



MERCOR S.A.

Financial statements for
the period from 1 April
2023 to 31 March 2024

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

Gdańsk, 28 June 2024

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STATEMENT OF COMPREHENSIVE INCOME

	NOTE	1 Apr 2023 – 31 Mar 2024 PLN thousand	1 Apr 2022 – 31 Mar 2023 PLN thousand
Revenue	3	346,143	356,467
Cost of sales	4	271,303	284,428
Gross profit		74,840	72,039
Other income	5	1,382	1,940
Distribution costs	4	28,043	25,798
Administrative expenses	4	20,718	16,662
Other expenses	6	1,116	214
(Expected credit loss)/reversal of expected credit loss		283	(2,347)
Operating profit		26,628	28,958
Finance income	7	18,071	8,741
Finance costs	8	5,585	7,788
Impairment losses on shares		-	-
Profit before tax		39,114	29,911
Income tax	10	936	5,982
Net profit		38,178	23,929
Other comprehensive income		-	-
Total comprehensive income		38,178	23,929
Earnings per share:	11		
<i>From continuing operations:</i>			
Basic		2.47	1.54
Diluted		2.47	1.54

STATEMENT OF FINANCIAL POSITION

Assets

	NOTES	End of period 31 Mar 2024 PLN thousand	End of period 31 Mar 2023 PLN thousand
Non-current assets			
Intangible assets	12	13,843	13,456
Property, plant and equipment	13	60,439	62,430
Right-of-use assets		7,476	6,874
Other financial assets	14	97,891	102,618
Deferred tax assets	10	3,291	2,421
Long-term security deposits receivable	15	3,345	2,833
Other non-current assets		190	124
		186,475	190,756
Current assets			
Inventories	16	37,790	40,227
Financial assets		-	-
Trade and other receivables	17	58,700	64,175
Contract assets		13,486	14,289
Short-term security deposits receivable	15	2,334	2,501
Current income tax assets		933	-
Forward contracts		39	-
Other current assets	18	2,846	2,242
Cash and cash equivalents	19	550	126
		116,678	123,560
Total assets		303,153	314,316

STATEMENT OF FINANCIAL POSITION

Equity and liabilities

		<u>NOTES</u>	<u>End of period</u> <u>31 Mar 2024</u> PLN thousand	<u>End of period</u> <u>31 Mar 2023</u> PLN thousand
Equity				
Share capital	20		3,892	3,915
Share premium			106,202	106,202
Capital reserves	20		7,037	8,102
Treasury shares			(2,574)	(1,507)
Retained earnings	20		57,256	42,446
Total equity			171,813	159,158
Non-current liabilities				
Long-term borrowings	21		63,175	69,959
Deferred tax liabilities	10		-	-
Provisions for liabilities	22		555	555
Deferred income	24		3,135	3,261
Right-of-use liabilities	25		5,121	3,847
			71,986	77,622
Current liabilities				
Short-term borrowings	21		2,787	2,864
Trade and other payables	23		48,052	65,707
Contract liabilities			1,847	2,240
Current income tax liabilities			-	1,029
Provisions for liabilities	22		3,402	3,231
Forward contracts			-	21
Deferred income	24		502	554
Right-of-use liabilities	25		2,764	1,890
			59,354	77,536
Total equity and liabilities			303,153	314,316

STATEMENT OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserves</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total equity</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1 Apr 2022	3,915	106,202	8,102	(922)	28,382	145,679
Net profit (loss) for reporting period	-	-	-	-	23,929	23,929
Comprehensive income for reporting period	-	-	-	-	23,929	23,929
Dividend payment	-	-	-	-	(9,865)	(9,865)
Buyback of shares	-	-	-	(585)	-	(585)
Transactions with owners recognised in equity	-	-	-	(585)	(9,865)	(10,450)
As at 31 Mar 2023	3,915	106,202	8,102	(1,507)	42,446	159,158
Net profit (loss) for reporting period	-	-	-	-	38,178	38,178
Comprehensive income for reporting period	-	-	-	-	38,178	38,178
Dividend payment	-	-	-	-	(23,368)	(23,368)
Cancellation of shares	(23)	-	(1,065)	1,088	-	-
Buyback of shares	-	-	-	(2,155)	-	(2,155)
Transactions with owners recognised in equity	(23)	-	(1,065)	(1,067)	(23,368)	(25,523)
As at 31 Mar 2024	3,892	106,202	7,037	(2,574)	57,256	171,813

STATEMENT OF CASH FLOWS

	<u>1 Apr 2023 –</u> <u>31 Mar 2024</u> PLN thousand	<u>1 Apr 2022 –</u> <u>31 Mar 2023</u> PLN thousand
Continuing operations		
Operating activities		
Profit (loss) before tax	39,114	29,911
Adjustments for:		
Depreciation and amortisation	11,816	10,847
Interest paid	4,864	6,107
Dividends received	(7,319)	(6,283)
(Gains) losses on investing activities	(831)	(1,086)
Change in inventories	2,437	(1,159)
Change in receivables	5,146	4,534
Change in liabilities and provisions	(17,926)	1,438
Change in contract assets and liabilities	410	(2,694)
Change in other assets	(1,813)	(2,308)
Total adjustments	(3,216)	9,396
Income tax paid	(3,769)	(6,787)
	32,129	32,520
Investing activities		
Payments for purchased property, plant and equipment and intangible assets	(6,532)	(4,705)
Payments for purchased financial assets	-	-
Proceeds from sale of property, plant and equipment	831	1,280
Proceeds from sale of financial assets	-	-
Loans repaid (granted)	5,871	(2,898)
Grants for development projects	243	556
Dividends received	7,319	6,283
	7,732	516
Financing activities		
Proceeds from (repayment of) borrowings	(6,861)	(8,932)
Principal lease payments	(2,134)	(8,810)
Dividends paid	(23,423)	(9,865)
Buyback of shares	(2,155)	(585)
Interest paid	(4,864)	(6,107)
	(39,437)	(34,299)
Change in cash	424	(1,263)
Cash at beginning of period	126	1,389
Cash at end of period	550	126

NOTES

NOTE 1 – GENERAL INFORMATION

1. The Company

MERCOR S.A. has traded as a joint-stock company since 21 September 2004. Prior to that date, it traded as a limited liability company under the name of Przedsiębiorstwo Usługowo-Handlowe MERCOR Sp. z o.o. On 21 September 2004, the Company underwent a legal transformation, changing its form of incorporation from limited liability company to joint stock company.

MERCOR S.A.'s registered office is located in Gdańsk (registered address: ul. Grzegorza z Sanoka 2, Gdańsk, Poland), which is the principal place of business of the Company. The Company operates at its principal place of business, as well as through trade offices and production establishments. None of these entities maintains a separate set of accounts. MERCOR S.A. is registered with the District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, under entry No. KRS 0000217729.

The principal business of the Company consists in the manufacture, sale, installation and maintenance of passive fire protection systems. The Company's offerings include the following product groups:

- smoke and heat exhaust systems, rooflight systems,
- fire ventilation systems,
- fire protections of building structures.

2. Management Board

As at 31 March 2024 and as at the date of issue of these financial statements, the Management Board of the Company was composed of:

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

There were no changes in the composition of the Management Board during the financial year.

3. Supervisory Board

As at 31 March 2024 and as at the date of issue of these financial statements, the Supervisory Board of the Company was composed of:

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

There were no changes in the composition of the Supervisory Board during the financial year.

Since 19 July 2007, Company shares have been listed on the Warsaw Stock Exchange. In accordance with a relevant resolution of the General Meeting of Shareholders, as of the financial year beginning on 1 January 2007, the Company has prepared its financial statements in accordance with International Financial Reporting Standards.

These 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 financial statements.

NOTE 2 – MATERIAL ACCOUNTING POLICIES

1. Basis of accounting

The financial year of MERCOR S.A. runs from 1 April to 31 March of the next year.

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

The functional and reporting currency of the Company is the Polish złoty (PLN).

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

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

2. Going concern assumption

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months from the reporting date. As at the date of authorisation of these financial statements, the Management Board of the Company was not aware of any facts or circumstances that would indicate a threat to the Company continuing as a going concern in the period of at least 12 months from the reporting date, as a result of an intended or forced discontinuation or material limitation/restriction of its existing business. As part of the assumptions underlying this assessment, the Management Board also considered the potential impact of a recession resulting from the war in Ukraine. The Company will continue to monitor the current situation and implement all necessary measures to mitigate any adverse effects as the situation develops.

3. Impact of the war in Ukraine on the Company's business

The Management Board of the Company has analysed the impact of the war in Ukraine on its and its subsidiaries' business since the war broke out on 24 February 2022. This comprehensive analysis encompasses various dimensions, including market dynamics, financial considerations, operational aspects, existing and evolving local and international laws and regulations, as well as the sanctions and other restrictions imposed on countries, entities, and individuals as a result of the conflict.

The Management Board has used its best knowledge and exercised due diligence in assessing the impact of the war on the business and results of operations of the Group and its companies. The following risk factors were identified in the process: potential changes in investor sentiment and investor preferences;

rising prices and shortages of raw materials and energy; potential disruptions to the supply chain; fluctuations in interest rates and currency exchange rates; changes in the labour market; financial soundness of trading partners; cyber security, sanctions, and dividends. The Management Board of the Company and the management bodies of other Group companies consider a non-exhaustive range of facts and circumstances when making decisions, in order to adjust operations to the current situation and reduce or eliminate any adverse impacts of the risk factors they are monitoring.

The Company and other Group companies secure supplies of strategic raw materials and respond to changes in their prices as needed. During the reporting period there were no significant business disruptions that would affect the supply of materials, equipment, components, or labour. As at the reporting date, there were no significant changes in the collectability of receivables.

In the opinion of the Management Board, no sanctions are likely to be imposed on the Group companies or their related parties. Considering the grounds for the imposition of sanctions by different countries or organisations on entities or individuals in connection with the armed conflict in Ukraine, to the best of the Management Board's knowledge, the ownership structure of the Group companies is secure. The Company and other Group companies monitor the sanctions lists also in the context of any potential disruptions to the supply of products or services. As at the date of this report, the Company was not materially affected by any sanctions.

As regards the countries involved in the war, the Company holds a 55% equity interest in the Ukrainian-based company TOB MERCOR UKRAINA Sp. z o.o., and, directly and indirectly (through a Group company), a total of 55% of the share capital of the Russian-based company OOO Mercor-PROOF LLC. The Company has retained control of these subsidiaries, and shareholders' rights are being exercised in accordance with applicable laws and the internal regulations of the companies in Ukraine and Russia.

As at the date of this report, TOB MERCOR UKRAINA conducted production and trading operations to the extent permitted by the available human resources. The company has its registered office in Lviv, a city in western Ukraine, with production operations conducted at a facility located even further west. These regions have experienced little to no military activity. The company does not generate losses, and none of its assets have been destroyed. The Ukrainian company does not use external financing and pays its liabilities from operating cash flows. To the best knowledge of the Management Board of the Company, there are no reasons to expect any material changes in the operations of MERCOR UKRAINA or any potential reduction in the scale of its operations despite the ongoing war. Most orders received by the company are from other Group companies, and the Management Board of the parent monitors the level and profitability of the orders and capacity utilisation rates on an ongoing basis. Given the results of order and production analyses, location and no material exposure of the company to the Ukrainian market, the Management Board believes there is no indication of impairment of TOB MERCOR UKRAINA's assets. The value of shares in the Ukrainian company and receivables from the company is PLN 2.394 thousand, or 0.8% of the assets disclosed in these financial statements.

The Russian-based company is also continuing its operations, supplying products and services to the local market. However, no products or parts of products have been shipped by the Group companies to this or other Russian companies since the outbreak of the war. Mercor-PROOF sources production materials locally, which allows it to conduct independent financing and operating activities in the Russian market. The analysis of the Russian company's cash flow and liquidity forecasts for the next 12 months has concluded that there are no significant concerns or risks pertaining to these financial metrics. The parent is also monitoring the level and profitability of orders received by the company. Taking into account the analysis of the order book, projected profitability, and liquidity position, as well as the fact that Mercor-PROOF operates independently and does not engage in intragroup transactions subject to international sanctions, the Management Board is confident that there are no indications of asset impairment.

Save for regulations implemented by the Russian government, the Management Board of the parent has not identified any significant changes to the method or terms of dividend payments to the Company. All dividend payments from subsidiaries will continue to be made under the existing terms and

conditions, contingent upon the fulfilment of the criteria governing profit distribution. The sole restriction in this regard applies to the payment of dividend from Mercor-PROOF, where amounts exceeding RUB 10 million (or PLN 430 thousand at the exchange rate effective for the reporting date) require approval of the Russian Ministry of Finance.

Given the present situation, the Management Board of the parent believes it still has control of the Russian company as no grounds exist for it losing the voting rights attached to its shareholding. As regards exposure to variable returns, the Management Board believes that as at the reporting date and as at the date of these financial statements restrictions on the distribution of profits did not hinder the exercise of control of the subsidiary. The Management Board is monitoring the situation in Russia and assessing any indications, in accordance with IFRS 10, regarding the exercise of control over the subsidiary. The total value of shares in the Russian company and receivables from the company, before impairment losses, is PLN 2,407 thousand, or 0.8% of the assets disclosed in the separate financial statements.

In view of the above and given the small contributions from the companies to consolidated revenue (Russian operations: 7.9% of the Group's revenue; Ukrainian operations: 0.8% of the Group's revenue), as at the date of these financial statements, the Management Board of the parent identified no material impact of the war in Ukraine on the operations and results of the Group.

Based on the analyses performed, the Management Board identified no threat to the Company's and other Group companies' ability to continue as going concerns as at the date of these financial statements and for the foreseeable future.

4. Statement of compliance

These financial statements of MERCOR S.A. for the financial year ended 31 March 2024 have been prepared in accordance with the International Financial Reporting Standards effective as at 31 March 2024, as endorsed by the European Union.

5. Changes in applied accounting policies

Effect of application of new accounting standards and changes in accounting policies

The accounting policies applied in the preparation of these financial statements for the year ended 31 March 2024 are consistent with those applied in the preparation of the full-year financial statements for the previous financial year, except for the application of new or revised standards and interpretations effective for annual periods beginning on or after 1 January 2023.

- **IFRS 17 Insurance Contracts**

IFRS 17 *Insurance Contracts* has replaced IFRS 4 *Insurance Contracts*. IFRS 17 applies to all types of insurance contracts (i.e. life insurance, property insurance, direct insurance and reinsurance contracts), irrespective of the legal and regulatory status of their issuer, as well as to certain guarantees and investment contracts with discretionary participation features. IFRS 17 provides for a number of recognition exemptions.

- **Definition of Accounting Estimates – amendments to IAS 8**

The amendments introduce a new definition of an accounting estimate, and clarify that changes in accounting estimates and in accounting policies are not the correction of errors. They also contain detailed information on how entities use measurement techniques and inputs to develop accounting estimates. The amendments apply to changes in accounting policies and changes in accounting estimates that occurred on or after 1 January 2023. In 2023, the Group applied those clarifications in assessing whether an event was a change in accounting estimates or in accounting policies or the correction of errors.

