fair value through profit or loss | 90 | 402 | |
| Lease liabilities | At amortised cost | 5,504 | 6,678 | - |

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

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

**Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instruments in 2021**

| | Other interest income/(expense) | Realised foreign exchange gains/(losses) | Impairment losses reversed/(recognised) | Valuation gains/(losses) | Gains/(losses) on settlement of financial instruments | Gains/(losses) on derecognition of financial assets |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans advanced | 89 | - | -29 | - | - | - |
| Trade and other receivables | 15 | 1,142 | 127 | -537 | - | - |
| Long-term receivables | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | -219 | 383 | - |
| Cash and cash equivalents | 33 | 414 | - | -385 | - | - |
| **TOTAL** | **137** | **1,556** | **98** | **-1,140** | **383** | **-** |

| | Other interest income/(expense) | Realised foreign exchange gains/(losses) | Impairment losses reversed/(recognised) | Valuation gains/(losses) | Gains/(losses) on settlement of financial instruments | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **short-term** | | | | | | |
| Short-term bank borrowings | -749 | - | - | -3 | - | - |
| Lease liabilities | -333 | - | - | - | - | - |
| Trade and other liabilities | -153 | -377 | - | 541 | - | - |
| Hedging instruments | - | - | - | -512 | -3,028 | - |
| **long-term** | | | | | - | |
| Long-term bank borrowings | - | - | - | - | - | - |
| Lease liabilities | - | - | - | - | - | - |
| Hedging instruments | - | - | - | 48 | - | - |
| **TOTAL** | **-1,235** | **-377** | **-** | **74** | **-3,028** | **-** |

**Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instruments in 2020**

| | Other interest income/(expense) | Realised foreign exchange gains/(losses) | Impairment losses reversed/(recognised) | Valuation gains/(losses) | Gains/(losses) on settlement of financial instruments | Gains/(losses) on derecognition of financial assets |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans advanced | 98 | - | -29 | - | - | - |
| Trade and other receivables | 76 | 1,044 | -1,424 | 1,200 | - | - |
| Long-term receivables | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | -82 | 265 | - |
| Cash and cash equivalents | 19 | 1,086 | - | 391 | - | - |
| **TOTAL** | **193** | **2,131** | **-1,453** | **1,510** | **265** | **-** |

| | Other interest income/(expense) | Realised foreign exchange gains/(losses) | Impairment losses reversed/(recognised) | Valuation gains/(losses) | Gains/(losses) on settlement of financial instruments | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **short-term** | | | | | | |
| Short-term bank borrowings | -622 | -2 | - | -7 | - | - |
| Lease liabilities | -345 | - | - | -75 | - | - |
| Trade and other liabilities | -148 | -145 | - | -697 | - | - |
| Hedging instruments | - | - | - | -507 | -3,157 | - |
| **long-term** | | | | | | |
| Long-term bank borrowings | - | - | - | - | - | - |
| Lease liabilities | - | - | - | - | - | - |
| Hedging instruments | - | - | - | -73 | - | - |
| **TOTAL** | **-1,116** | **-147** | **-** | **-1,359** | **-3,157** | **-** |

## Changes in liabilities arising from financing activities

| | Jan 1 2021 | changes resulting from cash flows from financing activities | increase under leases | redemption/sale/assignment | effect of valuation of hedging instruments | Reclassification | Dec 31 2021 |
|---|---|---|---|---|---|---|---|
| **Non-current:** | | | | | | | |
| Interest-bearing borrowings | 10,472 | 1,959 | 0 | 0 | - | - | **12,431** |
| Lease liabilities | 6,678 | - | 803 | -49 | -4 | -1,923 | **5,504** |
| **Current:** | | | | | | | |
| Interest-bearing borrowings | 19,612 | 13,758 | 0 | 0 | - | - | **33,370** |
| Lease liabilities | 2,306 | -1,766 | 122 | -636 | -24 | 1,923 | **1,926** |
| **Total liabilities arising from financing activities** | **39,069** | **13,950** | **925** | **-685** | **-28** | **-** | **53,231** |

