CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST – DECEMBER 31ST 2022**

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

	Note	Year ended Dec 31 2022	Year ended Dec 31 2021
Revenue	*1*	**622,729**	**463,197**
Cost of sales	*3*	**-485,385**	**-358,936**
Gross profit		**137,344**	**104,261**
Other income	*4*	4,837	2,120
Distribution costs	*3*	-35,130	-26,999
Administrative expenses	*3*	-59,641	-49,408
Impairment of receivables and contract assets	*4*	-2,040	-1,004
Other expenses	*4*	-3,317	-4,959
Operating profit		**42,053**	**24,011**
Finance income	*5*	3,098	1,106
Finance costs	*5*	-11,334	-5,421
Share of net profit/(loss) of equity-accounted associates		-480	-242
Profit before tax		**33,337**	**19,454**
Income tax	*6*	-1,282	-2,145
Net profit from continuing operations		**32,055**	**17,309**
Profit from discontinued operations		-	-
Net profit		**32,055**	**17,309**
Net profit attributable to			
Owners of the parent		**30,619**	**16,914**
Non-controlling interests		1,436	395

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

	Year ended Dec 31 2022	Year ended Dec 31 2021
Profit	**32,055**	**17,309**
OTHER COMPREHENSIVE INCOME:		
Items not to be reclassified to profit/(loss) in subsequent reporting periods	**-4,743**	**3,415**
Actuarial gains/losses on a defined benefit pension plan	-4,743	3,415
Items which may be reclassified to profit/(loss) in subsequent reporting periods	**4,763**	**3,565**
Valuation of cash flow hedge derivatives	2,530	-414
Exchange differences on translating foreign operations	2,233	3,979
Other comprehensive income before tax	**20**	**6,980**
Income tax on other comprehensive income		
Income tax relating to components of other comprehensive income that will not be reclassified to profit or loss	-	-
Income tax relating to components of other comprehensive income that will be reclassified to profit or loss	-481	77
Total other comprehensive income, net	**-461**	**7,057**
Total comprehensive income	**31,594**	**24,366**
Total comprehensive income attributable to		
Owners of the parent	30,562	23,841
Non-controlling interests	1,032	525

EARNINGS PER SHARE

	7		
- basic earnings (loss) per share		3.60	1.91
- diluted earnings (loss) per share		3.49	1.91
- basic earnings/(loss) per share from continuing operations attributable to owners of the parent		3.60	1.91
- diluted earnings/(loss) per share from continuing operations attributable to owners of the parent		3.49	1.91
- basic earnings/(loss) per share from discontinued operations attributable to owners of the parent		-	-
- diluted earnings/(loss) per share from discontinued operations attributable to owners of the parent		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2022	Dec 31 2021
ASSETS			
Property, plant and equipment	*9*	55,570	52,875
Right-of-use assets	*9*	26,428	20,993
Investment property		262	286
Goodwill	*12*	31,748	31,748
Intangible assets	*11*	48,474	47,248
Non-current trade and other receivables	*16*	1,830	1,457
Other non-financial assets	*17*	100	3
Deferred tax assets	*6*	1,786	1,714
Non-current assets		**166,198**	**156,324**
Inventories	*14*	89,239	62,790
Trade receivables and other short-term receivables	*16*	104,811	101,888
Income tax assets	*16*	1,570	280
Other financial assets	*17*	1,214	35
Other non-financial assets	*18*	3,856	2,620
Contract assets	*15*	140,874	78,434
Cash and cash equivalents	*19*	73,900	54,225
Current assets other than held for sale		**415,464**	**300,272**
Assets classified as held for sale		-	-
Current assets		**415,464**	**300,272**
TOTAL ASSETS		**581,662**	**456,596**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2022	Dec 31 2021
EQUITY AND LIABILITIES			
Share capital	*20*	3,616	3,616
Share premium reserve	*20*	78,666	78,666
Treasury shares	*20*	-28,532	-28,532
Other capital reserves	*20*	70,831	64,620
Retained earnings	*20*	97,081	73,754
Equity attributable to owners of the parent		**221,662**	**192,124**
Non-controlling interests		**2,409**	**1,377**
Equity		**224,071**	**193,501**
Borrowings	*21*	7,948	12,586
Lease liabilities	*22*	18,396	13,952
Derivative financial instruments	*17*	-	90
Deferred tax liabilities	*6*	15,813	18,194
Employee benefit obligations	*24*	1,421	1,143
Contract liabilities	*15*	1,357	1,357
Non-current liabilities		**44,935**	**47,322**
Borrowings	*21*	58,047	37,207
Lease liabilities	*22*	5,414	4,589
Derivative financial instruments	*17*	1,984	3,782
Trade and other liabilities	*23*	84,699	62,382
Employee benefit obligations	*24*	26,428	19,130
Other provisions	*25*	10,017	9,766
Contract liabilities	*15*	126,067	78,917
Current liabilities excluding liabilities related to assets held for sale		**312,656**	**215,773**
Liabilities directly related to non-current assets classified as held for sale		-	-
Current liabilities		**312,656**	**215,773**
Total liabilities		**357,591**	**263,095**
TOTAL EQUITY AND LIABILITIES		**581,662**	**456,596**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(PLN '000)