- ***Disclosure of Accounting Policies – amendments to IAS 1 and IFRS Practice Statement 2***

The objective of the amendments to IAS 1 and Practice Statement 2 *Making Materiality Judgements* is to enhance the usefulness of accounting policy disclosures by introducing the requirement for entities to disclose material accounting policies rather than significant accounting policies, and by adding guidance on how entities should apply the materiality principle when making decisions about accounting policy disclosures.

- ***Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – amendments to IAS 12***

The amendments narrowed the scope of the initial recognition exemption in the standard so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

- ***Income tax: International Tax Reform – Pillar Two Model Rules – amendments to IAS 12***

The amendments introduced a mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules. At the same time, they imposed the following disclosure requirements:

- requirement to disclose that the entity has applied the exception concerning the recognition and disclosure of information about deferred tax assets and liabilities related to the pillar two income taxes,
- requirement that an entity discloses separately its current tax expense related to pillar two income taxes,
- requirement that in periods in which pillar two legislation is enacted or substantively enacted, but not yet in effect, an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to pillar two income taxes arising from that legislation.

The amended standards and interpretations which were applied for the first time in the financial year ended 31 March 2024 do not have a material effect on the Company's financial statements.

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

Standards not yet effective (new standards and interpretations)

The following standards and interpretations have been issued by the International Accounting Standards Board, but were not yet effective as at the reporting date:

- ***IFRS 14 Regulatory Deferral Accounts*** (issued on 30 January 2014) – pursuant to the European Commission's decision, the process leading to the endorsement of a preliminary version of the standard will not be initiated until its final version is published; not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after 1 January 2016.
- ***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014) – work on endorsing the amendments has been deferred indefinitely by the EU; effective date deferred indefinitely by the IASB.
- ***Amendment to IAS 21 The effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*** (issued on 15 August 2023) – not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after 1 January 2025.

- **IFRS 18 *Presentation and Disclosure in Financial Statements*** (issued on 9 April 2024) – not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after 1 January 2027.
- **IFRS 19 *Subsidiaries without Public Accountability: Disclosures*** (issued on 9 May 2024) – not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after 1 January 2027.
- **Amendments to IFRS 9 and IFRS 7 *Amendments to the Classification and Measurement of Financial Instruments*** (issued on 30 May 2024) – not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after 1 January 2026.

Effective dates are the dates given by the International Accounting Standards Board in the standards. The effective dates of the standards in the European Union may differ from those specified in the text of the standards and are announced on endorsement of a standard by the European Union. The Company will apply the amendments to the standards not earlier than the date determined by the European Union as the effective date of the standard.

As at the date of authorisation of these financial statements for issue, the Management Board did not expect the application of new standards and interpretations to have any material effect on the accounting policies applied by the Company.

6. Professional judgment of the Company's Management Board

When preparing the financial statements of the Company, the Management Board has to make judgments, estimates and assumptions which affect the presented income, expenses, assets, liabilities as well as related notes, and disclosures concerning contingent liabilities. Uncertainties associated with these assumptions and estimates have the potential to cause significant adjustments to the carrying amounts of assets and liabilities in subsequent periods.

When applying the accounting policies, the Management Board made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities:

a) Revenue from contracts with customers

The Company determines the stage of completion of construction contracts by determining the proportion of costs incurred to date for a given project to the total estimated cost of that project. Considering the inherent characteristics of the ongoing projects and the potential for unforeseen challenges during their execution, it is plausible that the actual total costs of the project may deviate from the estimates initially made. A revision in the estimated total cost of projects has the potential to impact the determination of the stage of completion and, consequently, the recognition of revenue as at the end of the reporting period.

b) Impairment of shares in related entities

Shares in subsidiaries, jointly-controlled entities and joint ventures are recognised at cost. In case of permanent impairment, the carrying amount of the shares is decreased through the recognition of impairment losses. As at the reporting date, the Company analyses indications of asset impairment. If indications of impairment are identified, impairment tests are performed and the effects of permanent impairment are recognised in profit or loss.

c) Impairment of non-current assets

The Company reviewed indications of potential impairment of non-current assets. In the case of property, plant and equipment and intangible assets other than development work, no indications of impairment were identified. Completed development work and work in progress were tested for impairment. The tests required an estimation of the value in use of the cash-generating unit to which the assets were allocated. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. For information on the results of the tests, see Note 12.

Upon review the equity interests held, indications of possible impairment of shares held in Tecresa were identified. The shares were tested for impairment, and the results of the test are described in Note 14. No indications of impairment were identified with respect to the other equity interests.

d) Deferred tax assets

The Company recognises a deferred tax asset if it assumes that taxable profit will be generated in the future against which the asset can be used. If taxable profit deteriorates in the future, this assumption may prove invalid.

The Company carefully evaluates the nature and extent of evidence supporting the conclusion that it is highly probable that sufficient future taxable profit will be available to allow the deduction of unused tax losses, unused tax credits or other deductible temporary differences.

When assessing whether it is highly probable that future taxable profit will be achieved (probability above 50%), the Company takes into account all available evidence, both that supporting existence of the probability and that supporting its absence.

e) Leases – the Company as a lessee

The Company determines the lease term as a non-cancellable lease term, including periods covered by an option to extend the lease, if such option exists and 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 may 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 occur which affect its ability to exercise (or not to exercise) the extension option.

7. Uncertainty of estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below. The Company made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates may change in the future due to market developments or factors beyond the Company's control. Such changes will be reflected in estimates and assumptions upon their occurrence.

a) Useful lives of non-current assets

The Company reviews the economic useful lives of depreciable non-current assets. The Management Board of the Company believes that as at 31 March 2024 the economic useful lives of assets assumed

for depreciation purposes align with the expected periods of economic benefits for the respective assets. However, it is acknowledged that the actual periods of economic benefits may deviate from those assumptions.

Depreciation/amortisation rates are determined based on the expected useful lives of property, plant and equipment and intangible assets. Each year the Company reviews the useful lives of its assets based on current estimates.

b) Impairment of receivables

The Company uses a provision matrix to measure the allowance for expected credit losses in respect of trade receivables. In order to determine expected credit losses, trade receivables were grouped on the basis of similarity of credit risk characteristics. The Company uses its historical credit loss data, adjusted where appropriate for the impact of forward-looking information.

c) Provisions for employee benefit obligations

In terms of employee benefits, the Company is not party to any wage agreements or collective bargaining agreements. Employee benefits expense includes salaries and wages payable in accordance with the terms of employment contracts with individual employees, retirement benefits (retirement severance payments) paid to employees in accordance with applicable laws post employment, and costs related to contributions to Employee Capital Plans in the part borne by the employer. Short-term employee benefit obligations are measured on a general basis. Long-term benefit obligations are estimated using actuarial methods. The application of these methods necessitates the use of various assumptions, such as suitable discount rates and demographic factors.

Provisions for employee benefits (retirement severance payments) were estimated using actuarial methods. The underlying assumptions are presented in Note 22.

d) Fair value of financial instruments

The fair value of financial instruments without an active market is determined using appropriate measurement techniques. When selecting appropriate methods and assumptions, the Company is guided by professional judgement.

e) Lessee's incremental borrowing rate

The Company is not able to readily determine the interest rate for lease contracts. Therefore, when measuring a lease liability, the Company uses the lessee's incremental borrowing rate. It is the rate of interest that the Company would have to pay to borrow – over a similar term, in the same currency and with a similar security – funds necessary to obtain an asset of a similar value to the leased asset in a similar economic environment.

f) Uncertainty related to tax settlements

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 differing opinions and diverse interpretations, 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, the 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 15 July 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent 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 operating 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 judgment to be exercised when assessing the tax consequences of particular transactions.

GAAR 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. The implementation of the above regulations will grant Polish tax inspection authorities the authority to challenge certain legal arrangements made by taxpayers, including the restructuring or reorganisation of corporate groups.

The Company discloses and measures current and deferred tax assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, with due consideration given to uncertainties related to tax settlements. When there is uncertainty as to whether and to what extent the tax authorities will accept individual tax settlements of transactions, the Company recognises these settlements taking into account the uncertainty assessment.

8. Material accounting policies

Intangible assets

Intangible assets which are separately acquired or produced are initially recognised at cost (if they meet the criteria for being recognised as development costs). The cost of acquiring intangible assets with indefinite useful lives equals their fair value as at the combination date. Subsequent to initial recognition, intangible assets are disclosed at cost less accumulated amortisation and impairment. With the exception of capitalised development expenditure, expenditure on self-generated intangible assets is not capitalised and is charged to expenses in the period in which it was incurred.

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

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the cash-generating unit level.

The useful lives are reviewed on an annual basis and adjusted – if required – with effect as of the beginning of the next financial year.

Research and development expense

To assess whether an intangible asset created by the Company meets the criteria for recognition, the Company divides the process of asset creation into a research stage and a development stage.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Research costs are charged to profit or loss as incurred.

An intangible asset arising from development work is recognised by the Company when it can prove:

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

Expenditure incurred on development work performed as part of a project is carried forward if it can be assumed that it will be recovered in the future. After initial recognition of development expenditure, the historical cost model is used, requiring that assets be recognised at cost less accumulated depreciation and accumulated impairment losses. Capitalised expenditure is amortised over the expected period when the benefits from the development project will be obtained. Amortisation commences in the period when an intangible asset created as a result of development work starts to generate economic benefits.

Intangible assets are amortised at amortisation rates that reflect the expected useful lives of the assets. The Company does not hold any intangible assets with indefinite useful lives. For amortisation of intangible assets with a finite useful life, the straight-line amortisation method is used. Useful lives for intangible assets are as follows:

Software licenses	from 2 to 10 years
Development work	from 2 to 20 years

Gains or losses from derecognition of intangible assets are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation and impairment. Property, plant and equipment are initially disclosed at cost plus any costs directly related to the purchase of the assets and to bringing them to appropriate condition for their intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred if relevant recognition criteria are fulfilled. Costs incurred after the date an asset is brought into use, such as maintenance and repair costs, are charged to profit or loss when incurred.

The cost of property, plant and equipment transferred by customers is determined at fair value as at the date of obtaining control of such assets.

Upon acquisition, items of property, plant and equipment are divided into components of material value to which separate useful economic lives can be assigned. The cost of overhauls is also deemed a component.

Assets are depreciated with the straight-line method over the estimated useful life, as detailed below:

Buildings and structures	from 10 to 45 years
Plant and equipment	from 3 to 10 years
Vehicles	from 4 to 7 years
Other property, plant and equipment	from 3 to 10 years

The residual value, useful life and method of depreciation of assets are reviewed periodically and adjusted if necessary from the beginning of the next financial year.

An item of property, plant and equipment may be derecognised upon disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are charged to profit or loss for the period when the item was derecognised.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. An item of property, plant and equipment under construction is not depreciated until the construction or assembly work is completed and the item is placed in use.

Financial assets

Classification of financial assets

Financial assets are classified into the following categories:

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

The Company classifies financial assets based on its business model of financial asset management and the assets' 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

Except for some 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 acquisition of the assets.

Derecognition

Financial assets are derecognised when:

- the contractual rights to the cash flows from the financial asset expire, or
- upon transfer of contractual rights to cash flows from the asset following a transaction whereby the Company transferred substantially all risks and rewards incidental to holding the financial asset.

Measurement subsequent to initial recognition

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

- debt instruments measured at amortised cost,
- debt instruments measured at fair value through other comprehensive income,
- equity instruments measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

Debt instruments – financial assets measured at amortised cost

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

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) 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.

The Company classifies the following types of financial assets as measured at amortised:

- 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.

Interest income is calculated using the effective interest method and disclosed in the statement of comprehensive income in the line item 'Finance income'.

Debt instruments – financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) 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.

Interest income as well as foreign exchange and impairment gains and losses are recognised in profit or loss and calculated in the same manner as financial assets measured at amortised cost. Other changes in fair value are recognised through other comprehensive income. When a financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Interest income is calculated using the effective interest method and disclosed in the statement of comprehensive income in the line item 'Finance income'.

The Company has no debt instruments measured at fair value through other comprehensive income.

Equity instruments – financial assets measured at fair value through other comprehensive income

On initial recognition, the Company may make an irrevocable election to recognise in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies. Such election is made separately for each such equity instrument. The cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss. Dividends are recognised in the statement of comprehensive income when the Group's right to receive dividend is established, unless the dividend clearly represents recovery of a portion of the investment cost.

The Company does not hold equity instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets which are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

The Company classifies derivative financial instruments that have not been irrevocably designated for fair value through other comprehensive income as financial assets measured at fair value through profit or loss.

Gain or loss on measurement of those assets at fair value is recognised in profit or loss.

Dividends are recognised in the statement of comprehensive income when the entity's right to receive the dividend arises.

Impairment of financial assets

The Company assesses expected credit losses ("ECL") associated with debt instruments measured at amortised cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

For trade receivables, the Company uses a simplified approach and measures the allowance for expected credit losses at an amount equal to expected lifetime credit losses using a provision matrix. The Company uses its historical credit loss data, adjusted where appropriate for the impact of forward-looking information.

For other financial assets, the Company accounts for the expected credit loss allowance at the amount equal to 12 months of the expected credit loss. The Company measures the allowance for expected credit losses on a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since its initial recognition.

The Company estimates that the credit risk associated with a financial instrument has increased significantly since its initial recognition if the time past due is more than 30 days.

The Company considers the debtor to have defaulted if days past due exceed 180 days and the debt is not insured.

Shares in subsidiaries, associates and joint ventures

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

Subsidiaries are entities controlled by the Company.

The Company controls an investee if it:

- exercises power over the investee,
- is exposed to or has rights to variable returns from its exposure to the investee,
- has the ability to use its power over the investee to affect the amount of its returns.

The Company verifies whether it has control of other entities if there is an indication of change in one or more of the above conditions of control.

If the Company holds less than a majority of voting rights in an investee, but the voting rights held are sufficient to direct the relevant activities of the investee unilaterally, this means that the Company has control of the investee. When assessing whether the Company's voting rights at an investee are sufficient to give the control, the Company considers all relevant circumstances, including:

- the size of the voting interest held compared with the size of interests and the degree of dispersion of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous general meetings of shareholders.

Associates are entities over which the Company has significant influence, other than subsidiaries or interests in the Company's joint ventures. Significant influence is the ability to participate in the financial and operational policy decisions of a business; however, it does not mean exercising control or joint control over that policy.

Joint ventures are arrangements under which two or more parties undertake a jointly controlled economic activity. Joint control is the contractually agreed sharing of control over an economic activity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Measurement at fair value

The Company measures financial instruments at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in most advantageous market for the asset or liability.

The Company must have access to the principal (or most advantageous) market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
- level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
- level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

Summary of material accounting policies concerning fair value measurement

The Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets, as well as non-recurring measurements such as assets held for sale in discontinued operations.