| | Jan 1 2020 | changes resulting from cash flows from financing activities | increase under leases | redemption/sale/assignment | effect of valuation of hedging instruments | Dec 31 2020 |
|---|---|---|---|---|---|---|
| **Non-current:** | | | | | | |
| Interest-bearing borrowings | - | 10,472 | - | - | - | **10,472** |
| Lease liabilities | 6,331 | - | 734 | -387 | - | **6,678** |
| **Current:** | | | | | | |
| Interest-bearing borrowings | 27,418 | -7,806 | - | - | - | **19,612** |
| Lease liabilities | 2,591 | -1,777 | 2,475 | -983 | - | **2,306** |
| **Total liabilities arising from financing activities** | **36,341** | **890** | **3,209** | **-1,370** | **-** | **39,069** |

## Note 29. EMPLOYMENT STRUCTURE

| Item | Dec 31 2021 | Dec 31 2020 |
|---|---|---|
| Production and product unit employees | 390 | 384 |
| White-collar employees | 115 | 127 |
| Employees on parental leaves | 3 | 1 |
| **Total** | **508** | **512** |

## Note 30. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

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

### 30.1 Currency risk

Due to its active and extensive presence on foreign markets, the Company enters into certain sales and purchase transactions denominated in foreign currencies. The Company also has loans and other financial liabilities denominated in foreign currencies. This exposes the Group to the risk of exchange rate fluctuations. For currency risk management purposes, the Company enters into currency forward transactions, as described in detail in Note 16 to these financial statements.

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

| | As at | As at | As at | As at |
|---|---|---|---|---|
| **Liabilities** | Dec 31 2021 | Dec 31 2021 | Dec 31 2020 | Dec 31 2020 |
| | in foreign currency | in PLN | in foreign currency | in PLN |
| EUR | 5,956 | 27,393 | 5,135 | 23,695 |
| USD | 1,102 | 4,473 | 1,226 | 4,607 |
| GBP | 45 | 248 | 6 | 30 |
| | As at | As at | As at | As at |
| **Assets** | Dec 31 2021 | Dec 31 2021 | Dec 31 2020 | Dec 31 2020 |
| | in foreign currency | in PLN | in foreign currency | in PLN |
| EUR | 14,238 | 65,488 | 10,539 | 48,633 |
| USD | 3,835 | 15,572 | 6,026 | 22,649 |
| GBP | 215 | 1179 | 29 | 150 |
| **Notional amount of the hedging instrument – for currency sale transactions** | | | | |
| EUR | 48,086 | 221,167 | 48,086 | 221,907 |
| USD | 11,781 | 47,831 | 11,781 | 44,278 |
| GBP | 1,275 | 6,993 | 1,275 | 6,544 |

**Sensitivity to currency risk**

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

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

| Exchange rate at Dec 31 2021 | Exchange rate | 10% increase in exchange rate | decrease in exchange rate -10% |
|---|---|---|---|
| USD | 4.0600 | 0.406 | -0.406 |
| EUR | 4.5994 | 0.460 | -0.460 |
| GBP | 5.4846 | 0.548 | -0.548 |
| **Exchange rate at Dec 31 2020** | **Exchange rate** | **10% increase in exchange rate** | **decrease in exchange rate -10%** |
| USD | 3.7584 | 0.376 | -0.376 |
| EUR | 4.6148 | 0.461 | -0.461 |
| GBP | 5.1327 | 0.513 | -0.513 |

Assumptions:
- exchange rate at reporting date Dec 31 2021
- 10% increase in exchange rate
- 10% decrease in exchange rate