	Note	Year ended Dec 31 2022	Year ended Dec 31 2021
Cash flows from operating activities			
Profit before tax		**33,337**	**19,454**
Total adjustments:	*26*	**680**	**-8,937**
Share of net (profit)/loss of a jointly controlled entity	*12*	480	242
Depreciation and amortisation	*3*	15,008	12,894
Foreign exchange gains/(losses)	5	1,282	2,551
Adjustments due to finance income (cost)		4,287	666
Gain/(loss) on investing activities		-1,123	421
Other adjustments		-890	-455
Changes in items of the statement of financial position:	**26**		
Change in provisions		1,133	7,800
Change in inventories		-25,119	283
Change in receivables		-5,219	136
Change in current liabilities (other than financial liabilities)		24,147	7,450
Change in contract assets and liabilities		-14,198	-42,409
Change in currency derivative instruments		-633	683
Adjustments due to share-based payments		1,525	801
Cash provided by operating activities		**34,017**	**10,517**
Income tax paid		-7,471	-955
Net cash from operating activities		**26,546**	**9,562**
CASH FLOWS FROM INVESTING ACTIVITIES	**26**		
Proceeds from disposal of intangible assets and property, plant and equipment		1,524	1,622
Other proceeds from financial assets		16	136
Investments in intangible assets and property, plant and equipment		-13,207	-10,311
Net cash from investing activities		**-11,667**	**-8,553**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	26	24,488	18,260
Proceeds from sale or issue of own shares	20	-	153
Grants received	26	523	849
Repurchase of shares	*20*	-	-8,750
Dividends and other distributions to owners	*8*	-2,549	-4,944
Repayment of bank borrowings	26	-8,558	-39
Payment of lease liabilities	26	-4,435	-4,394

Payment of interest	26	-4,593	-862
Other cash used in financing activities		-	-
Net cash from financing activities		**4,876**	**273**
Increase (decrease) in cash and cash equivalents before the effect of exchange rate changes		**19,755**	**1,282**
Effect of exchange rate changes on cash and cash equivalents		-80	384
Increase (decrease) in cash and cash equivalents		**19,675**	**1,666**
Cash at beginning of period		**54,225**	**52,558**
Cash at end of period		**73,900**	**54,225**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(PLN '000)

	Share capital	Share premium reserve	Treasury shares	Other capital reserves	Retained earnings / accumulated losses	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Note	*20*	*20*	*20*	*20*	*2020*	***2***		
Equity as at Jan 1 2022	**3,616**	**78,666**	**-28,532**	**64,620**	**73,754**	**192,124**	**1,377**	**193,501**
Profit for period	-	-	-	-	30,619	30,619	1,436	32,055
Other comprehensive income	-	-	-	4,686	-4,743	-57	-404	-461
Total comprehensive income for the year	**-**	**-**	**-**	**4,686**	**25,876**	**30,562**	**1,032**	**31,594**
Sale of treasury shares under the incentive scheme	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-2,549	-2,549	-	-2,549
Capital reserve for repurchase of shares	-	-	-	1,525	-	1,525	-	1,525
Repurchase of shares	-	-	-	-	-	-	-	-
Changes in equity	**-**	**-**	**-**	**6,211**	**23,327**	**29,538**	**1,032**	**30,570**
Equity as at Dec 31 2022	**3,616**	**78,666**	**-28,532**	**70,831**	**97,081**	**221,662**	**2,409**	**224,071**
Equity as at Jan 1 2021	**3,616**	**78,666**	**-22,338**	**49,866**	**71,369**	**181,179**	**852**	**182,031**
Profit for period	-	-	-	-	16,914	**16,914**	395	**17,309**
Other comprehensive income	-	-	-	3,511	3,415	**6,927**	130	**7,057**
Total comprehensive income for the year	**-**	**-**	**-**	**3,511**	**20,329**	**23,841**	**525**	**24,366**
Sale of treasury shares under the incentive scheme	-	-	2,556	-1,757	-	799	-	799
Payment of dividends	-	-	-	-	-4,944	-4,944	-	-4,944
Capital reserve for repurchase of shares	-	-	-	13,000	-13,000	-1	-	-1
Repurchase of shares	-	-	-8,750	-	-	-8,750	-	-8,750
Changes in equity	**-**	**-**	**-6,194**	**14,754**	**2,385**	**10,945**	**525**	**11,470**
Equity as at Dec 31 2021	**3,616**	**78,666**	**-28,532**	**64,620**	**73,754**	**192,124**	**1,377**	**193,501**

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

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2022

I. GENERAL INFORMATION

1. Parent

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

Name of the reporting entity or other identification data: SECO/WARWICK S.A.

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

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

Legal form: Joint-stock company (spółka akcyjna)

Country of registration: Poland

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

Principal place of business: ul. Sobieskiego 8, 66-200 Świebodzin, Poland

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

Industry Identification Number (REGON): 970011679

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

28,21,Z	Manufacture of ovens, furnaces and furnace burners
25	Manufacture of fabricated metal products, except machinery and equipment
33	Repair, maintenance, and assembly of machinery and equipment
46	Wholesale trade, except motor vehicles and motorcycles
49	Land transport and transport via pipelines
52	Warehousing and support activities for transportation
62	Computer programming, consultancy and related activities
71	Architectural and engineering activities; technical testing and analysis
72	Scientific research and development
64,20,Z	Activities of financial holding companies

The SECO/WARWICK Group is a producer of heat processing equipment. Thanks to its R&D centre equipped with industrial furnaces and cooperation with technical universities, the Group provides innovative solutions tailored to customer needs.

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

2. Duration of the Group

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

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

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

3. Presented periods

These consolidated financial statements cover the 12 months ended December 31st 2022.

Comparative data is presented:

- as at December 31st 2021 – in the case of the consolidated statement of financial position,
- for the period January 1st–December 31st 2021 − in the case of the consolidated statement of comprehensive income,
- for the period January 1st–December 31st 2021 − in the case of the consolidated statement of cash flows,
- for the period January 1st–December 31st 2021 − in the case of the consolidated statement of changes in equity.