For the purposes of the disclosure of the results of measurement at fair value the Company has established classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of each inventory item includes all purchase costs, processing costs and other costs incurred in bringing the inventory to its current location and condition – both for the current and previous year - and is determined as follows:

- | | |
|-------------------------------------|---|
| Materials | • at purchase price determined on a first-in-first-out basis |
| Finished goods and work in progress | • at direct costs of raw materials, consumables and labour and an appropriate indirect cost overhead determined assuming normal production capacity utilisation, net of borrowing costs |

Net realisable value is the estimated sale price in the ordinary course of business, less estimated costs of completion and costs to sell.

Inventory write-downs resulting from prudent valuation and write-downs for slow-moving inventories, as well as their reversals, are charged to cost of sales.

Trade and other receivables

Trade receivables are recognised and carried at amounts initially invoiced, less allowances for lifetime expected credit losses.

Where the effect of the time value of money is material, the value of receivables is determined by discounting projected future cash flows to their present value using a discount rate reflecting the current market assessments of the time value of money. Where discounting is applied, an increase in receivables as a result of the passage of time is recognised as finance income.

Other receivables include in particular prepayments made for future purchases of intangible assets and inventories. Prepayments are presented according to the type of assets to which they refer: as non-current or current assets, respectively. As non-monetary assets, prepayments are not discounted.

Receivables from the state budget are presented under other non-financial assets, except for corporate income tax receivable, which is presented as a separate item in the statement of financial position.

Cash and cash equivalents

Cash and short-term bank deposits disclosed in the statement of financial position comprise cash at banks as well as short-term deposits with original maturities of up to three months.

Cash and cash equivalents presented in the statement of cash flows include the items specified above.

Bank borrowings

Bank borrowings are measured at amortised cost. Current-account overdrafts are the exception, as there are no fixed repayment schedules for them. For this type of borrowing, origination costs and other fees are expensed as finance costs in the period they are incurred. In other cases, finance costs, including fees payable on repayment or redemption and direct costs of borrowing, are recognised in the statement of comprehensive income using the effective interest rate method and adjusting the carrying amount of the instrument for repayments made in the current period.

Trade and other payables

Short-term trade payables are stated at amounts payable.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities held for trading or designated as measured at fair value through profit or loss.

As at 31 March 2023 and 31 March 2022, no financial liabilities were classified as measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the reporting date, net of costs to sell. Changes in the fair value of financial liabilities that are measured at fair value through profit or loss are recognised in profit or loss, except for changes in the fair value that are caused by changes in the entity's own credit risk, which are recognised in other comprehensive income.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

The Company derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

Other non-financial liabilities include, in particular, tax liabilities in respect of value added tax, social security and health insurance contributions, personal income tax, and liabilities in respect of advance payments received, which will be settled through the supply of goods, services, or fixed assets. Other non-financial liabilities are measured at nominal amounts due.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Company anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, any such recovery is recognised as a separate item of assets, but only when it is practically certain to occur. Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements.

Where the effect of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to present value using a discount rate that reflects current market assessments of the time value of money and the risks, if any, associated with the liability. Where discounting is applied, any increase in the provision due to the passage of time is recognised as finance costs.

Employee benefits

Old-age and disability retirement severance payments are one-off and paid upon retirement. The amount of retirement benefits depends on the employee's years of service and average remuneration. The Company recognises a provision for future retirement benefit obligations in order to allocate the related costs to the relevant periods. According to IAS 19, retirement gratuity benefits are defined post-employment benefit plans. The present value of these obligations at each reporting date is calculated by an independent actuary. The calculated value of the obligations is equal to the present value of discounted future payments, taking into account employee turnover, and relates to the period ending on the reporting date. Information on demographics and employee turnover is sourced from historical data.

The revaluation of employee benefit obligations under defined benefit plans, which includes actuarial gains and losses, is recognised in other comprehensive income and is not subsequently reclassified to profit or loss.

The Company recognises the following changes in net defined benefit obligations within cost of sales, administrative expenses and distribution costs, which consist of:

- service costs (including, but not limited to, current service costs, past service costs),
- net interest on net defined benefit obligations.

The Company incurs costs related to the operation of the Employee Capital Plans ("PPK") by making contributions to investment funds. 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. PPK obligations are presented as other non-financial liabilities.

Grants

A government grant is recognised at fair value if there is reasonable assurance that the Company will comply with the conditions attached to it, and that the grant will be received.

If a grant relates to a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where a grant relates to an asset, its fair value is recognised as deferred income and is then gradually released to profit or loss over the expected useful life of the asset in equal annual instalments.

Foreign currency transactions

Transactions in currencies other than the Polish złoty are accounted for as at the transaction date using the following exchange rates:

- buy or sell exchange rates applied by the Company's bank are used in the case of transactions to buy or sell currencies and transactions to pay receivables or payables;
- mid-rates quoted for a given currency by the National Bank of Poland for that date.

Monetary assets and liabilities denominated in foreign currencies are accounted for as at the reporting date at the exchange rate quoted for the currency by the National Bank of Poland for that date. Exchange

differences arising from the settlement of transactions denominated in foreign currencies, as well as those arising from the valuation as at the reporting date of items of assets and liabilities denominated in foreign currencies that relate to the Company's principal business, are recognised as finance costs or income.

The average exchange rates used to account for foreign currency items held by the Company as at the reporting date and the average annual rates during the periods covered by these financial statements were as follows:

Exchange rate	31 Mar 2024	1 Apr 2023– 31 Mar 2024	31 Mar 2023	1 Apr 2022– 31 Mar 2023
Euro (EUR)	4.3009	4.4478	4.6755	4.7086
Czech koruna (CZK)	0.1700	0.1830	0.1987	0.1934
Ukrainian hryvnia (UAH)	0.1023	0.1105	0.1258	0.1322
Romanian leu (RON)	0.8655	0.8967	0.9445	0.9561
Russian rouble (RUB)	0.0430	0.0459	0.0561	0.0697
Hungarian forint (HUF 100)	1.0922	1.1653	1.2278	1.1864
Pound sterling (GBP)	5.0300	5.1538	5.3107	5.4490

Leases – the Company as a lessee

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a uniform approach to the recognition and measurement of all leases. At the commencement date of a lease, the Company recognises a right-of-use asset and a lease liability.

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. Unless the Company believes there is reasonable certainty it will acquire ownership of the leased assets after a relevant lease expires, the recognised right-of-use assets are depreciated using the straight-line method over the shorter of the estimated useful life and lease term. Right-of-use assets are tested for 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 lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of 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 a 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 exemption from short-term lease recognition to its short-term leases (i.e. leases with a term of 12 months or less from inception, with no purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Impairment of non-financial non-current assets

An assessment is made at the reporting date to determine whether there is any indication that any of non-financial long-term assets, including usufruct rights, may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the fair value less costs to sell the asset or cash generating unit respectively, or its usable value, whichever is greater. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Company assesses at the reporting date whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an impairment loss is immediately recognised as income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

Revenue from contracts with customers

The Company applies IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers except financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements*, and IAS 28 *Investments in Associates and Joint Ventures*.

The fundamental principle of IFRS 15 is to recognise revenue when goods and services are transferred to the customer, at a value that reflects the price expected by the entity to be received in exchange for the transfer of the goods and services. The principle is applied using a five-step model:

- identifying the contract with the customer,
- identifying performance obligations under the contract,

- determining the transaction price,
- allocating the transaction price to the performance obligations,
- recognising revenue when a performance obligation is satisfied.

Identifying the contract

The Company accounts for a contract with a customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the Company's future cash flows is expected to change as a result of the contract); and
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When assessing whether the consideration is likely to be collected, the Company takes into account only the customer's ability and intention to pay that consideration when due. The consideration to which the Company will be entitled may be lower than the price specified in the contract if the consideration is variable as the Company may offer a price concession to the customer.

Identifying performance obligations

At contract inception, the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation each promise to transfer to the customer either a good or service (or bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Determining the transaction price

When making this determination, the Company considers the contract terms and its customary business practices. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Variable remuneration

If the consideration defined in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer. The Company estimates an amount of variable consideration by using either of the following methods, depending on which method the Company expects to better predict the amount of consideration to which it is entitled:

- the expected value method, determined as the sum of probability weighted amounts in a range of possible consideration amounts. This may be an appropriate approach if the Company has a large number of contracts with similar characteristics;
- the most likely amount method, with the single most likely amount in a range of possible consideration amounts from the contract. This may be an appropriate approach if the contract has

only two possible outcomes, such as a performance bonus which will or will not be received by Company.

The Company includes in the transaction price some or all of the variable consideration only to the extent that it is highly probable that there will not be a significant reversal of cumulative revenue after the uncertainty associated with the variable consideration is gradually resolved.

Some contracts with customers contain elements of variable consideration arising as a result of discounts, rebates or penalties.

If the consideration defined in a contract includes a variable amount, the entity estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer and includes in the transaction price all or part of the variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company estimates the amount of variable remuneration using the expected value method.

Allocating the transaction price to performance obligations

The Company allocates the transaction price to each performance obligation (or to a distinct good or service) in an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Satisfying performance obligations

The Company recognises revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service to the customer.

Principal versus agent considerations

When another entity is involved in providing goods or services to a customer, the Company evaluates the nature of its promise to the customer, whether the nature of the Company's performance obligation is to provide the specified goods or services to the customer itself (in this case the Company is the principal) or to arrange for them to be provided by another entity (in this case the Company is an agent).

The Company acts as the principal if it controls the promised good or service before transferring it to the customer. However, the entity is not acting as the principal if it obtains legal title to a specified good only momentarily before the legal title is transferred to the customer. A principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (e.g. a subcontractor) to satisfy some or all of the performance obligations on its behalf. In such circumstances, the Company recognises revenue in the gross amount to which it expects to be entitled in exchange for the specified goods or services transferred.

The Company acts as the agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In such a case, the Company recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Significant financing component

In the case of contracts with customers where the time period between the transfer of the promised goods or services and payment by the customer is expected to be more than 12 months, the Company recognises a significant financing component due to the time value of money. In order to determine the transaction price, the Company adjusts the promised amount of consideration for a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and the customer at contract inception.

Warranty

The Company provides warranty for sold products, ensuring that the products conform to the specifications agreed upon by the parties. The Company recognises such warranties in accordance with IAS 37.

Provisions, contingent liabilities and contingent assets

Some non-standard contracts with customers contain extended warranty. An extended warranty is a separate service and is recognised as a performance obligation to which part of the transaction price is allocated.

Capitalised costs to obtain a contract

The Company recognises incremental costs of obtaining a contract with a customer as an asset if the costs are expected to be recovered. Incremental costs of obtaining a contract are those costs incurred by an entity to obtain a contract with a customer which the entity would not have incurred if the contract had not been concluded. Incremental costs of obtaining a contract include mainly design and architectural services. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred, unless the costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Contract assets

As contract assets, the Company recognises the right to consideration in exchange for goods or services transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Company's future performance). The Company recognises expected credit losses in the same way as financial assets in accordance with IFRS 9.

Receivables

Under receivables, the Company recognises the right to consideration in exchange for goods or services transferred to a customer if the right is unconditional (only the passage of time is required before payment of that consideration is due.). The Company recognises receivables in accordance with IFRS 9. On initial recognition of a contract receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue previously recognised are recognised as an expense (impairment loss on trade receivables and other financial assets).

Contract liabilities

Under contract liabilities, the Company recognises such consideration received or receivable from a customer which relates to the obligation to transfer goods or services to the customer.

Right-of-return assets

Under right-of-return assets, the Company recognises the right to recover products from customers on settling the refund liability.

The Company generates revenue through several revenue streams. These are mainly:

- supply of products and provision of assembly services – revenue recognised over time,
- supply of products without assembly services – revenue generally recognised at the date of transfer of goods to the customer,
- supply of materials – revenue generally recognised at the date of transfer of goods to the customer,
- maintenance services – revenue recognised over time.

Revenue from the supply of products without assembly and the supply of materials is recognised on the date of transfer of control of the goods to the customer, as determined by the commercial terms and conditions of the contract, in accordance with the INCOTERMS International Trade Rules.

For the supply of products with assembly services, and for the provision of maintenance services revenue is recognised over time using a cost-to-cost method. The cost-to-cost method compares the costs incurred in the provision of a given service to its budgeted costs and the progress of work thus determined.

Borrowing costs

Borrowing costs are capitalised as part of the cost of property, plant and equipment. Borrowing costs comprise interest calculated using the effective interest rate method, finance charges in respect of finance leases, and foreign exchange differences related to borrowings, up to the amount of the interest expense adjustment.

Taxation

Current income tax liabilities and assets for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and laws that were enacted or substantively enacted as at the reporting date.

For financial reporting purposes, the Company recognises deferred tax assets and deferred tax liabilities on all temporary differences existing at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences, as well as unused tax credits and unused tax losses carried forward to subsequent years, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised,

- except where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. An unrecognised deferred tax asset is revalued at each reporting date and is recognised to the extent that it is probable that future taxable profits will be available to recover the asset.

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.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss: as part of other comprehensive income for items recognised in other comprehensive income or directly in equity for items recognised directly in equity.

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 income tax is attributable to the same taxable entity and the same taxation authority.

If, in the opinion of the Company, it is probable that the Company's approach to a tax issue or group of tax issues will be accepted by a tax authority, the Company determines the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates taking into account the approach to taxation planned or applied in its tax return. In assessing this probability, the Company assumes that the tax authorities with the power to audit and challenge the tax treatment will conduct such an audit and will have access to all information.

If the Company determines that it is not probable that the tax authority will accept the Company's treatment of a tax issue or group of tax issues, the Company reflects the effect of the uncertainty in the accounting treatment of the tax in the period in which it determines it. The Company recognises an income tax liability using one of the following two methods, whichever better reflects the way in which the uncertainty is likely to materialise:

- The Company determines the most likely scenario – this is a single amount from among possible outcomes, or
- The Company recognises the expected amount – the sum of probability-weighted amounts from a range of possible outcomes.

Operating segments

The Company's entire operations are presented as a single operating segment. This is due to the similarities in economic characteristics, products and services, production processes, customer groups, distribution methods, and regulatory environments. Management reporting is also conducted for all product groups in aggregate.

NOTE 3 – REVENUE

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
	PLN thousand	PLN thousand
Revenue from sale of products and services	287,077	294,495
- <i>including revenue recognised over time</i>	122,172	123,130
Revenue from sale of merchandise and materials	59,066	61,972
Total revenue	346,143	356,467
including:		
– from sales to related entities	53,984	55,909

Main products

The Company's business consists in the production, sale, construction and assembly, as well as maintenance of passive fire protection systems. The products offered fall into three product groups:

- smoke exhaust and rooflight systems,
- fire ventilation systems,
- fire protections of building structures.