| Effect on equity | | Effect of USD | Effect of USD | Effect of EUR | Effect of EUR | Effect of GBP | Effect of GBP |
|---|---|---|---|---|---|---|---|
| | | Period ended Dec 31 2021 | Period ended Dec 31 2020 | Period ended Dec 31 2021 | Period ended Dec 31 2020 | Period ended Dec 31 2021 | Period ended Dec 31 2020 |
| **ASSETS** | | | | | | | |
| Rate increase | 10% | 1,557 | 2,265 | 6,549 | 4,863 | 118 | 15 |
| Rate decrease | -10% | -1,557 | -2,265 | -6,549 | -4,863 | -118 | -15 |
| **LIABILITIES AND BANK BORROWINGS** | | | | | | | |
| Rate increase | 10% | -447 | -461 | -2,739 | -2,369 | -25 | -3 |
| Rate decrease | -10% | 447 | 461 | 2,739 | 2,369 | 25 | 3 |
| **TOTAL** | | | | | | | |
| Rate increase | 10% | 1,110 | 1,804 | 3,809 | 2,494 | 93 | 12 |
| Rate decrease | -10% | -1,110 | -1,804 | -3,809 | -2,494 | -93 | -12 |

| Effect on profit/loss | | Effect of USD | Effect of USD | Effect of EUR | Effect of EUR | Effect of GBP | Effect of GBP |
|---|---|---|---|---|---|---|---|
| | | Period ended Dec 31 2021 | Period ended Dec 31 2020 | Period ended Dec 31 2021 | Period ended Dec 31 2020 | Period ended Dec 31 2021 | Period ended Dec 31 2020 |
| **ASSETS** | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rate increase | 10% | 1,557 | 3,616 | 6,549 | 4,635 | 118 | 15 |
| Rate decrease | -10% | -1,557 | -3,616 | -6,549 | -4,635 | -118 | -15 |
| **LIABILITIES AND BANK BORROWINGS** | | | | | | | |
| Rate increase | 10% | -447 | -384 | -2,739 | -1,676 | -25 | -3 |
| Rate decrease | -10% | 447 | 384 | 2,739 | 1,676 | 25 | 3 |
| **TOTAL** | | | | | | | |
| Rate increase | 10% | 1,110 | 3,232 | 3,809 | 2,958 | 93 | 12 |
| Rate decrease | -10% | -1,110 | -3,232 | -3,809 | -2,958 | -93 | -12 |

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

### 30.2 Interest rate risk

The Company uses interest-bearing borrowings. Liabilities under credit facilities of PLN 45,801 thousand and lease liabilities of PLN 5,830 thousand bear interest at variable rates, while lease liabilities of PLN 1,599 thousand bear interest at fixed rates. Accordingly, the Company is exposed to interest rate risk. The risk is estimated on the basis of interest rate increase/decrease by 1%.

| | Effect on profit/loss before tax | Effect on equity | Effect on profit/loss before tax | Effect on equity |
|---|---|---|---|---|
| | + 1%/- 1% | | + 1%/- 1% | |
| | Year ended Dec 31 2021 | | Year ended Dec 31 2020 | |
| Lease liabilities | +/- 74 | +/- 74 | +/- 90 | +/- 90 |
| Other financial liabilities at amortised cost | +/- 458 | +/- 458 | +/- 301 | +/- 301 |

### 30.3 Capital management

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

The Company manages its capital structure and modifies it in response to changes in the economic environment. In order to maintain or adjust the capital structure, the Company may change dividend payments, return capital to shareholders or issue new shares. In the year ended December 31st 2021, no changes were introduced to the objectives, principles and processes applicable in this area.

The Company monitors its equity using a gearing ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Company's net debt includes interest-bearing borrowings and finance lease liabilities, less cash and cash equivalents.

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

| | As at Dec 31 2021 PLN '000 | As at Dec 31 2020 PLN '000 |
|---|---|---|
| Debt | 53,231 | 39,069 |
| Cash and cash equivalents | -17,878 | -15,940 |
| Net debt | 35,353 | 23,129 |
| Equity | 179,294 | 184,198 |
| **Net debt to equity** | **19.72%** | **12.56%** |

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 finance the Company's operating activities. The ratio increased as a result of the investment credit facility contracted in 2021, as described in Note 20 to these financial statements.

**30.4 Liquidity risk**

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

The Company also manages liquidity risk by maintaining open and undrawn credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Company recognises bank borrowings as financial instruments which may potentially cause concentration of liquidity risk as the Company maintains relationships with selected financial institutions only. As at December 31st 2021, short-term bank borrowings represented 25% of total current liabilities (December 31st 2020: 17%). The Company has undrawn credit facilities of PLN 35,383 thousand; for summary information see Note 20 to these financial statements.