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

As at the date of authorisation of these financial statements for issue and as at December 31st 2022 and December 31st 2021, the Management Board of SECO/WARWICK S.A. consisted of:

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

As at the date of authorisation of these financial statements for issue and as at December 31st 2022, the Supervisory Board of SECO/WARWICK S.A. consisted of:

- Andrzej Zawistowski – Chair of the Supervisory Board
- Maciej Karnicki – Deputy Chair of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- Marcin Murawski – Member of the Supervisory Board
- Robert Jasiński – Member of the Supervisory Board.

As at December 31st 2021, the Supervisory Board of SECO/WARWICK S.A. consisted of:

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

Changes in the composition of the Management Board:

In the period from January 1st 2022 to the date of issue of these financial statements, there were no changes in the composition of the Management Board.

Changes in the composition of the Supervisory Board:

On May 25th 2022, Mr Maciej Karnicki was appointed as member of the Supervisory Board by Resolution No. 23 of the Annual General Meeting of SECO/WARWICK S.A. On May 25th 2022, Mr Robert Jasiński was appointed as member of the Supervisory Board by Resolution No. 25 of the Annual General Meeting of SECO/WARWICK S.A. At the same time, Mr Henryk Pilarski and Mr Jacek Tucharz were not re-appointed for a new term of office.

5. Audit firm

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

6. Major holdings of shares

Shareholders holding over 5% of total voting rights at the Company's General Meeting as at December 31st 2022 are listed in the table below.

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
SW Holding	3,387,139	32.89%	3,387,139	**32.89%**
Spruce Holding Limited Liability Company (USA)	1,091,952	10.60%	1,091,952	**10.60%**
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	**5.83%**
NNLife Otwarty Fundusz Emerytalny*	577,470	5.61%	577,470	**5.61%**

* formerly: MetLife OFE.

As at December 31st 2022 and as at the issue date of these financial statements, SECO/WARWICK S.A. holds 1,802,189 treasury shares, representing 17.50% of the share capital. The Company does not exercise voting rights in respect of the treasury shares.

On February 3rd 2023, the Company received a notification from Generali Powszechne Towarzystwo Emerytalne S.A. (Generali PTE) given under Art. 69 in conjunction with Art. 87.1.2b of the Act on Public Offering, to the effect that the funds managed by Generali PTE exceeded the 5% threshold of total voting rights in the Company following the takeover of management of NNLife Otwarty Fundusz Emerytalny (formerly Metlife OFE) and NNLife Dobrowolny Fundusz Emerytalny.

As at the issue date of these financial statements, there were no changes in the list of shareholders holding more than 5% of total voting rights at the Company's General Meeting, compared with the information as at December 31st 2022 shown in the table below.

7. Subsidiaries

As at December 31st 2022, SECO/WARWICK S.A. was the direct or indirect parent of the following companies:

- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,

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

Jointly controlled entities

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

Changes in the composition of the Group:

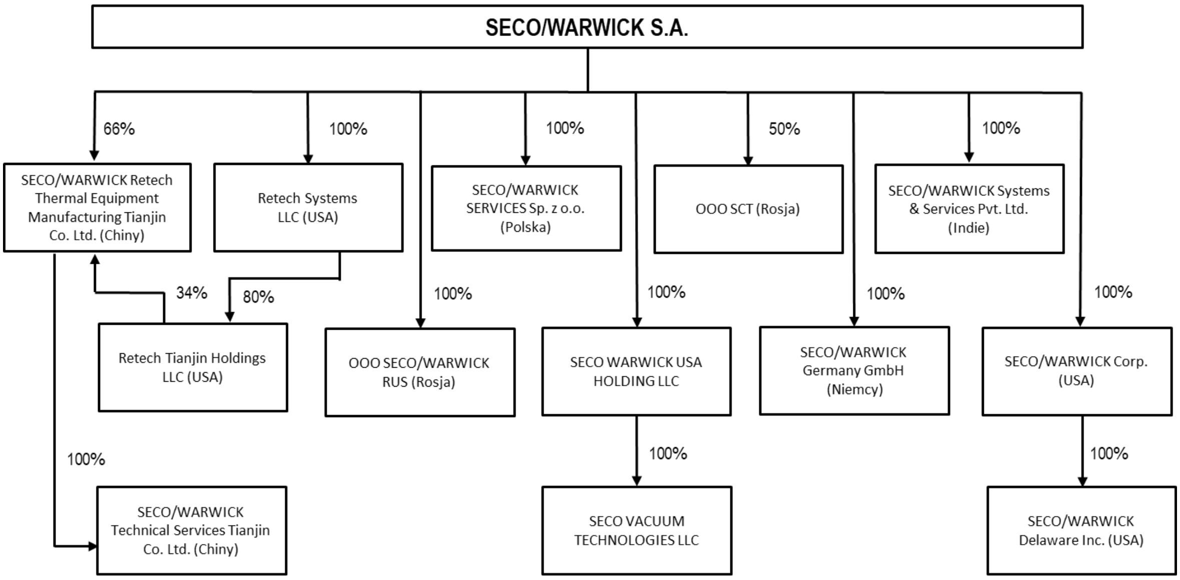
On May 20th 2022, SECO/WARWICK Technical Services Tianjin Co. Ltd (China), a wholly-owned subsidiary of SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., was formed. Ltd.