Revenue by geographical markets

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
	PLN thousand	PLN thousand
Poland	254,230	265,247
Czech Republic and Slovakia	16,949	15,554
Russia	-	-
Ukraine	1,057	1,139
Romania	6,934	3,692
Spain	10,430	12,231
Hungary	5,491	8,414
UK	6,803	6,323
Other	44,249	43,867
Total revenue	346,143	356,467

The Company has a fragmented customer base. Sales to any one customer do not exceed 10% of its turnover.

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Short-term contract assets	13,486	14,289
Short-term contract liabilities	1,847	2,240

Contract assets and liabilities arise from differences in the measurement of revenue recognised over time and the amounts invoiced to customers.

NOTE 4 – OPERATING EXPENSES

	<u>1 Apr 2023 –</u> <u>31 Mar 2024</u>	<u>1 Apr 2022 –</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Cost of sales	271,303	284,428
Distribution costs	28,043	25,798
Administrative expenses	20,718	16,662
Total operating expenses	320,064	326,888
including:		
Depreciation and amortisation	11,816	10,847
Raw materials and consumables used	130,162	146,330
<i>including change in products</i>	<i>(7,336)</i>	<i>(2,831)</i>
Services	71,475	62,911
Salaries and wages	45,763	45,440
Employee benefits	10,815	9,543
Taxes and charges	1,638	1,609
Other	4,187	3,603
Cost of merchandise and materials sold	44,208	46,605
	320,064	326,888

Personnel expenses

Salaries and wages

Salaries and wages comprise remuneration payable in accordance with the terms of employment contracts with individual employees.

Employee benefits

Social security costs include pension, disability, and accident insurance benefits, as well as contributions to the Guaranteed Employee Benefits Fund and the Labour Fund. Based on the current regulations, the social security costs for the period from 1 April 2023 to 31 March 2024 and for the preceding year amounted to 20.01% of maximum taxable earnings.

Pension benefits expense includes retirement severance payments paid to employees in accordance with applicable labour regulations. The Company incurs costs related to the operation of the Employee Capital Plans ("PPK") by making contributions to an investment fund. They are post-employment benefits in the form of a defined contribution plan. The Company recognises costs of payments to PPK as employee benefit expense. PPK liabilities are presented as part of other liabilities.

The Company is required to create a Company Social Benefits Fund. Contributions to the fund are expensed and are ring-fenced in the fund's separate bank account. In these financial statements, the fund's assets and liabilities are disclosed at net amounts.

Other employee benefits include training and other benefits prescribed by labour laws.

Development costs

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
	PLN thousand	PLN thousand
Expensed development costs	1,755	1,272
Amortisation of capitalised development costs	3,063	2,605
	4,818	3,877

Development costs are recognised as an intangible asset only when the conditions for recognition are met and in accordance with the policies described in Note 2. Amortisation of capitalised development costs is charged to cost of sales, while research costs and expenditures that do not meet the criteria for capitalisation are presented in distribution costs.

NOTE 5 – OTHER INCOME

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
	PLN thousand	PLN thousand
Gain on disposal of property, plant and equipment	831	1,111
Reimbursement of court costs	131	78
Compensation and penalties received	7	120
Recoveries previously written off as uncollectible	-	3
Liabilities written off	-	13
Grants for development projects	413	597
Other	-	18
	1,382	1,940

NOTE 6 – OTHER EXPENSES

	<u>1 Apr 2023</u> <u>– 31 Mar</u> <u>2024</u>	<u>1 Apr 2022</u> <u>– 31 Mar</u> <u>2023</u>
	PLN thousand	PLN thousand
Provision for warranty repairs	171	-
Penalties, fines and damages paid	81	28
Litigation costs	95	128
Development expense written off	384	-
Other	385	58
	1,116	214

NOTE 7 – FINANCE INCOME

	<u>1 Apr 2023</u> <u>– 31 Mar</u> <u>2024</u>	<u>1 Apr 2022</u> <u>– 31 Mar</u> <u>2023</u>
	PLN thousand	PLN thousand
Dividends	7,319	6,283
Interest on receivables from state budget	5,138	-
Interest on cash and bank deposits	10	-
Interest on late payments	73	85
Interest on loans	1,525	1,848
Interest on security deposits	448	443
Foreign exchange gains	3,500	-
Early payment discount	58	82
	18,071	8,741

Dividend income in each reporting period was as follows:

	<u>1 Apr 2023 –</u> <u>31 Mar 2024</u>	<u>1 Apr 2022 –</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Mercor Proof	-	368
Mercor Czech Republic	1,125	757
Mercor Fire Protection System	-	699
Tecresa Protección Pasiva	1,747	1,109
Mercor Dunamenti	3,787	3,350
TOB Mercor Ukraina	660	-
	7,319	6,283

NOTE 8 – FINANCE COSTS

	1 Apr 2023 – 31 Mar 2024	1 Apr 2022 – 31 Mar 2023
	PLN thousand	PLN thousand
Interest on bank borrowings	4,065	4,952
Interest on non-bank borrowings	234	246
Interest on late payments	26	49
Interest on security deposits and leases	593	1,865
Net foreign exchange losses	-	142
Commission fees on bank borrowings and guarantees	667	534
	5,585	7,788

NOTE 9 – IMPAIRMENT LOSSES ON SHARES IN SUBSIDIARIES

In the reporting period, the Company assessed whether there were any grounds for recognising impairment losses on its investments in subsidiaries. Potential indications of impairment of shares in Tecresa Protección Pasiva and Elmech-ASE S.A. were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment (see Note 14 for details). The analysis of indications of impairment of shares in the other companies did not reveal any need to perform impairment tests.

NOTE 10 – INCOME TAX

Tax expense is calculated based on the tax rates in effect for the financial year in individual jurisdictions. In Poland, the income tax rate of 19% of the tax base has been in force since 2004.

The Company is subject to general income tax laws. The Company is not part of a tax group, nor does it operate in a Special Economic Zone. The Company does not use income tax exemptions or other forms of public aid that would result in the application of tax base calculation rules different from the general regulations.

The main components of the income tax expense in the reporting periods were as follows:

	1 Apr 2023 – 31 Mar 2024	1 Apr 2022 – 31 Mar 2023
Statutory tax rate	19%	19%
Current income tax	PLN thousand	PLN thousand
Current income tax expense	7,174	6,360
Withholding tax on corporate profit distribution income	9	34
Prior-year adjustments	(5,376)	-
	1,807	6,394
Deferred income tax		
Related to recognition and reversal of temporary differences	(871)	(412)
	(871)	(412)
Tax expense disclosed in profit or loss	936	5,982

The differences between the nominal and effective tax rates were as follows:

Profit (loss) before tax	39,114	29,911
Effective tax rate	2.39%	20.00%
Income tax at effective tax rate	936	5,982
Income tax at statutory tax rate	7,432	5,683
Tax effect of tax-exempt income (dividends)	(1,265)	-
Tax effect of non-deductible expenses and non-taxable income according to tax regulations	145	299
Tax effect related to tax losses incurred (prior-year adjustment)	(5,376)	-
Income tax at effective tax rate	936	5,982

Deferred tax is recognised for temporary differences between tax base and profit disclosed in the financial statements. As at 31 March 2024 and 31 March 2023, deferred income tax arose from the items presented in the table below.

	Statement of financial position		Statement of comprehensive income	
	End of period 31 Mar 2024	End of period 31 Mar 2023	1 Apr 2023 – 31 Mar 2024	1 Apr 2022 – 31 Mar 2023
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred tax liabilities				
Differences between tax base and carrying amounts of property, plant and equipment and intangible assets	2,233	2,718	485	(421)
Effect of measurement of long-term contracts	2,421	2,541	120	(460)
Unrealised exchange differences and measurement of forward contracts	7	-	(7)	-
Accrued interest	238	130	(108)	(115)
Gross deferred tax liabilities	4,899	5,389	490	(996)
Deferred tax assets				
Effect of measurement of long-term contracts	1,001	929	73	(581)
Provision for employee expenses and employee benefit obligations	2,917	3,305	(388)	487
Impairment losses on receivables	1,324	1,443	(119)	429
Write-downs of inventories	2,743	1,946	797	1,253
Unrealised exchange differences and measurement of forward contracts	-	4	(4)	(26)
Accrued interest	205	183	22	65
Gain on sale of property, plant and equipment (deferred income)	-	-	-	(219)
Gross deferred tax assets	8,190	7,810	381	1,408
Net deferred tax assets/(liabilities)	3,291	2,421		
Deferred tax expense			871	412
Amounts recognised in equity			-	-

Deferred tax was recognised in the periods presented for all temporary differences between the profit or loss for accounting purposes and the tax base, except for deferred tax assets arising from the difference between the net carrying amounts and the tax base of equity interests in subsidiaries.

The Company does not intend to sell its shares in subsidiaries in the foreseeable future, and therefore the probability of realising the temporary difference is not high.

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

After the Company appealed against decisions of the Director of the Tax Administration Chamber of Gdańsk, they were repealed under judgments of the Provincial Administrative Court in Gdańsk of 28 February 2023. In accordance with decisions issued by the Director of the Tax Administration Chamber of Gdańsk on 30 August 2023, the appeals filed in May 2021 were considered and decisions issued by the first instance authority were repealed in full. The decisions are final. In September 2023, the Company received a refund of overpaid CIT and interest on advance CIT payments, along with accrued interest. As a result, the related contingent asset disclosed in the annual report for the year ended 31 March 2023 was realised.

NOTE 11 – EARNINGS PER SHARE AND DIVIDENDS

Earnings (loss) per share

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
Number of shares (net of treasury shares)	15,444,769	15,544,103
Net profit (loss) for period (PLN thousand)	38,178	23,929
Earnings per share (PLN)	2.47	1.54

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Company's common shareholders by the weighted average number of outstanding common shares during the period, adjusted for any treasury shares. There were no financial instruments that caused earnings dilution during the current or previous financial year. Therefore, the values of basic and diluted earnings per share are equal.

Dividends paid and declared

In accordance with the adopted strategy, the Company's Management Board will recommend that the General Meeting allocate 30% of the consolidated profit earned by the Group in the current financial year to dividend payment.

A dividend of PLN 1.51 per share, i.e. a total of PLN 23,424 thousand, was paid for the previous financial year.

NOTE 12 – INTANGIBLE ASSETS

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Costs of completed development work	8,679	9,477
Capitalised costs of development work in progress	4,480	3,117
Permits and licences	684	862
	13,843	13,456

Development expenditure at the Company includes the cost of certification processes for new products and technologies to be placed on the market. Development work is recognised as assets and amortised in accordance with the policies described in Note 2.

The Company conducted impairment tests for all completed development work and development work in progress, using the discounted cash flow method. For the assessment of impairment of completed development work and development work in progress, one cash generating unit (SGU) was identified to which the respective assets were allocated. The discount rate applied in the tests was determined using the weighted average cost of capital of 9.00%. The impairment tests did not indicate any need for recognising impairment losses.

Changes in the key assumptions, to the extent such changes can be reasonably estimated (+/- 10% change in EBITDA and +/- 1pp change in WACC), would not lead to the carrying amount of the cash-generating unit exceeding its recoverable amount.

The impairment tests for development projects performed as at 31 March 2024 were based on discounted cash flow projections for a period of five years from the reporting date. The projections take into account the specific characteristics of a given market and are based on past experience in the market. The cash flow projections, along with their business rationale, were formulated by the heads of the R&D department in the respective product divisions for a five-year period, i.e. the financial years from 1 April 2024 to 31 March 2029. The long-term growth rate was derived from the economic growth data published by the OECD for Poland. For the purpose of discounting future cash flows, an interest rate corresponding to the cost of capital was employed, calculated using the weighted average cost of capital method (WACC).

Permits and licenses mainly include licenses for computer systems and utility software used in the Company's operations.

None of the Company's intangible assets serve as collateral.

Changes in intangible assets in the period from 1 April 2023 to 31 March 2024

	Costs of completed development work PLN thousand	Costs of capitalised development work in progress PLN thousand	Acquired permits, patents, licenses and similar assets PLN thousand	Total PLN thousand
Gross amount				
As at 1 Apr 2023	35,505	3,117	7,735	46,357
Increase:				
- purchase and transfer from property, plant and equipment under construction	-	-	92	92
- self-generated	2,265	4,012	-	6,277
Decrease:				
- sale and retirement	-	384	-	384
- development work completed with positive result	-	2,265	-	2,265
As at 31 Mar 2024	37,770	4,480	7,827	50,077
Accumulated amortisation				
As at 1 Apr 2023	26,028	-	6,873	32,901
Increase:				
- amortisation	3,063	-	270	3,333
Decrease:				
- sale and retirement	-	-	-	-
As at 31 Mar 2024	29,091	-	7,143	36,234
Net carrying amount as at 31 Mar 2024	8,679	4,480	684	13,843

Changes in intangible assets in the period from 1 April 2022 to 31 March 2023

	Costs of completed development work	Costs of capitalised development work in progress	Acquired permits, patents, licenses and similar assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount				
As at 1 Apr 2022	30,264	5,748	7,529	43,541
Increase:				
- purchase and transfer from property, plant and equipment under construction	-	-	206	206
- self-generated	5,241	2,610	-	7,851
Decrease:				
- sale and retirement	-	-	-	-
- development work completed with positive result	-	5,241	-	5,241
As at 31 Mar 2023	35,505	3,117	7,735	46,357
Accumulated amortisation				
As at 1 Apr 2022	23,423	-	6,345	29,768
Increase:				
- amortisation	2,605	-	528	3,133
Decrease:				
- sale and retirement	-	-	-	-
As at 31 Mar 2023	26,028	-	6,873	32,901
Net carrying amount as at 31 Mar 2023	9,477	3,117	862	13,456

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Land	8,406	8,406
Buildings and structures	21,417	23,231
Machinery and equipment	26,227	28,354
Vehicles	854	632
Other	1,209	861
Property, plant and equipment	58,113	61,484
Property, plant and equipment under construction	1,966	145
Prepayments for property, plant and equipment	360	801
	60,439	62,430

The land disclosed as at 31 March 2024 and 31 March 2023 comprises Company's own land.

As at the reporting date, non-current assets were assessed by the Company for indications of possible impairment. A significant increase in the prices of energy consumed in the manufacturing process was identified as an indication of possible impairment of assets associated with the manufacture and marketing of mcr Silboard fire protection boards, whereupon an impairment test was carried out.

The impairment test performed as at 31 March 2024 for assets involved in the manufacture of mcr Silboard fire protection boards was based on discounted cash flow projections for a period of five years from the reporting date, taking into consideration the projected residual value. The adopted long-term growth rate used to calculate the value of the cash-generating unit beyond the projection period reflects the specific characteristics of the entity and the market in which it operates. Projections were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from 1 April 2024 to 31 March 2029.

The discount rate was determined based on the real weighted average cost of capital of 10.48% (the nominal WACC was 13.24%). The test did not indicate any need for recognising impairment losses on the assets involved in the manufacture of mcr Silboard fire protection boards.

As part of the test, a sensitivity analysis was carried out. The analysis was prepared assuming changes in two variables affecting the value of the assets: a +/-10% change in EBITDA and a +/-1 percentage point change in the discount rate.