The table below presents the Company's financial liabilities by maturity as at December 31st 2021 and December 31st 2020.

| Dec 31 2021 | up to 1 year | 1–2 years | 2-3 years | 3-4 years | 4–5 years | over 5 years | Total as at Dec 31 2020 |
|---|---|---|---|---|---|---|---|
| Borrowings | 33,370 | 4,604 | 4,604 | 2,187 | 1,036 | - | **45,802** |
| Trade payables | 47,059 | - | - | - | - | - | **47,059** |
| Lease liabilities | 2,243 | 1,466 | 2,160 | 567 | 108 | 6,778 | **13,322** |
| Derivative financial instruments | 3,782 | 90 | - | - | - | - | **3,872** |
| Other current liabilities | 5,184 | - | - | - | - | - | **5,184** |
| **TOTAL** | **91,639** | **6,160** | **6,764** | **2,754** | **1,144** | **6,778** | **115,239** |

| 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 2020 |
|---|---|---|---|---|---|---|---|
| Borrowings | 19,612 | 3,222 | 3,222 | 3,222 | 806 | - | **30,086** |
| Trade payables | 40,861 | - | - | - | - | - | **40,861** |
| Lease liabilities | 2,637 | 2,080 | 1,275 | 1,780 | 379 | 6886 | **15,037** |
| Derivative financial instruments | 2,682 | 402 | - | - | - | - | **3,084** |
| Other current liabilities | 5,241 | - | - | - | - | - | **5,241** |
| **TOTAL** | **71,034** | **5,704** | **4,497** | **5,002** | **1,185** | **6,886** | **94,307** |

**30.5 Credit risk**

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

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

The Company applies a simplified model for calculating impairment losses on trade receivables (regardless of maturity). The expected credit loss is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. To estimate expected credit losses on receivables from customers, the Company uses a provision matrix estimated based on historical data on payments of amounts due from customers. The Company takes into account forward-looking information in its expected loss estimation model by adjusting the underlying default probability ratios. The expected credit loss on receivables from customers is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable.
The maturity structure of receivables is presented in Note 15.

Impairment loss rates for each past due category of trade receivables were calculated based on a two-year historical reference period. A matrix was created with quarterly movement rates between past due categories for eight consecutive historical quarters. For the longest past due period considered (more than 180 days), the cure rate, reflecting recovered amounts of receivables previously considered uncollectible, was also taken into account. The average of the rates was then calculated and, on this basis, the final parameters of impairment losses were calculated for each quarterly past due category, ranging from 1.13% for non-delinquent receivables to 59.78% for receivables past due over 180 days.

## Note 31. MANAGEMENT STOCK OPTIONS

**SECO/WARWICK S.A. Incentive Scheme**

On December 12th 2019, by Resolution No. 01/2019 the Supervisory Board defined the individual targets for 2020 for the participants of the 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 Incentive Scheme was 227,200 (December 31st 2019: 361,943; December 31st 2018 494,000).
The cost of option vesting recognised in the 2021 was PLN 648 thousand.

On December 16th 2021, the Supervisory Board passed a resolution defining the individual targets for the participants of the 2022 Incentive Scheme, announced in Current Report No. 21/2021 of December 17th 2021.

## Note 32. EVENTS SUBSEQUENT TO THE REPORTING DATE

On February 21st 2022, an annex to an overdraft facility agreement with Santander Bank Polska Spółka Akcyjna was signed, with the facility repayment deadline falling on February 28th 2023. The overdraft facility of PLN 19m is intended for the financing of day-to-day operations.

On February 24th 2022, the armed forces of the Russian Federation invaded Ukraine. For a detailed description of the impact of the conflict in Ukraine on the Company's operations, see Section III of these financial statements.

Date: April 21st 2022

President of the Management Board

Sławomir Woźniak

Member of the Management Board

Bartosz Klinowski

Member of the Management Board

Earl Good

Member of the Management Board

Piotr Walasek

Chief Accountant

Krzysztof Opszalski