Composition of the Group as at December 31st 2022:

Company	Registered office	Principal business activity	Seco/Warwick's ownership interest (%)
Parent			
SECO/WARWICK S.A.	Świebodzin (Poland)	Holding company of the SECO/WARWICK Group; holding equity interests and providing strategic management services; manufacture of equipment for metal heat treatment	N.A.
Direct and indirect subsidiaries			
SECO/WARWICK Corp.	Meadville (USA)	Sale, repair and maintenance services	**100%**
SECO/WARWICK of Delaware, Inc	Wilmington (USA)	Holding company; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	**100%**
SECO/WARWICK Rus	Moscow (Russia)	Distribution of the Group's products	**100%**
Retech Systems LLC	Buffalo (USA)	Trade and services; manufacture of metallurgy equipment used for melting and vacuum casting of metals and specialty alloys	**100%**
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	Tianjin (China)	manufacture of equipment for metal heat treatment	**93%**

Retech Tianjin Holdings LLC	(USA)	Holding company	**80%**
OOO SCT	Solnechnogorsk (Russia)	Provision of metal heat treatment services in Russia	**50%**
SECO/WARWICK Germany GmbH	Bedburg-Hau (Germany)	Sale, repair and maintenance services	**100%**
SECO/WARWICK Services Sp. z o.o.	Świebodzin (Poland)	Repair and maintenance services	**100%**
SECO WARWICK USA HOLDING LLC	Wilmington (USA)	Holding company	**100%**
SECO VACUUM TECHNOLOGIES LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces.	**100%**
SECO/WARWICK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	**100%**
SECO/WARWICK Technical Services Tianjin Co. Ltd.	Tianjin (China)	Sale, repair and maintenance services	**93%**

Organisation of the Group



II. AUTHORISATION OF THE FINANCIAL STATEMENTS

The Parent's Management Board authorised these consolidated financial statements for issue on April 27th 2023.

III. EFFECT OF THE WAR IN UKRAINE ON THE GROUP'S POSITION

WAR IN UKRAINE

In the reporting period, the armed conflict in Ukraine did not materially affect the Company's or the Group's operations.
The Group has a subsidiary based in Moscow (SECO/WARWICK Rus), operating as an intermediary in the sale of the Group's products in Russia. The Group holds 100% of shares in the share capital of this subsidiary, which is fully consolidated. Another Group member is OOO SCT, a jointly-controlled company based in Solnechnogorsk, which provides heat treatment services in Russia. The Group holds 50% of OOO SCT's share capital and 50% of voting rights at its general meeting (the remaining 50% of its share capital and voting rights are held by an entity governed by Russian law). OOO SCT is equity-accounted. The Group does not hold any assets (companies, non-current assets) situated in Ukraine or Belarus.

The Parent's Management Board keeps track of the economic sanctions imposed on the Russian Federation and Belarus and makes sure that all of its business activities are conducted in full compliance with the economic sanctions which must be respected by the Group, whether direct or indirect and whether imposed on persons or on activities. As a result of the economic sanctions, work on completion of one contract in Russia has been suspended.
The Parent and other Group companies did not advance any loans to SECO/WARWICK Rus or OOO SCT. Furthermore, as at December 31st 2022:

- the net assets of SECO/WARWICK Rus amounted to PLN -1.2m,
- The Group had PLN 0.6m in outstanding security deposits placed with customers in the markets east of Poland.

As at the date of authorisation of these financial statements, the Group did not recognise any impairment losses on any of these assets as it does not expect that the deposits will not be repaid, and SECO/WARWICK Rus's assets continue to be fully available for the Group.
The Group's Management Board is monitoring the situation and, if justified, the assets will be remeasured in the subsequent reporting periods in 2023 or later.

Based on current information, the Group identifies the following main areas of a possible impact of the war in Ukraine on the Company's and the Group's operations and financial condition in the second half of 2022:

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

As the Group has identified no material change in the timeliness of receivables collection, no material impairment losses on receivables or contract assets were recognised.

Based on its best knowledge, the Parent's Management Board does not expect any rise in the number of court disputes, any penalties imposed for delays in contract performance, contract terminations, or insolvencies of the Group's customers. The Parent's Management Board regularly monitors and analyses the situation, the value of orders, and the stage of completion of contracts, to take steps aimed at securing the Group's operations, if required.
To date, the Group has not experienced any significant problems with the availability of feedstocks, materials or merchandise.

IV. BASIS OF ACCOUNTING

1. Basis of accounting

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

2. Going concern assumption

These financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future comprising a period no shorter than 12 months from the end of the most recent reporting period, i.e., December 31st 2022.

As at December 31st 2022, the Parent's Management Board carried out an analysis of the Group's ability to continue as a going concern, taking into account the war in Ukraine as well as other factors, including the current order book, projected cash flow estimates, the amount of working capital, debt and available credit facilities.

Based on the analysis, the Management Board did not identify any material uncertainty as to the Group's ability to continue as a going concern for at least 12 months from the reporting date. In the opinion of the Company's

Management Board, the decline in sales in Ukraine and Russia following the Russian invasion of the former country has been offset by sales in other geographies. However, the Management Board is aware that the war in Ukraine is highly unpredictable and uncertain, which may affect the Group's financial performance in future periods.

3. Events subsequent to the reporting date

By the date of these consolidated financial statements for 2022, no events occurred which have not but should have been disclosed in the accounting records for the reporting period. No material events related to prior years have been disclosed in these financial statements.

V. BASIS OF CONSOLIDATION

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

1) Subsidiaries

An entity is the Group's subsidiary if the Group has:
- control over the entity,
- exposure, or rights, to its variable returns,
- the ability to use its control over the entity to affect the amount of its own returns.