Only if EBITDA was to fall to the threshold value, by 20%, the carrying amount of the cash-generating unit would exceed its recoverable amount by PLN 2.7 million. In the case of an increase/decrease in the discount rate (WACC) to the threshold value, by 2 percentage points above the current level, the carrying amount of the cash-generating unit would exceed its recoverable amount by PLN 198 thousand.

Certain items of the Company's property, plant and equipment serve as collateral for bank borrowings and guarantee facilities. The value of property, plant and equipment serving as collateral is shown in the table below.

	End of period 31 Mar 2024	End of period 31 Mar 2023
	PLN thousand	PLN thousand
Value of property, plant and equipment serving as collateral for credit facilities and guarantee facilities granted to the Company	13,316	12,005
	13,316	12,005

Changes in the value of property, plant and equipment are shown in the following tables.

Changes in property, plant and equipment in the period from 1 April 2023 to 31 March 2024

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other	Property, plant and equipment under construction	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount							
As at 1 Apr 2023	8,406	37,748	51,248	1,926	3,330	145	102,803
Increase:							
- purchase and transfer from property, plant and equipment under construction	-	-	574	519	54	2,968	4,115
- transfer to property, plant and equipment	-	-	1,268	-	1,610	-	2,878
Decrease:							
- sale and retirement	-	-	139	1	3	-	143
- transfer to property, plant and equipment from property, plant and equipment under construction	-	-	-	-	-	1,147	1,147
As at 31 Mar 2024	8,406	37,748	52,951	2,444	4,991	1,966	108,506
Accumulated depreciation							
As at 1 Apr 2023	-	14,517	22,894	1,294	2,469	-	41,174
Increase:							
- depreciation	-	1,814	3,496	297	363	-	5,970
- transfer to property, plant and equipment	-	-	472	-	953	-	1,425
Decrease:							
- sale and retirement	-	-	138	1	3	-	142
As at 31 Mar 2024	-	16,331	26,724	1,590	3,782	-	48,427
Net carrying amount as at 31 Mar 2024	8,406	21,417	26,227	854	1,209	1,966	60,079

Changes in property, plant and equipment in the period from 1 April 2022 to 31 March 2023

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other	Property, plant and equipment under construction	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount							
As at 1 Apr 2022	5,406	15,882	23,511	2,082	3,225	20,276	70,382
Increase:							
- purchase and transfer from property, plant and equipment under construction	-	3,089	17,998	409	197	1,770	23,463
- transfer to property, plant and equipment	3,000	18,777	9,886	-	-	-	31,663
Decrease:							
- sale and retirement	-	-	147	565	92	-	804
- transfer to property, plant and equipment from property, plant and equipment under construction	-	-	-	-	-	21,901	21,901
As at 31 Mar 2023	8,406	37,748	51,248	1,926	3,330	145	102,803
Accumulated depreciation							
As at 1 Apr 2022	-	6,956	16,096	1,746	2,348	-	27,146
Increase:							
- depreciation	-	994	2,863	113	211	-	4,181
- transfer to property, plant and equipment	-	6,567	4,060	-	-	-	10,627
Decrease:							
- sale and retirement	-	-	125	565	90	-	780
As at 31 Mar 2023	-	14,517	22,894	1,294	2,469	-	41,174
Net carrying amount as at 31 Mar 2023	8,406	23,231	28,354	632	861	145	61,629

NOTE 14 – OTHER FINANCIAL ASSETS

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Shares in subsidiaries and jointly controlled entities (gross)	166,344	166,344
Loans to subsidiaries and jointly controlled entities	18,807	23,534
Impairment losses on shares	(87,260)	(87,260)
	97,891	102,618

The shares in subsidiaries comprise equity interests in the following companies:

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Tecresa Protection Pasiva S.L.	52,584	52,584
Mercor Dunamenti Tűzvédelem Zrt	20,090	20,090
Mercor Fire Protection Systems s.r.l.	15	15
Mercor Proof LLC	827	827
MHD1 Sp. z o.o.	21	21
Mercor HD Sp. z o.o.	29	29
Mercor Czech Republic s.r.o.	33	33
Mercor Slovakia s.r.o.	21	21
TOB Mercor Ukraina	2,216	2,216
Mercor Silboard Sp. z o.o.	30	30
DFM DOORS Sp. z o.o.	82	82
MCR SOL ENERGY Sp. z o.o.	5	5
MCR TECH-LAB Sp. z o.o.	25	25
Mercor Centrum Usług Wspólnych Sp. z o.o.	6	6
	75,984	75,984

The shares in jointly controlled entities comprise the following:

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Elmech-ASE S.A.	3,100	3,100
	3,100	3,100

In the financial year from 1 April 2023 to 31 March 2024, the Company did not subscribe for any new shares.

In the previous year, the Company subscribed for:

- 55% of shares in the newly established MCR TECH-LAB Sp. z o.o., for a total price of PLN 25 thousand. The shares represent 55% of total voting rights in MCR TECH-LAB Sp. z o.o.;
- 100% of shares in the newly established Mercor Centrum Usług Wspólnych Sp. z o.o., for a total price of PLN 5 thousand. The Company then proceeded to increase its share capital in exchange for contributed assets comprising an organised part of business. The shares subscribed for by the Company carry 100% of total voting rights in Mercor CUW Sp. z o.o.

In previous financial years, the Company recognised impairment losses on its shares in:

- Tecresa Protección Pasiva S. L.: impairment losses of PLN 75,217 thousand,
- MHD1 Sp. z o.o.: impairment losses of PLN 10,135 thousand,
- TOB Mercor Ukraine Sp. z o.o.: impairment losses of PLN 1,908 thousand.

Investment in Tecresa Protección Pasiva

Potential indications of impairment of shares in Tecresa Protección Pasiva were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment. The analysis of indications of impairment of shares in the other companies did not reveal any need to perform impairment tests.

The impairment tests carried out as at 31 March 2024 for shares in Tecresa Protección Pasiva were based on discounted cash flow projections for a period of five years from the reporting date, taking into consideration the projected residual value. The adopted long-term growth rate used to calculate the value of the cash-generating unit beyond the projection period reflects the specific characteristics of the entity and the market in which it operates. Projections were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from 1 April 2024 to 31 March 2029.

Based on market projections, a 9% decrease in sales was assumed for the Tecresa Protección Pasiva cash-generating unit in the first year of the projection period, followed by an increase of 10% in the second year and then 9% and 6% in the subsequent years. The cash flows used as the basis for calculating the value of shares also include intragroup cash flows, with consideration given to transfer pricing. The recoverable amount of the Tecresa Protección Pasiva CGU was determined using the forecast value in use, which was calculated based on a cash flow projection derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 10.12% (2022/2023: 10.26%) was used to forecast the cash flows. Cash flows beyond the five-year period were estimated using a growth rate of 1.334% (2022/2023: 0.071%).

The impairment test did not indicate any need for recognising impairment losses on shares held in the company. Changes in key assumptions, to the extent such changes can be reasonably estimated (+/- 10% change in EBITDA and +/- 1pp change in WACC), would not lead to the carrying amount of the cash-generating unit exceeding its recoverable amount.

Investment in Elmech-ASE S.A.

Potential indications of impairment of shares in the company were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment.

The impairment test carried out as at 31 March 2024 for shares in Elmech-ASE S.A. was based on discounted cash flow projections for a period of five years from the reporting date, taking into consideration the projected residual value. The adopted long-term growth rate used to calculate the value of the cash-generating unit beyond the projection period reflects the specific characteristics of the entity and the market in which it operates. Projections were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from 1 April 2024 to 31 March 2029.

The recoverable amount of the Elmech-ASE S.A. CGU was determined using the forecast value in use, which was calculated based on a cash flow projection derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 12.22% was used to forecast the cash flows. Cash flows beyond the five-year period were estimated using a growth rate of 1.479%.

The impairment test did not indicate any need for recognising impairment losses on shares held in the company. A sensitivity analysis was carried out with respect to the above assumptions for a +/- 10% change in EBITDA and +/- 1pp change in WACC. It demonstrated that no change to any of the key assumptions referred to above, to the extent such change can be reasonably estimated, would lead to the carrying amount of the cash-generating unit exceeding its recoverable amount.

Loans to subsidiaries

Loans to subsidiaries presented in other financial assets comprise loans provided to Mercor Czech Republic s.r.o. and Mercor Slovakia s.r.o. for the repurchase of receivables unrelated to the fire separation business from Hasil as and Hasil s.r.o., i.e. entities that were divested from the MERCOR S.A. Group. Receivables under these loans amounted to PLN 1,310 thousand as at 31 March 2024. The Company granted a long-term loan to DFM Doors Sp. z o.o. to finance its day-to-day operations, in the form of a limit of up to PLN 14,000 thousand. The amount drawn under the loan, including capitalised interest, as at 31 March 2024, was PLN 7,429 thousand.

In addition, the Company advanced other loans to its subsidiaries and jointly controlled entities: MCR SOL ENERGY Sp. z o.o., Mercor Fire Protection UK, MCR TECH-LAB Sp. z o.o., Mercor Centrum Usług Wspólnych Sp. z o.o. and Elmech-ASE Sp. z o.o., to finance their business development needs. The total amount receivable under these loans as at 31 March 2024 was PLN 10,067 thousand.

NOTE 15 – SECURITY DEPOSITS RECEIVABLE

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Long-term security deposits receivable	3,345	3,121
Short-term security deposits receivable	4,150	3,925
Impairment losses	(1,816)	(1,712)
	<u>5,679</u>	<u>5,334</u>

Customers retain deposits that represent a contractually defined percentage of invoiced services, typically between 5% and 10% of the contract value. Depending on the terms of the contract, the deposits are retained for a period of 6 to 120 months.

The portion of revenue corresponding to a retained deposit is recognised at fair value. The discount resulting from the recognition of fair value is accounted for as finance income, using the amortised cost method.

NOTE 16 – INVENTORIES

	<u>End of period 31</u> <u>Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Materials	19,172	24,774
Work in progress	6,114	7,258
Finished goods	26,940	18,435
Write-downs	(14,436)	(10,240)
	37,790	40,227

The inventories are measured in accordance with the policies outlined in Note 2 Recognised inventory write-downs and their reversals are accounted for in the statement of profit or loss under cost of sales. In the reporting period, the Company used an inventory write-down of PLN 105 thousand following the sale or liquidation of inventories that had lost their economic usefulness. The amount of inventory write-downs recognised in the reporting period was PLN 4,301 thousand.

The Company's inventories serve as collateral for its borrowings. The table below presents the carrying amount of inventories that were assigned by way of security.

	<u>End of period 31</u> <u>Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Value of inventories serving as collateral for bank borrowings	23,446	27,862
	23,446	27,862

NOTE 17 – TRADE AND OTHER RECEIVABLES

	<u>End of period 31</u> <u>Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Trade receivables from related entities	15,865	15,918
Trade receivables from other entities	47,087	53,687
Dividends receivable	647	223
Prepayments for deliveries	177	231
Other receivables	141	2
Impairment losses	(5,217)	(5,886)
	58,700	64,175

Trade receivables are non-interest-bearing and typically mature in 14 to 60 days. The fair value of receivables does not differ materially from their carrying amounts.

Trade receivables were insured during the reporting period. Seventy percent of receivables generated during the financial year were secured using this method; the insurance did not cover receivables from related parties.

Change in impairment losses on receivables

	<u>1 Apr 2023 – 31 Mar 2024</u>	<u>1 Apr 2022 – 31 Mar 2023</u>
	PLN thousand	PLN thousand
At beginning of period	5,886	3,836
Impairment losses expensed in period	462	2,680
Impairment losses reversed	786	620
Impairment losses used	(345)	(10)
At end of the period	5,217	5,886

NOTE 18 – OTHER CURRENT ASSETS

	<u>End of period 31 Mar 2024</u>	<u>End of period 31 Mar 2023</u>
	PLN thousand	PLN thousand
Prepayments	2,846	2,242
	2,846	2,242

Other current assets comprise expenses related to future periods, including in particular prepayments for services to be delivered in the future. These assets are charged to operating expenses over time or in proportion to the amount of services performed, depending on their nature.

NOTE 19 – CASH AND CASH EQUIVALENTS

	<u>End of period 31 Mar 2024</u>	<u>End of period 31 Mar 2023</u>
	PLN thousand	PLN thousand
Cash in hand and at banks	550	126
	550	126

Cash at banks earns interest at variable rates linked to O/N deposit rates. Short-term bank deposits are placed for various periods, usually from one day to three months, depending on the Company's immediate cash requirements, and earn interest at rates agreed with the bank.

The fair value of cash and cash equivalents is equal to their net carrying amount. Except for funds held in separate VAT accounts, there are no restrictions on the use of cash and cash equivalents. Cash held in VAT accounts is not recognised as restricted cash.

NOTE 20 – EQUITY

Share capital

Detailed information on individual series of shares comprising the Company's share capital as at 31 March 2024 is presented below.

<u>Series</u>	<u>Number of shares</u>	<u>Par value</u>	<u>Date of registration</u>	<u>Dividend right as of</u>	<u>Method of payment for shares</u>	<u>Type of shares</u>
AA	12,454,544	3,113,636.00	17 May 2007	17 May 2007	Cash/in-kind contribution*	ordinary
BB	1,691,230	422,807.50	9 Aug 2007	9 Aug 2007	Cash	ordinary
CC	1,423,503	355,875.75	15 Sep 2008	15 Sep 2008	Cash/in-kind contribution	ordinary
	<u>15,569,277</u>	<u>3,892,319.25</u>				

Par value per share (PLN): 0.25

* The share capital of MERCOR S.A. was created as a result of the change in the legal form of PUH MERCOR Sp. z o.o. on 21 September 2004 and the related transformation of its capital; the share capital of PUH MERCOR Sp. z o.o. was paid in cash up to PLN 100.00, with the remaining PLN 2,999,900.00 paid for with an in-kind contribution in the form of shares in MERCOR-Pro Sp. z o.o., in accordance with notarial deed Rep. A No. 6477/99 dated 9 July 1999; shares with a par value of PLN 113,636.00 were paid for in cash.

As at 31 March 2024, there were no restrictions attached to Company shares.

By resolution of the Extraordinary General Meeting of 26 January 2023, 89,258 of Series BB shares of the Company, representing 0.57% of its share capital, were cancelled. The cancellation of the shares and reduction of the Company's share capital to PLN 3,892,319.25 was registered by the District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, on 2 June 2023.

The Company's shareholding structure as at 31 March 2024 was as follows:

	<u>31 Mar 2024</u>		<u>31 Mar 2023</u>	
<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>	<u>Number of shares</u>	<u>%</u>
Permag Sp. z o.o.	4,102,994	26.35%	4,102,994	26.20%
Bangtino Limited	3,675,502	23.61%	3,675,502	23.47%
Nationale Nederlanden Otworthy Fundusz Emerytalny	1,454,465	9.34%	1,454,465	9.29%
Otworthy Fundusz Emerytalny PZU Złota Jesień	1,452,947	9.33%	1,452,947	9.28%
N50 Cyprus Limited	1,376,379	8.84%	1,250,854	7.99%
PTE Allianz Polska S.A.	791,018	5.08%	791,018	5.05%
Other shareholders	2,715,972	17.45%	2,930,755	18.72%
	<u>15,569,277</u>	<u>100.00%</u>	<u>15,658,535</u>	<u>100.00%</u>

The ownership interests presented above are equal to the voting interests in the respective companies.

As at the date of these financial statements, shareholders holding 5% or more of total voting rights in the Company were as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>
Permag Sp. z o.o.	4,102,994	26.35%
Bangtino Limited	3,358,904	21.57%
Nationale Nederlanden Otworthy Fundusz Emerytalny	1,454,465	9.34%
Otworthy Fundusz Emerytalny PZU Złota Jesień	1,452,947	9.33%
N50 Cyprus Limited	1,376,379	8.84%
PTE Allianz Polska S.A.	791,018	5.08%

Capital reserves

The Company's capital reserves derived from profits earned in previous years, amounting to PLN 857 thousand, have been allocated for business development purposes.

In previous financial years, the Company recognised a capital reserve of PLN 23,500 thousand to be used for share buyback. By way of a resolution of the Annual General Meeting of 13 September 2021, the amount of the share buyback reserve was reduced by PLN 16,255 thousand, to PLN 7,245 thousand. Following the reduction of the share capital through the cancellation of repurchased shares, the capital reserve was reduced by PLN 1,065 thousand. The carrying amount of the capital reserve as at 31 March 2024 was PLN 6,180 thousand.

Treasury shares

Pursuant to a resolution of the Extraordinary General Meeting of 30 June 2020, in August 2020 the Company launched a share buyback programme. As at 31 March 2024, a total of 211,766 shares were bought back for an aggregate purchase price of PLN 3,661,925.65. Following the retirement of a portion of treasury shares in June 2023, treasury shares held by the Company as at 31 March 2024 represented 0.787% of the Company's share capital. The share buyback programme is being carried out within the limit of the PLN 7,245 thousand share buyback reserve created from retained earnings. The capital reserve was created pursuant to a resolution of the Extraordinary General Meeting of 30 June 2020. The relevant resolutions of the Extraordinary General Meeting were published in Current Report No. 16/2020 of 1 July 2020. In accordance with the rules of the share buyback programme approved on 16 March 2021, the Company may repurchase up to 940,000 shares. The purchase price may not be less than PLN 0.25 per share and may not exceed the amount of PLN 25.00 per share. The programme may continue in operation until 31 May 2025, or until such time as the allocated funds for its execution have been fully expended, whichever occurs first.

Retained earnings

Retained earnings from previous years consist of profits retained by decision of the shareholders. Pursuant to Art. 396.1 of the Commercial Companies Code, at least 8% of profit for a financial year should be contributed to statutory reserve funds held for the purpose of covering losses, until the funds reach at least one-third of the Company's share capital.

The structure of retained earnings from previous years is as follows:

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Retained earnings from previous years	42,446	28,382
Release of capital reserve	-	-
Dividend declared	(23,368)	(9,865)
Net profit for reporting period	38,178	23,929
	57,256	42,446

NOTE 21 – BORROWINGS

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Bank borrowings	63,162	70,023
Borrowings from related entities	2,800	2,800
	65,962	72,823
including:		
Long-term portion	63,175	69,959
Bank borrowings	60,375	67,159
Borrowings from related entities	2,800	2,800
Short-term portion	2,787	2,864
Bank borrowings	2,787	2,864
Borrowings from related entities	-	-
Borrowings maturing:		
within 1 year	2,787	2,864
in 2 to 3 years	63,175	64,644
in 3 to 5 years	-	5,315
	65,962	72,823

The currency structure of the Company's borrowings is presented below.

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Borrowings in PLN	29,876	34,243
Borrowings in EUR	36,086	38,580
	65,962	72,823

The table below presents cash movements in the statement of cash flows.

	31 Mar 2023	Cash flows	Non-cash changes			31 Mar 2024
			Increases and reclassificati ons	Interest	Changes in fair value	
Long-term borrowings	69,959	(10,887)	-	4,103	-	63,175
Short-term borrowings	2,864	(248)	-	171	-	2,787
Lease liabilities	5,737	(2,903)	4,486	565	-	7,885

The table below presents the borrowings and material terms of credit facility agreements. The Company complied with all the terms of its credit facility agreements.

Borrowings as at 31 Mar 2024

Company name and legal form	Facility type	Principal amount as per agreement		Outstanding amount (PLN thousand)		Interest rate	Maturity date	Security
		thousand	currency	short-term portion	long-term portion			
BNP Paribas Bank Polska S.A.	Overdraft facility/working capital facility	42,880	PLN	-	20,943	1M WIBOR + margin	30 Nov 2025	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, blank promissory note, power of attorney over account held with the bank, joint contractual mortgage on a property in Mirosław
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,436	2,535	1W WIBOR + margin	5 Dec 2026	registered pledge over property, plant and equipment with assignment of rights under insurance policy, blank promissory note, power of attorney over account held with the bank
Credit Agricole Bank Polska S.A.	Overdraft facility	28,560	PLN	-	14,210	O/N WIBOR + margin	31 Oct 2025	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, notarised consent to enforcement, joint contractual mortgage over property in Mirosław
Santander Bank Polska S.A.	Overdraft facility	28,560	PLN	-	20,059	O/N WIBOR + margin	28 Nov 2025	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, joint contractual mortgage over property in Mirosław, blank promissory note
Santander Bank Polska S.A.	Investment credit facility	10,000	PLN	1,351	2,628	1M WIBOR + margin	28 Feb 2027	registered pledge over property, plant and equipment (established prior to the disbursement of successive tranches), notarised consent to enforcement
MHD1 Sp. z o.o.	Loan	2,800	PLN	-	2,800	3M WIBOR + margin	20 Jun 2026	no security
Total borrowings				2,787	63,175			

Borrowings as at 31 Mar 2023

Company name and legal form	Facility type	Principal amount as per agreement		Outstanding amount (PLN thousand)		Interest rate	Maturity date	Security
		thousand	currency	short-term portion	long-term portion			
BNP Paribas Bank Polska S.A.	Overdraft facility/working capital facility	42,880	PLN	-	37,716	1M WIBOR + margin	30 Nov 2024	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, blank promissory note, power of attorney over account held with the bank, joint contractual mortgage on a property in Mirosław
BNP Paribas Bank Polska S.A.	Investment facility (acquisition of shares in Dunamenti Tűzvédelem Zrt)	17,000	PLN	305	-	1M WIBOR + margin	30 Apr 2023	power of attorney over bank account, blank promissory note, joint contractual mortgage over property with assignment of rights under insurance policy, pledge over Dunamenti Tűzvédelem Zrt business
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,232	3,980	1W WIBOR + margin	5 Dec 2026	registered pledge over property, plant and equipment with assignment of rights under insurance policy, blank promissory note, power of attorney over account held with the bank
Credit Agricole Bank Polska S.A.	Overdraft facility	28,560	PLN	-	8,497	O/N WIBOR + margin	31 Oct 2024	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, notarised consent to enforcement, joint contractual mortgage over property in Mirosław
Santander Bank Polska S.A.	Overdraft facility	28,560	PLN	-	12,977	O/N WIBOR + margin	28 Nov 2024	assignment of receivables, registered pledge over inventories and property, plant and equipment with assignment of rights under insurance policy, joint contractual mortgage over property in Mirosław, blank promissory note
Santander Bank Polska S.A.	Investment credit facility	10,000	PLN	1,327	3,989	1M WIBOR + margin	28 Feb 2027	registered pledge over property, plant and equipment (established prior to the disbursement of successive tranches), notarised consent to enforcement
MHD1 Sp. z o.o.	Loan	2,800	PLN	-	2,800	3M WIBOR + margin	20 Jun 2026	no security
Total borrowings				2,864	69,959			

NOTE 22 – PROVISIONS FOR LIABILITIES

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Provisions for retirement severance payments	566	566
Provision for warranty repairs	3,391	3,220
	3,957	3,786
including:		
<i>Long-term portion</i>		
Provisions for retirement severance payments	555	555
	555	555
<i>Short-term portion</i>		
Provisions for employee benefit obligations	11	11
Provision for warranty repairs	3,391	3,220
	3,402	3,231

The Company typically provides a 24-month warranty for its products. Therefore, because the change in the time value of money does not have a material impact on the estimate of provisions for costs of warranty repairs, these provisions are not discounted. The provision amount is estimated at each reporting date based on the historical share of warranty repairs related to previous periods. The provision amount is calculated on the basis of the prorated share of costs of warranty repairs in revenue, taking into account revenue growth.

Employees are entitled to retirement severance payments in accordance with Art. 92¹ of the Labour Code. This entitlement amount corresponds to an employee's one-month pay on the date they become eligible for severance pay. Provisions for retirement severance payments are estimated using actuarial methods. Material actuarial assumptions for each reporting date were as follows:

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
Discount rate	6.1%	6.1%
Wages growth rate	6.0%	6.0%
Wages growth rate for future years	6.2%	6.2%

Change in provisions

	<u>Provision for employee benefit obligations</u>	<u>Provision for warranty repairs</u>
	PLN thousand	PLN thousand
Provisions as at 31 Mar 2023	566	3,220
Provisions expensed in period	-	171
Use of provisions recognised in prior periods	-	-
Provisions as at 31 Mar 2024	566	3,391

NOTE 23 – TRADE AND OTHER PAYABLES

	<u>End of period 31 Mar 2024</u>	<u>End of period 31 Mar 2023</u>
	PLN thousand	PLN thousand
Trade payables to related entities	2,392	1,442
Trade payables to other entities	26,482	46,640
Taxes and social security payable	4,971	862
Salaries and wages payable	-	1
Prepayments received for deliveries	1,879	2,728
Other liabilities and accruals, including:	12,328	14,034
accrued bonuses and overtime pay	8,427	10,610
accrued holiday entitlements	1,466	1,466
unbilled expenses	1,504	1,531
other liabilities	931	427
	48,052	65,707
including:		
long-term portion	-	-
short-term portion	48,052	65,707
	48,052	65,707

Trade payables are non-interest-bearing and typically mature in 7 to 90 days. The Company is not dependent on a small group of suppliers.

NOTE 24 – DEFERRED INCOME

	<u>End of period 31 Mar 2024</u>	<u>End of period 31 Mar 2023</u>
	PLN thousand	PLN thousand
Grants for development projects	3,609	3,815
Other	28	-
	3,637	3,815
including:		
long-term portion	3,135	3,261
short-term portion	502	554
	3,637	3,815

The Company secured co-financing for development expenditure under an agreement signed in 2016 with the National Centre for Research and Development to co-finance a project executed as part of the Smart Growth operational programme. The total amount of co-financing that could be received during the five-year term of the agreement was PLN 10,319 thousand.

As part of the grant, the Company received PLN 6,673 thousand, including PLN 243 thousand in the reporting period. The Company has completed the project, and therefore it will not receive any further tranches of the co-financing in subsequent financial years.

As at the date of these financial statements, the Company complied with all the terms and conditions of the agreement.

NOTE 25 – LEASES

The Company leases the built-up property where its production plant is located, machinery and equipment, vehicles, as well as office space and parking lots. The lease terms are as follows: 15 years for property (from January 2009), from 3 to 7 years for machinery and equipment, and from 3 to 5 years for vehicles. Office space is leased for periods from 3 to 5 years.

In addition, the Company uses land held in perpetual usufruct.

The lease contracts for vehicles did not include initial payment. Most leases contain purchase option clauses, with the purchase price set at 0.1% to 1% of the initial value of the leased asset.

Change in right-of-use assets:

	<u>As at</u> <u>1 Apr 2023</u>	<u>New</u> <u>lease</u> <u>contracts</u>	<u>Lease</u> <u>modifications</u>	<u>Transfer to</u> <u>property,</u> <u>plant and</u> <u>equipment</u>	<u>Depreciation</u> <u>for period</u>	<u>As at 31</u> <u>Mar 2024</u>
Perpetual usufruct of land	306	-	-	-	44	262
Land	-	-	-	-	-	-
Buildings and structures	2,428	204	164	-	685	2,111
Machinery and equipment	2,024	-	-	(796)	389	839
Vehicles	1,445	4,282	(51)	-	1,412	4,264
Other	671	-	-	(658)	13	-
Total	6,874	4,486	113	(1,454)	2,543	7,476

	<u>As at</u> <u>1 Apr 2022</u>	<u>New</u> <u>lease</u> <u>contracts</u>	<u>Lease</u> <u>modifications</u>	<u>Transfer to</u> <u>property,</u> <u>plant and</u> <u>equipment</u>	<u>Depreciation</u> <u>for period</u>	<u>As at 31</u> <u>Mar 2023</u>
Perpetual usufruct of land	349	-	-	-	43	306
Land	3,000	-	-	(3,000)	-	-
Buildings and structures	15,256	846	-	(12,210)	1,464	2,428
Machinery and equipment	7,281	1,376	-	(5,825)	808	2,024
Vehicles	1,838	660	50	-	1,103	1,445
Other	832	-	-	-	161	671
Total	28,556	2,882	50	(21,035)	3,579	6,874

Change in right-of-use liabilities:

	<u>As at</u> <u>1 Apr 2023</u>	<u>New lease</u> <u>contracts</u>	<u>Lease</u> <u>modifications</u>	<u>Lease</u> <u>payments</u>	<u>Interest</u>	<u>As at 31</u> <u>Mar 2024</u>
Perpetual usufruct of land	433	-	-	61	13	385
Land	-	-	-	-	-	-
Buildings and structures	2,492	204	164	778	122	2,204
Machinery and equipment	1,313	-	-	528	100	885
Vehicles	1,476	4,282	(51)	1,627	331	4,411
Other	23	-	-	23	-	-
Total	5,737	4,486	113	3,017	566	7,885

	<u>As at</u> <u>1 Apr 2022</u>	<u>New lease</u> <u>contracts</u>	<u>Lease</u> <u>modifications</u>	<u>Lease</u> <u>payments</u>	<u>Interest</u>	<u>As at 31</u> <u>Mar 2023</u>
Perpetual usufruct of land	479	-	-	61	15	433
Land	1,211	-	-	1,211	-	-
Buildings and structures	6,058	846	-	4,552	140	2,492
Machinery and equipment	1,740	1,376	-	1,867	64	1,313
Vehicles	1,889	660	50	1,189	66	1,476
Other	288	-	-	266	1	23
Total	11,665	2,882	50	9,146	286	5,737

NOTE 26 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets

The Company was in dispute with tax authorities as a result of inspections carried out by the Gdańsk Province Tax Office in relation to the settlement of corporate income tax for the tax year from 1 April 2012 to 31 March 2013 (see Note 10 to these financial statements) Until the resolution of the dispute, the Company recognised a contingent asset for the refund of advance CIT payments of PLN 5,433 thousand plus interest. As the dispute was resolved in favour of the Company, the contingent asset was realised during the financial year.