The acquirer recognises goodwill as of the acquisition date measured as the excess of A over B, where:
A) means the aggregate of:
- the payment transferred,
- the amount of any non-controlling interest in the acquiree, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

B) means the net fair value of the acquisition-date amounts of the identifiable assets acquired as well as liabilities and contingent liabilities assumed.

Following initial recognition, goodwill is recognised at cost less any cumulative impairment losses. Goodwill is not amortised.
Subsidiaries sold during a financial year are consolidated from the beginning of the financial year to the date of disposal. Financial results of entities acquired during a year are recognised in the financial statements from the date of acquisition.
Income and expenses, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, but only to the extent there is no evidence of impairment of the asset transferred in the transaction.

The accounting policies of the subsidiaries have been changed whenever it was deemed necessary to align them with the accounting policies applied by the Group.

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

3) Associates

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

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

4) Jointly controlled entities

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

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

5) Companies included in the consolidated financial statements

The following Group entities are included in these consolidated financial statements for the periods ended December 31st 2022 and December 31st 2021:

Item	% of total voting rights	
	Dec 31 2022	Dec 31 2021
SECO/WARWICK S.A.	Parent	
SECO/WARWICK Corp.	100%	100%
SECO/WARWICK Rus	100%	100%
Retech Systems LLC	100%	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	93%	93%
SECO/WARWICK Germany GmbH	100%	100%
SECO/WARWICK Systems and Services India PVT Ltd	100%	100%
SECO/WARWICK Services Sp. z o.o.	100%	100%
SECO/WARWICK of Delaware, Inc	100%	100%
Retech Tianjin Holdings LLC	80%	80%
SECO WARWICK USA HOLDING LLC	100%	100%
SECO VACUUM TECHNOLOGIES LLC	100%	100%
SECO/WARWICK Technical Services (Tianjin) Co.Ltd.,	93%	-
OOO SCT	50%	50%
Jointly controlled entity:		
OOO SCT	50%	50%

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

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

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

These financial statements are presented in the Polish złoty ("PLN"), and unless stated otherwise, all amounts are given in thousands of PLN.

Any differences between the total amounts and the sum of their components are due to rounding. Exchange differences on translating items of the statement of financial position are calculated as differences between the exchange rates applicable to the opening and closing balance.

Other new or amended standards and interpretations which have been applied for the first time in 2022 do not have a material effect on the Group's full-year consolidated financial statements.

Summary of significant accounting policies

<u>Presentation of the statement of financial position</u>

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

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

<u>Earnings per share</u>
Basic earnings per share for each period are determined by dividing net profit attributable to owners of the parent for the period by the weighted average number of shares. Diluted earnings per share reflect the effect of the Company's incentive scheme whereby treasury shares held by SECO/WARWICK S.A. are to be delivered to the scheme beneficiaries.

Intangible assets

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

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

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

- a research phase,
- a development phase.

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

Intangible assets created as a result of development work are capitalised by the Group only if the following criteria are met:
- it is certain that the intangible asset will be completed,
- it is possible to demonstrate that the asset can be used or sold,
- it is possible to measure reliably the expenditure incurred.

For a detailed method of recognition of development costs, see *Recognition of development costs* in Section VII.

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

As intangible assets with indefinite useful lives the Group classifies only goodwill, which is not amortised, but is tested for impairment once a year or more frequently if events or changes in circumstances indicate the possibility of impairment. The goodwill impairment test is described under *Goodwill impairment* in Section VII.

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

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

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

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

Goodwill
Goodwill is measured as described in Part V. Basis of consolidation, item 1) subsidiaries. Goodwill on acquisition of subsidiaries is recognised in intangible assets. Goodwill is not amortised, but is tested for impairment on an annual basis (or more frequently if there is any indication of impairment), and is initially disclosed net of impairment losses. Gains or losses on disposal of an entity comprise the carrying amount of the sold entity's goodwill.

Property, plant and equipment

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

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

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

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

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

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

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

Financial assets

Classification of financial assets

Financial assets are classified into the following categories:

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

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

Measurement on initial recognition

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

Derecognition

Financial assets are derecognised when:

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

Measurement subsequent to initial recognition

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

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

Debt instruments – financial assets at amortised cost

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

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

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

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

Recognition and measurement of financial liabilities

Liabilities under bank borrowings

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

Trade payables

Short-term trade payables are recognised at amounts due.

Hedge accounting

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

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

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

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

The valuation of derivative instruments representing cash flow hedges as at the reporting date is recognised in equity. If a transaction hedged with a currency forward affects the statement of comprehensive income, any valuation previously recognised in equity is reclassified to the statement of comprehensive income.
As derivative instrument transactions are executed to hedge cash flows under sale contracts for which revenue is recognised with the percentage of completion method, measurement of the derivative instruments affects profit or loss pro rata to the percentage of completion of a given contract, and is disclosed in finance income or finance costs in the amount equal to the effective portion of the hedge.