Contingent liabilities

The Company has no contingent liabilities.

NOTE 27 – RELATED PARTIES

Identification of related parties

The related parties of the Company are listed below.

1. Entities in which the Company held equity interests as at 31 March 2024:

- TOB Mercor Ukraina Sp. z o.o. with its registered office in Drohovich (Ukraine), a subsidiary – MERCOR S.A. holds 55% of the share capital,
- Mercor Fire Protection Systems s.r.l. of Bucharest (Romania), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Tecresa Protección Pasiva S. L. of Madrid (Spain), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- OOO Mercor Proof of Moscow (Russian Federation), a subsidiary – MERCOR S.A. holds 55% of the share capital,
- MHD1 Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor HD Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Czech Republic s.r.o. of Ostrava (Czech Republic), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Slovakia s.r.o. of Bratislava (Slovakia), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Dunamenti Tűzvédelem Zrt of Göd (Hungary), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Silboard Sp. z o.o. (formerly Dunamenti Ochrona Przeciwpozarowa Sp. z o.o.) of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Dunamenti CZ s.r.o. of Prague (Czech Republic), a subsidiary of Dunamenti Tűzvédelem Zrt – MERCOR S.A. holds 100% of the share capital,
- Dunamenti s.r.o. of Kolárovo (Slovakia), a subsidiary of Dunamenti Tűzvédelem Zrt – MERCOR S.A. holds 100% of the share capital,
- TOO MRK of Almaty (Kazakhstan), a subsidiary of OOO Mercor Proof – MERCOR S.A. holds 55% of the share capital,
- MKRP Systems Unitary Production Enterprise of Minsk (Belarus), a subsidiary of OOO Mercor Proof – MERCOR S.A. holds 55% of the share capital,
- DFM Doors Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 82% of the share capital,
- MCR SOL ENERGY Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Fire Protection UK Ltd of Salford (United Kingdom), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- MCR TECH-LAB Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 51% of the share capital,
- Mercor Centrum Usług Wspólnych Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Elmech-ASE S.A. of Pruszcz Gdański (Poland), a jointly controlled entity – MERCOR S.A. holds 50% of the share capital.

2. Major shareholders

For information on major shareholders, see Note 20 to these financial statements.

3. Other related parties

Other related parties of the Company include members of its management and supervisory bodies (including senior officers), as well as individuals who are close family members of such persons (i.e., life partner, children, children of the life partner, and dependents of the person or their life partner), and other businesses where members of the Management Board of the Company hold management positions or are shareholders.

The Company does not operate any post-employment benefit plans for its employees.

Transactions with entities in which the Company holds equity interests

Sales to and purchases from related parties are transacted at normal market prices. Outstanding payables and receivables at the end of a financial year are not hedged and are settled in cash. Receivables from related parties are not secured by any guarantees provided or received by the Company.

Mutual transactions with entities in which the Company held, directly and indirectly, equity interests in the periods covered by these financial statements included:

- trade transactions involving purchase and sale of goods, materials, services, and items of property, plant and equipment,
- sureties provided as security for bank borrowings,
- loans and borrowings, and
- dividends paid.

The value and substance of the transactions are presented in the tables below.

<u>Related party</u>	<u>Financial year</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Interest on loans</u>	<u>Interest on borrowings</u>	<u>Income on dividends</u>	<u>Sale of financial assets</u>
Tecresa Protección Pasiva	2023/2024	10,430	4,933	-	-	1,747	-
	2022/2023	12,230	5,995	-	-	1,109	-
Mercor Fire Protection Systems s.r.l.	2023/2024	6,934	-	-	-	-	-
	2022/2023	3,692	93	-	-	699	-
TOB Mercor Ukraina	2023/2024	1,057	3,773	-	-	660	-
	2022/2023	1,139	4,025	-	-	-	-
Mercor Czech Republic s.r.o.	2023/2024	7,990	-	-	-	1,125	-
	2022/2023	8,539	46	-	-	757	-
Mercor Slovakia s.r.o.	2023/2024	8,960	-	-	-	-	-
	2022/2023	7,015	9	-	-	-	-
Mercor Dunamenti Tűzvédelem Zrt	2023/2024	5,491	1,316	-	-	3,787	-
	2022/2023	8,414	1,846	-	-	3,350	-
Mercor Silboard Sp. z o.o.	2023/2024	1	-	-	-	-	-
	2022/2023	1	-	-	-	-	-
DFM Doors Sp. z o.o.	2023/2024	6,696	183	875	-	-	-
	2022/2023	10,688	48	1,246	-	-	-
MHD1 Sp. z o.o.	2023/2024	1	-	-	234	-	-
	2022/2023	1	-	-	246	-	-
Mercor HD Sp. z o.o.	2023/2024	1	-	-	-	-	-
	2022/2023	1	-	-	-	-	-
OOO Mercor-Proof	2023/2024	-	-	-	-	-	-
	2022/2023	-	-	-	-	368	-
Mercor Fire Protection UK Ltd	2023/2024	6,303	603	-	-	-	-
	2022/2023	4,158	203	-	-	-	-
MCR SOL ENERGY Sp. z o.o.	2023/2024	1	-	312	-	-	-
	2022/2023	1	-	317	-	-	-
MERCOR CUW Sp. z o.o.	2023/2024	95	5,747	52	-	-	-
	2022/2023	7	485	-	-	-	-
MCR TECH LAB Sp. z o.o.	2023/2024	5	375	-	-	-	-
	2022/2023	-	49	-	-	-	-
Elmech-ASE S.A.	2023/2024	19	-	285	-	-	-
	2022/2023	23	-	281	-	-	-
	2023/2024	53,984	16,930	1,524	234	7,319	-
	2022/2023	55,909	12,799	1,844	246	6,283	-

<u>Related party</u>		<u>Trade receivables from related parties</u>	<u>Trade payables to related parties</u>	<u>Receivables under loans</u>	<u>Liabilities under borrowings</u>	<u>Dividends receivable</u>
Tecresa Protección Pasiva S.L.	31 Mar 2024	2,406	912	-	-	67
	31 Mar 2023	3,025	531	-	-	-
TOB Mercor Ukraina Sp. z o.o.	31 Mar 2024	175	241	-	-	495
	31 Mar 2023	178	501	-	-	-
Mercor Fire Protection Systems s.r.l.	31 Mar 2024	1,367	-	-	-	7
	31 Mar 2023	469	136	-	-	223
MHD1 Sp. z o.o.	31 Mar 2024	-	-	-	2,800	-
	31 Mar 2023	-	-	-	2,800	-
DFM Doors Sp. z o.o.	31 Mar 2024	2,006	-	7,429	-	-
	31 Mar 2023	4,020	-	11,555	-	-
OOO Mercor-Proof	31 Mar 2024	1,580	-	-	-	-
	31 Mar 2023	1,718	-	-	-	-
MCR SOL ENERGY Sp. z o.o.	31 Mar 2024	-	-	4,110	-	-
	31 Mar 2023	-	-	4,670	-	-
Mercor Dunamenti Tűzvédelem Zrt	31 Mar 2024	2,201	-	-	-	66
	31 Mar 2023	2,243	164	-	-	-
Mercor Czech Republic s.r.o.	31 Mar 2024	1,875	-	918	-	251
	31 Mar 2023	1,811	16	1,072	-	-
Mercor Slovakia s.r.o.	31 Mar 2024	2,943	16	393	-	-
	31 Mar 2023	796	-	571	-	-
Mercor Fire Protection UK Ltd	31 Mar 2024	1,266	76	1,220	-	-
	31 Mar 2023	1,627	94	1,266	-	-
Mercor CUW Sp. z o.o.	31 Mar 2024	23	1,141	652	-	-
	31 Mar 2023	9	-	600	-	-
MCR TECH-LAB Sp. z o.o.	31 Mar 2024	-	6	94	-	-
	31 Mar 2023	-	-	93	-	-
Elmech-ASE S.A.	31 Mar 2024	23	-	3,991	-	-
	31 Mar 2023	22	-	3,707	-	-
	31 Mar 2024	15,865	2,392	18,807	2,800	886
	31 Mar 2023	15,918	1,442	23,534	2,800	223

Guarantees and sureties provided by the Company

In the financial year 2023/2024, MERCOR S.A. provided performance bonds and defects liability bonds under trade contracts.

In October 2018, the Company issued a surety for future debt of its subsidiary DFM Doors Sp. z o.o. in connection with the subsidiary executing an amendment to the Credit Limit Agreement with Raiffeisen Bank Polska S.A. (now BNP Paribas Bank Polska S.A.). The surety of up to PLN 6 million was valid until December 2020. Under an agreement of 20 December 2020, the surety was converted into the Company's accession to the debt as a joint and several debtor, and under an amendment to the credit agreement, the credit availability period was extended to 30 November 2023. Under another amendment, the bank granted a credit limit of PLN 9 million to DFM Doors Sp. z o.o. for the financing of its day-to-day operations, and the credit availability period was extended until 2 December 2024.

In connection with the execution by DFM Doors Sp. z o.o. of a PLN 2 million overdraft facility agreement with Santander Bank Polska S.A., the Company provided a surety that remains valid until November 2024.

In the previous financial years, the Company issued a surety for DFM Doors Sp. z o.o. in respect of a PLN 135 thousand lease contract. The surety is valid until August 2025. In the previous financial year, the Company also provided a surety as a support for a PLN 60 thousand lease contract executed by DFM Doors Sp. z o.o. The lease contract expires in June 2025. In the current financial year, the Company provided the following sureties for lease contracts executed by DFM Doors Sp. z o.o.: EUR 99 thousand for a lease contract expiring in November 2028, and PLN 379 thousand for a lease contract expiring in February 2029.

In October 2019, the Company provided a surety for DFM Doors Sp. z o.o.'s liabilities to BP Europe SE. The surety was granted for up to PLN 10 thousand and was valid until 31 December 2022. A surety for a fuel credit card agreement between DFM Doors Sp. z o.o., BP Europe SE, and B2Mobility GmbH, granted in June 2022, is currently in force, with a value of up to PLN 10,000 and valid until June 2027.

The Company also provided a surety for an overdraft facility agreement between its subsidiary, MCR TECH LAB Sp. z o.o., and Santander Bank Polska S.A., amounting to PLN 2,000 thousand (valid until November 2024). Additionally, the Company issued a surety for car lease contracts executed by MCR TECH LAB Sp. z o.o. under the General Agreement, and service agreements entered into under the General Service Agreement with Toyota Leasing Polska Sp. z o.o. The sureties amount to PLN 439 thousand.

The Company provided a surety for its subsidiary MERCOR Centrum Usług Wspólnych Sp. z o.o. in connection with car lease contracts executed by the subsidiary under the Master Agreement, and service agreements entered into under the Master Service Agreement with Toyota Leasing Polska Sp. z o.o. The sureties amount to PLN 531 thousand.

Furthermore, the Company acceded to ELMECH-ASE S.A.'s debt under the multi-facility agreement with Santander Bank Polska S.A. The credit limit is PLN 6,000 thousand, and the financing period ends on 5 December 2024.

As at the reporting date, the Company had not issued any other guarantees or sureties for its subsidiaries.

Transactions with shareholders and members of the Company's governing bodies

During the periods covered by these financial statements, the Company engaged in business transactions with members of the Company's Management Board, as well as members of the Company's other governing bodies and their family members. The value and substance of the transactions are presented in the table below.

<u>Related party</u>	<u>Year</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Interest on borrowings from related parties</u>	<u>Receivables from related parties</u>	<u>Liabilities to related parties</u>
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Krempeć Krzysztof	2023/2024	163	-	-	23	-
	2022/2023	11	-	-	3	-
	2023/2024	163	-	-	23	-
	2022/2023	11	-	-	3	-

The transactions shown above involved the recharging of costs incurred.

Transactions with other related parties

Trade transactions

Transactions with other entities included transactions between the Company and Ambient-System Sp. z o.o., in which one of the current members of the Company's Supervisory Board holds 100% of shares, and with Periban Poland Sp. z o.o. spółka komandytowa and Jeździecki Klub Sportowy Barłomino Sp. z o.o., which are related to the Company through one of its Management Board members. The value and substance of the transactions are presented in the table below.

<u>Related party</u>	<u>Year</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Receivables from related parties</u>	<u>Liabilities to related parties</u>
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
Ambient System Sp. z o.o.	2023/2024	4	-	-	-
	2022/2023	6	-	-	-
Permag Sp. z o.o.	2023/2024	-	-	-	-
	2022/2023	-	-	-	-
Periban Poland Sp. z o.o. Sp. k.	2023/2024	-	525	-	58
	2022/2023	-	510	-	52
Jeździecki Klub Sportowy Barłomino Sp. z o.o.	2023/2024	-	-	-	-
	2022/2023	30	-	-	-
	2023/2024	4	525	-	58
	2022/2023	36	510	-	52

Transactions shown above included sales and purchases of materials, goods and services.

Executive compensation

Executive compensation comprises remuneration provided to members of the Management Board, members of the Supervisory Board and senior officers of the Company. The remuneration provided to this group of personnel, categorised by type of benefits, is presented below.

	<u>1 Apr 2023 –</u> <u>31 Mar 2024</u>	<u>1 Apr 2022 –</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Short-term employee benefits	7,223	6,126
	7,223	6,126

The total short-term employee benefits presented above consist of remuneration paid under the employment contracts and for the functions performed. These benefits include:

	<u>1 Apr 2023 –</u> <u>31 Mar 2024</u>	<u>1 Apr 2022 –</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Management Board	3,080	2,153
- Krzysztof Krempeć	1,059	667
- Jakub Lipiński	835	716
- Tomasz Kamiński	1,186	770
Supervisory Board	592	525
- Lucjan Myrda	118	104
- Tomasz Rutowski	79	70
- Marian Popinigis	79	71
- Eryk Karski	79	70
- Błażej Żmijewski	79	70
- Arkadiusz Kęsicki	79	70
- Pathy Timu Zenzo	79	70
Senior officers	3,551	3,448
	7,223	6,126

The Company has in place a bonus scheme for its management personnel wherein payments are contingent upon the attainment of predefined levels of specific economic indicators. As at 31 March 2024, the Company recognised a liability for payments due to management personnel, as the target levels of the indicators were achieved by all employees covered under the bonus scheme.

NOTE 28 – FINANCIAL INSTRUMENTS

The main financial instruments used by the Company include borrowings (Note 21), cash and bank deposits (Note 19). The primary purpose of these financial instruments is twofold: firstly, to secure funding for the Company's ongoing operations, and secondly, to invest any cash surplus as it occurs. In addition to the aforementioned instruments, the Company also holds other financial instruments, such as trade receivables and payables (as detailed in Notes 17 and 23), as well as forward contracts. These financial instruments arise directly in the ordinary course of the Company's business.

The Company is exposed to several key risks stemming from its financial instruments, which include interest rate risk, currency risk, liquidity risk, and credit risk.

The interest rate risk arises mainly from non-current liabilities, including borrowings and lease liabilities. The nature of lease liabilities, due to the way they are recognised under IFRS 16, means that their entire balance can be treated as a fixed-rate liability. Therefore, with respect to these instruments, the Company is not directly exposed to interest rate risk.

Bank borrowings bear interest at variable rates based on prevailing local interbank market conditions, resulting in the Company's exposure to interest rate risk. The Company does not use any hedging instruments for interest rate risk.

As regards currency risk, the Company's exposure to this type of risk arises from sale or purchase transactions conducted in currencies other than its functional currency. The Company does not engage in any investment activities that would expose it to currency risk. Exchange differences arising from operating activities are recognised as either finance costs or finance income, as appropriate. The Company monitors currency risk for both on- and off-balance-sheet items. Due to the large share of foreign sales, the Company uses forward contracts to hedge against the currency risk.

The Company does not apply hedge accounting.

Throughout the reporting period, the Company managed credit risk by engaging in transactions with entities of strong credit standing. Cooperation with such entities is preceded by internal pre-verification procedures. Additionally, the balances of receivables are monitored on an ongoing basis and are insured, so the Company's exposure to significant bad debt risk remains immaterial. The Company's other financial assets, such as cash, bank deposits, and investments in other financial assets, primarily expose the Company to the risk of counterparty default. The maximum potential exposure arising from this risk is equivalent to the net carrying amount of the respective financial instrument.

The fair value of individual financial instruments does not differ from the net carrying amounts disclosed in these financial statements.

Net carrying amount of financial instruments

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Classes of financial instruments		
Receivables from retained security deposits under construction contracts	5,679	5,334
Loans	18,807	23,829
Contract assets	13,486	14,289
Trade and other receivables	58,700	64,175
Cash and cash equivalents	550	126
Forward hedging transactions	39	-
Total assets	97,261	107,753
Borrowings	65,962	72,823
Trade and other payables	48,052	48,082
Contract liabilities	1,847	2,240
Forward hedging transactions	-	21
Right-of-use liabilities	7,885	5,737
Total liabilities	123,746	128,903

<u>End of period 31 Mar 2024</u>	fair value	carrying amount	measured at fair value through profit or loss	measured at fair value with changes recognised in equity
	thousand	thousand	thousand	thousand
Non-current assets	22,152	22,152	-	-
Trade and other receivables	22,152	22,152	-	-
Current assets	75,109	75,109	-	-
Trade and other receivables	74,520	74,520	-	-
Cash and cash equivalents	550	550	-	-
Derivative financial instruments	39	39	-	-
Total	97,261	97,261	-	-

<u>End of period 31 Mar 2024</u>	fair value	carrying amount	measured at fair value through profit or loss	measured at amortised cost	measured at fair value with changes recognised in equity
	thousand	thousand	thousand	thousand	thousand
Non-current liabilities	68,296	68,296	-	68,296	-
Borrowings	63,175	63,175	-	63,175	-
Right-of-use liabilities	5,121	5,121	-	5,121	-
Current liabilities	55,450	55,450	-	55,450	-
Borrowings	2,787	2,787	-	2,787	-
Trade payables and contract liabilities	49,899	49,899	-	49,899	-
Right-of-use liabilities	2,764	2,764	-	2,764	-
Derivative financial instruments	-	-	-	-	-
Total	123,746	123,746	-	123,746	-

Fair value of financial instruments

The carrying amount of the presented financial instruments does not differ from their fair value.

Derivatives (forward contracts) are recognised as assets when their valuation is positive. If the valuation of an instrument is negative, the Company recognises such valuation as liabilities arising from the instrument. Valuation of financial instruments is disclosed on a separate basis, with no offsets of valuations of similar financial instruments.

Fair value hierarchy

The Company does not have any financial instruments at fair value through profit or loss for which there is an active market and whose fair value is determined based on market quotations (Level 1). For financial instruments at fair value through profit or loss (Level 2), fair value is determined on the basis of directly or indirectly observable inputs. Forward contracts are recognised based on valuations presented by the banks whose services are used by the Company.

As at the reporting date, the value of financial instruments measured at fair value through profit or loss, by fair value hierarchy level, was follows:

	Level 1		Level 2	
	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Forward hedging transactions	-	-	39	-
Total financial assets	-	-	39	-
Forward hedging transactions	-	-	-	21
Measurement of financial instruments	-	-	-	-
Total financial liabilities	-	-	-	21

There were no transfers between the fair value hierarchy levels during the reporting period.

Security for liabilities

The net carrying amount of assets serving as collateral for repayment of liabilities as at the reporting date is presented below.

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Property, plant and equipment	13,316	12,005
Trade receivables and security deposits	75,136	74,939
Inventories	23,446	27,862
Total assets serving as security for liabilities	111,898	114,806

Net gains or losses on financial assets and liabilities

	<u>For period</u> <u>1 Apr 2023 –</u> <u>31 Mar 2024</u>	<u>For period</u> <u>1 Apr 2022 –</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Loans and receivables	1,891	(414)
- accrued interest on bank deposits	10	-
- accrued interest on late payment	73	85
- expected credit loss	283	(2,347)
- interest on loans	1,525	1,848
Cash and cash equivalents (exchange differences)	-	-
Positive valuation of derivative instruments – valuation as at the reporting date	39	-
Financial liabilities measured at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(2,085)	(6,980)
- exchange differences on liabilities	3,500	153
- interest on bank borrowings	(4,065)	(4,952)
- interest on non-bank borrowings	(234)	(246)
- interest on late payment	(26)	(49)
- interest on leases	(593)	(1,352)
- commission fees on bank borrowings and guarantees	(667)	(534)
Negative valuation of derivative instruments	-	(21)
Total	(155)	(7,415)

Assessment of currency risk and interest rate risk

The table below presents an analysis of the impact of changes in interest rates and exchange rates on profit or loss and equity (revaluation reserve). The analysis covers the financial assets and financial liabilities in the statement of financial position.

Methodology and assumptions

The Company has assets and liabilities denominated in foreign currencies.

Based on past historical developments and market predictions and forecasts, there is a realistic possibility of a +/-5% fluctuation in the PLN exchange rate against foreign currencies and a +/-50 basis point change in interest rates.

	Net carrying amount PLN thousand	Interest rate risk		Currency risk			
		+/-50 bps SP PLN/EUR		+5% (appreciation of PLN)		-5% (depreciation of PLN)	
		Effect on profit (loss)	Effect on profit (loss)	Effect on profit (loss)	Changes in equity	Effect on profit (loss)	Changes in equity
Financial assets							
Cash and cash equivalents	550	-	-	-	-	-	-
Trade and other receivables	58,700	-	-	(748)	-	748	-
Currency forward contracts	39	-	-	(2)	-	2	-
Effect on financial assets before tax	-	-	-	(750)	-	750	-
Tax (19%)	-	-	-	143	-	(143)	-
Effect on financial assets after tax	-	-	-	(607)	-	607	-
Financial liabilities							
Borrowings	65,962	(330)	330	1,804	-	(1,804)	-
Trade and other payables	48,052	-	-	334	-	(334)	-
Currency forward contracts	-	-	-	-	-	-	-
Effect on financial liabilities before tax	-	(330)	330	2,138	-	(2,138)	-
Tax (19%)	-	63	(63)	(406)	-	406	-
Effect on financial liabilities after tax	-	(267)	267	1,732	-	(1,732)	-
Total	-	(267)	267	1,125	-	(1,125)	-

Interest rate risk

As at 31 March 2024, the Company's net profit would be lower by PLN 267 thousand if interest rates in PLN and EUR were to increase by 50 basis points, assuming all other relevant parameters remained constant. This is a result of a relatively high level of liabilities under borrowings and a low balance of cash. If interest rates fell and all other factors remained constant, the net profit would be PLN 267 thousand higher.

Currency risk

As at 31 March 2024, the Company's net profit would be higher by PLN 1,125 thousand if the Polish currency appreciated by 5% (mainly against EUR), assuming all other relevant parameters remained constant. This can be attributed to a substantial share of debt financing (bank borrowings) in foreign currencies.

Currency risk management

The Company engages in transactions denominated in foreign currencies, and their share in total revenue has been consistently increasing over time. These transactions are subject to currency risk, so the Company has adopted an active policy of hedging such exposures by entering into forward contracts. The volume of the forward hedging transactions is proportional to the open currency position.

Below is presented the notional amount of the forward contracts denominated in the currency of the respective transactions as at the end of the reporting period.

	Assets		Liabilities	
	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period 31</u> <u>Mar 2023</u>	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	thousand	thousand	thousand	thousand
EUR	-	-	-	-
RON	-	-	1,444	500
CZK	-	-	8,900	3,600

The table below presents undiscounted inflows and outflows from derivatives to be settled in subsequent periods.

The values are presented according to the rates of forward contracts held as at the end of the reporting period, which are the only foreign currency derivatives held by the Company.

	<u>Up to 1</u> <u>month</u>	<u>From 1 to 3</u> <u>months</u>	<u>Over 3</u> <u>months</u>
	PLN thousand	PLN thousand	PLN thousand
Maturity of currency forward contracts (inflows)	2,265	537	-
Maturity of currency forward contracts (outflows)	-	-	-

Liquidity risk

The Company monitors projected inflows and outflows related to its cash assets and liabilities on an ongoing basis. It also optimises cash flows at its related companies. The Company uses overdraft facilities to ensure it satisfies its payment obligations in a timely manner. The Management Board of the Company reviews profitability and working capital indicators where there are negative deviations from levels assumed to be standard thresholds. The factor with the most significant impact on these indicators as at the reporting date was the level of borrowings and right-of-use liabilities.

The maturities of financial liabilities are presented below.

	<u>End of period</u> <u>31 Mar 2024</u>	<u>End of period</u> <u>31 Mar 2023</u>
	PLN thousand	PLN thousand
Up to 1 month	10,087	16,164
From 1 to 3 months	22,022	28,780
From 3 months to 1 year	4,163	10,232
Over 1 year	68,296	73,706
Total liabilities	104,568	128,882

Credit risk

The Company mitigates the credit risk arising from its receivables by insuring them. The credit risk for insured receivables is 10% (i.e., up to the amount of the deductible). Furthermore, where allowed under the respective contracts, the Company provides bank guarantees to its customers for the duration of contract

performance and post-sale warranty. This practice results in a reduction of the receivables retained by trading partners in the form of security deposits. Credit risk is further mitigated due to the diversified customer base of the Company. The level of receivables from any individual counterparty does not exceed 10% of the total receivables.

For trade receivables, the Company utilises both statistical method, estimating the amount of loss allowance based on a provision matrix, as well as a case-by-case approach. For each past due trade receivable where the case-by-case approach has been applied, management exercises professional judgment based on the aging of the receivables, analysis of the counterparty's financial condition, type of collateral, status of contract performance, and other relevant facts and circumstances.

The procedure for recognising an additional loss allowance beyond the amounts determined directly from the provision matrix serves as an additional verification mechanism employed within the Company. This mechanism enables the Company to identify receivables with a higher risk of non-payment than statistical averages.

The amount of expected credit losses, calculated using both the matrix and case-by-case approach as at 31 March 2024, is presented in the table below. This analysis was performed separately for trade receivables and receivables from retained security deposits.

Trade receivables

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach</u>	<u>Total loss allowance</u>	<u>Net amount</u>
		<u>Weighted average ECL</u>	<u>Expected credit loss</u>	<u>Loss allowance</u>		
	PLN thousand	%	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not past due	40,034	0.29	116	-	116	39,918
past due up to 30 days	12,778	0.53	68	-	68	12,710
past due 31–60 days	1,688	2.66	45	-	45	1,643
past due 61–90 days	1,010	6.24	63	-	63	947
past due over 90 days	6,077	10.63	646	4,279	4,925	1,152
Total	61,587		938	4,279	5,217	56,370

Receivables from retained security deposits

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach</u>	<u>Total loss allowance</u>	<u>Net amount</u>
		<u>Weighted average ECL</u>	<u>Expected credit loss</u>	<u>Loss allowance</u>		
	PLN thousand	%	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not past due	6,012	7.58	456	-	456	5,556
past due up to 30 days	50	14.00	7	-	7	43
past due 31–60 days	281	16.73	47	-	47	234
past due 61–90 days	9	22.22	2	-	2	7
past due over 90 days	2,152	22.40	482	822	1,304	848
Total	8,504		994	822	1,816	6,688

Capital management

The Company has established a capital management policy with the primary objective of ensuring long-term liquidity. To achieve this objective, the Company seeks to maintain an optimal financing structure. The financing structure is monitored by analysing the ratio of net debt to equity. Net debt includes bank borrowings and finance lease liabilities less cash and cash equivalents.

NOTE 29 – EVENTS AFTER THE REPORTING DATE

No significant events other than those included in these financial statements have taken place subsequent to the reporting date.

NOTE 30 – AUDITOR'S FEES

On 19 October 2020, the Company entered into an auditor engagement letter providing for:

- audit of the separate and consolidated full-year financial statements for the financial years ended 31 March 2021, 31 March 2022, 31 March 2023, 31 March 2024 and 31 March 2025;
- review of the condensed separate and consolidated interim financial statements for the six months ended 30 September 2020, 30 September 2021, 30 September 2022, 30 September 2023 and 30 September 2024;
- review of the subsidiary Mercor Proof LLC's consolidation package for the 12 months ended 31 March 2021, 31 March 2022, 31 March 2023, 31 March 2024 and 31 March 2025, and presentation of a separate report,

with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

The resolution to appoint the auditor was passed by the Supervisory Board of MERCOR S.A. as the competent corporate body under Art. 12.3.b of the Company's Articles of Association. It was the first time that the entity was engaged by the Company.

The auditor's fees are presented below.

	<u>2023/2024</u>	<u>2022/2023</u>
	(PLN)	(PLN)
Audit of separate full-year financial statements of the Company	115,000	115,000
Audit of consolidated full-year financial statements of the Group	115,000	115,000
Review of condensed separate half-year financial statements of the Company	38,951	38,951
Review of condensed consolidated half-year financial statements of the Group	38,951	38,951
Total auditor's fees	307,902	307,902

In addition, the following fees were paid to Ernst & Young network companies performing the services listed below for MERCOR S.A. subsidiaries:

	<u>2023/2024</u>	<u>2022/2023</u>
	(PLN)	(PLN)
Audit of consolidated full-year financial statements of the Group	103,136	108,425
Audit of consolidation package of Mercor Dunamenti Zrt.	79,674	86,614
Audit of separate financial statements and consolidation package of DFM Doors Sp. z o.o.	70,000	70,000
Total auditor's fees	252,810	265,039

NOTE 31 – DIFFERENCES RELATIVE TO PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS

In the financial year, the Company did not correct any errors relating to previous periods.

These financial statements were authorised for issue by the Management Board on 28 June 2024.

Management Board
MERCOR S.A.

Krzysztof Krempeć

Jakub Lipiński

Tomasz Kamiński

President of the Management
Board

First Vice President of the
Management Board

Member of the Management
Board

Gdańsk, 28 June 2024