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

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

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

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

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Any downward adjustment of the value of inventories to the net selling price is made by writing it down to net realisable value.
Furthermore, slow-moving inventory, obsolete inventory or inventory whose usability has been impaired in any way are revalued as at the end of each financial year.
If the circumstances which caused the decrease in the value of inventories cease to exist, the write-down is reversed. The effects of measurement at net selling price are charged to other expenses. Reversals of inventory write-downs due to an increase in their net realisable value are recognised as a decrease in inventories recognised as expenses for the period in which such reversals were made. An inventory decrease is accounted for with the FIFO method, i.e., at cost, starting from the item of materials that was accepted in the warehouse the earliest.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases.
Deferred tax liabilities are recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that does not affect profit/loss before tax or taxable income/tax loss. In addition, no deferred tax is recognised if the temporary differences arise on initial recognition of goodwill.
A deferred tax liability is recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group is able to control the timing of the reversal of temporary differences related to its investments in subsidiaries and associates and, to the best of the Management Board's knowledge, as at the reporting date there were no such temporary differences and no such differences will be realised in the foreseeable future.
Deferred tax assets resulting from negative temporary differences related to such investments and shares are recognised only to the extent that it is probable that there will be sufficient taxable profits, on the basis of which it will be possible to use tax benefits resulting from temporary differences and that it is expected that the temporary differences will be reversed in the foreseeable future.
The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be realised.

An unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.
The Group offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes,

with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects that the costs covered by the provision will be reimbursed, e.g., under an insurance agreement, then such reimbursement is recognised as a separate asset, but only when it is practically certain that such reimbursement will actually take place.
Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements. If the effect of the time value of money is material, the amount of provision is determined by discounting the projected future cash flows to their present value using a gross discount rate reflecting current market estimates of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Estimates of the financial result and impact are based on the judgement of the management of the companies, supported by their past experience with similar transactions and, in some cases, by reports of independent experts.
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.
The Group recognises the following provisions:

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

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

Employee benefits

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

Share-based payments

The Group's employees (including management board members) receive awards in the form of shares.
Such awards are classified as an equity-settled share-based payment scheme. The fair value of shares allotted under the Incentive Scheme is disclosed as an employee benefits expense. Concurrently, an appropriate increase in equity is recognised.

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

The cost of equity-settled share-based payment transactions is recognised with a corresponding increase in equity in the period in which the performance conditions and/or service conditions are satisfied and which ends on the date when the rights are fully vested in eligible employees (the 'vesting date'). The accumulated cost recognised under equity-settled transactions as at each reporting date until the vesting date reflects the passage of the vesting period and the number of awards which, in the opinion of the Group's Management Board as at that date, based on best estimate of the number of equity instruments, will finally vest.
No costs are recognised in respect of awards which do not finally vest, except for the awards where the rights are vested depending on market vesting conditions or non-vesting conditions. Such rights are treated as acquired regardless of whether such market vesting conditions or non-vesting conditions are satisfied, provided that all other performance conditions or service conditions are met.
If the terms on which equity-settled awards were granted are modified, the Company recognises, at a minimum, the cost of the original award as if they were not modified. Furthermore, costs of any increase in the value of a share-based payment transaction as a result of such modifications, measured as at the modification date, are recognised.
When an equity-settled award is cancelled, it receives the same treatment as if it vested on the date of cancellation and any unrecognised award-related costs are recognised immediately.

It also applies to awards where the non-vesting conditions under the control of the Group or the employee are not met. However, if the cancelled award is replaced with a new one, both the new award, which is identified as a replacement award on the grant date, as well as the cancelled award are accounted for as if they were a modification of the original award (as described in the above paragraph).

Treasury shares

The parent acquires its own shares on the market on the date of their allotment and holds them as treasury shares until it acquires the rights to such shares. Treasury shares are measured at fair value as at the date of recognition and subsequently recognised at cost as an item reducing equity.

Contract assets

Contract assets include any excess of estimated revenue related to the stage of completion of a long-term contract, measured by the progress towards satisfaction of a performance obligation as described below, over advance payments received and the aggregate amount invoiced under the contract.

Contract liabilities

Contract liabilities reflect the Group's obligations to transfer services or equipment to a customer for which the Group has already received consideration in the form of an advance payment or for which consideration is due based an invoice issued. Contract liabilities are also increased by collaboration costs where such costs are material and thus recognised according to the stage of completion.

Contract costs

Contract costs include incremental costs of obtaining a contract with a customer, that is costs that the Group would not have incurred if the contract had not been obtained. In the course of its operations, the Group identifies contract costs that meet the following criteria:

- the costs directly relate to a contract or anticipated contract which the entity is able to specifically identify;
- the costs generate or enhance the Group's resources that will be used to satisfy (or continue to satisfy) performance obligations in the future.

Incremental costs of obtaining a contract include sales commissions. Contract costs are recognised under contract assets and amortised on a systematic basis, taking into account the stage of completion of the contract to which they relate, if they relate to a contract from which revenue is recognised over time, or on a one-off basis at the time of revenue recognition in the case of a contract from which revenue is recognised at a point in time.

Grants for development projects

Grants for development projects include in particular government grants to finance assets.
The value of grants received to finance development work is deducted from the carrying amount of the asset. The Group accounts for the grants in the statement of comprehensive income by reducing the amortisation charges on the assets.
Grants are not credited directly to equity.

Revenue

Revenue is recognised at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer.

The Group's main revenue sources are sales of:

- vacuum Furnaces,
- aluminium furnaces,
- melting furnaces,
- after-sales services, including equipment maintenance.

The Group applies IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers except leases within the scope of IFRS 16 *Leases*, 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 in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

IFRS 15 requires that all sale contracts be recognised applying the following five steps:

- identifying the contract(s) with a customer;
- identifying the performance obligations in the contract,
- determining the transaction price,
- allocating the transaction price to each performance obligation,
- recognising revenue when a performance obligation is satisfied.

Identification of the contract(s) with a customer

The Group 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 Group can identify each party's rights regarding the goods or services to be transferred;
- The Group 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 Group's future cash flows is expected to change as a result of the contract); and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identifying performance obligations

At contract inception, the Group 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.

Services promised to a customer are distinct if both of the following criteria are met:

- the customer can benefit from the services either on its own or together with other resources that are readily available to the customer; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

Transaction price

The Group considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a 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. When determining the transaction price, the Group considers the existence of variable consideration (discounts, bonuses and contractual penalties), but in principle no such components are present in the contracts.

Allocating the transaction price to performance obligations

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

Satisfying performance obligations

The Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service to the customer. The Group recognises promised goods and assembly services as a single performance obligation as they are inseparable performances.

Transferring control over time

If one of the following criteria specified in IFRS 15.35 is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or
- The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time.

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

The Group also recognises material costs of collaboration (subcontracting) over time. The costs are recognised based on the stage of completion of work if they exceed PLN 50 thousand. Information on the stage of completion of work is provided to the Group by the subcontractor.

Transferring control at a point in time

If a performance obligation is not satisfied over time, it is satisfied at a point in time and revenue is recognised at that time. To determine the point in time at which a performance obligation is satisfied and revenue is recognised, the requirements for transferring control of a promised asset to the customer are considered.

The following circumstances may indicate that control is transferred:

- the entity has a present right to payment for the asset.
- the customer has legal title to the asset,
- the asset has been physically transferred to the customer,
- the customer has the significant risks and rewards of ownership of the asset,
- the customer has accepted the asset.

The Group also recognises revenue at a point in time taking into account the materiality of the contract. Below PLN 200 thousand or EUR 50 thousand or GBP 40 thousand or USD 60 thousand, revenue is recognised at a time point.

Methods for measuring progress towards satisfaction of a performance obligation

The method applied to measure progress towards satisfaction of a performance obligation is the input method. Under this method, progress towards satisfaction of a performance obligation is measured by reference to costs actually incurred in comparison with total estimated contract costs. Costs actually incurred include costs incurred by the Group and costs of collaboration (subcontractors).

Advances payments

Any excess of advance payments (prepayments) received under a contract over the estimated revenue attributable to a given reporting period is recognised as contract liabilities.

Up to the amount of the estimated contract revenue, advance payments reduce the receivables under settlement of long-term contracts.

Recognition of revenue as at the reporting date

Any excess of invoiced revenue over recognised revenue in the reporting period is recognised under contract liabilities.

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

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

Leases

Right-of-use assets

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

Lease liabilities

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

When calculating the present value of lease payments, the Group uses the lessee's incremental borrowing rate on the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased to reflect the interest, and reduced by lease payments made.

Furthermore, the carrying amount of lease liabilities is remeasured if the lease term, in-substance fixed lease payments or judgement as to purchase of the underlying assets change.

Short-term leases and leases of low-value assets

The Group applies the short-term exemption to its short-term lease contracts (i.e., contracts with a lease term of 12 months or less from the commencement date, containing no purchase options). The Group also applies the low value lease exemption. In the case of lease of vehicles and machinery, low value is PLN 5 thousand, and in the case of buildings – USD 5 thousand. Lease payments under short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group as a lessor

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

Functional currency and presentation currency

<u>Functional currency and presentation currency</u>

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

<u>Transactions and balances</u>

On initial recognition, transactions in foreign currencies are translated into the functional currency at the mid exchange rate quoted by the National Bank of Poland for the date preceding the transaction date. As at the end of the reporting period, monetary items denominated in foreign currencies are translated at the mid exchange rate quoted by the National Bank of Poland for a given currency for the measurement date.

Non-monetary items denominated in foreign currencies and measured at fair value are translated at the exchange rate from the date on which the fair value was determined, i.e., the mid exchange rate quoted by the National Bank of Poland for a given currency for that date.

Any foreign exchange gains or losses arising on settlement of transactions in foreign currencies and on measurement of monetary assets or liabilities denominated in foreign currencies are recognised in profit or loss for the period.

VII. MATERIAL JUDGEMENTS AND ASSUMPTIONS

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

Depreciation/amortisation charges

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

Amortisation charges for right-of-use assets used under lease contracts

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

Significant judgements and estimates concerning the lease term and discount rate

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

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

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

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

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

The Group does not have lease interest rates under lease contracts and applies incremental borrowing rates. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The table below presents the discount rate ranges applied to measure lease liabilities, taking into account the currency of lease payments:

Payment currency	Discount rate
PLN	7-12%
USD	7-10%
CNY	7-12%

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

The Group determines the lease term as a non-cancellable lease term, including periods covered by an option to extend the lease, if it is reasonably certain that the option will be exercised, as well as periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised.
The Group is able to extend the lease term of certain lease contracts. The Group applies judgment to assess whether there is reasonable certainty that the extension option will be exercised, which means that it takes

into account all material facts and circumstances that represent an economic incentive to extend the option or an economic penalty for its non-extension.

After the commencement date, the Group reviews the lease term if a significant event or change in circumstances under its control occur which affect its ability to exercise (or not to exercise) the extension option (e.g., a change in the business strategy).

Recognition of development costs

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

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

In view of the above, the Group assesses whether an intangible asset generated by the entity meets the recognition criteria. In addition, two phases are distinguished in the asset generation process:

a) the research phase,

b) the development phase.

If the Group is unable to separate the research phase from the development phase of a project leading to the generation of an intangible asset, it treats expenditure on the project as if it were incurred only during the research phase.

Impairment of development costs

The Group conducts annual impairment tests for expenditure on ongoing development work in the case of intangible assets with indefinite useful lives and intangible assets that are not in use. The tests are conducted at an appropriate level reflecting the allocation of the Group's assets to cash-generating units. Intangible assets in the form of expenditure on development work are tested at the level of a group of cash-generating units together with corporate assets.

Goodwill impairment

Goodwill and intangible assets with indefinite useful lives are not amortised, but are tested for impairment once a year or more frequently if events or changes in circumstances indicate the possibility of impairment.

The Group conducts goodwill impairment tests, which requires allocating goodwill to individual cash-generating units and then estimating the recoverable amount of each cash-generating unit. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. To analyse impairment of goodwill, the Group assesses its value in use. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit as well as determining and using a suitable discount rate to calculate the present value of those cash flows. The underlying assumptions are presented in Note 11.

Impairment of other non-current assets

Other assets, with the exception of intangible assets with indefinite useful lives and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the carrying amount of a given asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purpose of impairment analysis, assets are grouped together into the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).
Any previously identified impairment of non-financial assets (other than goodwill) is assessed as at each reporting date for indications that a previously recognised impairment loss could be reversed.

Deferred tax assets

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

Pension benefit obligations

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

Provision for warranty repairs

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

Provision for disputes concerning exposure to asbestos

According to the Group Management Board's judgment, disputes concerning exposure to asbestos do not meet the requirements for recognition of the provision and are recognised as contingent liabilities. The related disclosures are presented in Note 34 to these financial statements. Cash outflows are not sufficiently probable, as historically all payments under settlements were made directly by insurers.

Long-term contracts

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

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

At the end of each reporting period, the Group estimates the result on each contract. When a loss on a contract is expected, it is immediately recognised in the statement of profit or loss as a provision for future costs of contract performance. Unavoidable costs of a contract include, *inter alia*, the net costs of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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

Derivative financial instruments

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

VIII. CHANGES IN ACCOUNTING POLICIES AND ADJUSTMENTS

Save for the changes resulting from the introduction of new standards or amendments to existing standards effective for reporting periods beginning on or after January 1st 2022, in the preparation of these financial statements the Group applied the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2021.

1. New standards, interpretations and amendments to existing standards effective in 2022

1.1. Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and Annual Improvements to IFRSs 2018–2020 Cycle.

The package of amendments contains three amendments to the standards:

– Amendments to IFRS 3 Business Combinations, which update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;

– Amendments to IAS 16 Property, Plant and Equipment, which rule out the possibility of deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Such revenue and related costs should be recognised in profit or loss for the period.

– Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets explain what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

The package also contains Annual Improvements to IFRSs 2018-2020 Cycle, which include explanations and clarifications regarding the provisions of IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and illustrative examples for IFRS 16 Leases.

The amendments had no material effect on the Group’s financial statements.

IX. STANDARDS AND INTERPRETATIONS NOT APPLIED IN THESE FINANCIAL STATEMENTS

Standards and interpretations	Type of expected change in accounting policies
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Making Materiality Judgements (Effective for annual periods beginning on or after January 1st 2023; early application is permitted)	The amendments to IAS 1 require an entity to disclose its material accounting policies information instead of its significant accounting policies.
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates (issued on February 12th 2021) (Effective for annual periods beginning on or after January 1st 2023; early application is permitted)	The amendments introduce the definition of accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty and clarify the relationship between accounting policies and accounting estimates, indicating that an entity develops accounting estimates to meet the objectives set out in the accounting policies.
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after January 1st 2023; early application is permitted)	The amendments narrow the scope of application of the exemption from initial recognition of deferred tax to exclude transactions that give rise to equal and offsetting temporary differences, e.g., leases and decommissioning obligations. In the case of leases and decommissioning obligations, the related deferred tax assets and liabilities should be recognised from the beginning of the earliest comparative period presented, and any cumulative effects are recognised as an adjustment to retained earnings or other components of equity as at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.
Amendments to IFRS 10 and IAS 28 *Sales or Contributions of Assets between an Investor and its Associate or Joint Venture* (Effective date postponed for an indefinite period. Available for optional adoption in full IFRS financial statements. The European Commission has decided to postpone the approval for an indefinite period; it is unlikely that the approval will be given by the EU in the foreseeable future)	The amendments clarify that in the case of a transaction involving an associate or joint venture, the scope of recognition of gain or loss depends on whether the assets sold or contributed constitute a business in such a way that: - full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets that constitute a business (whether the business is housed in a subsidiary or not), while partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if those assets are housed in a subsidiary.

Standards and interpretations	Type of expected change in accounting policies
Amendments to IAS 1 *Presentation of Financial Statements: Current or non-current liabilities with covenants* (Effective for annual periods beginning on or after January 1st 2024, should be applied retrospectively. Early application is permitted. Specific transition requirements apply for entities that have early adopted the 2020 amendments.)	Under existing IAS 1 requirements, entities classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments introduced in 2020 waived the requirement that the right be unconditional and instead require that the right to defer payment must exist as at the reporting date and must have substance (the classification of liabilities is not affected by management's intentions or expectations as to whether the entity will exercise its right to defer payment or decide to settle early). The amendments introduced in 2022 further specify that where the right to defer payment of a liability is conditional on the entity's compliance with covenants, on presentation of a liability as current or non-current. Contracts which an entity must comply with after the reporting date do not affect the classification of the liability at that date. However, the amendments require entities to disclose those future contracts in order to help users understand the risk that those liabilities may become due and payable within 12 months of the reporting date. The amendments also clarify how an entity classifies a liability that can be settled in its own shares – e.g. convertible debt.
Amendments to IFRS 16 *Leases: Lease Liability in a Sale and Leaseback* (Effective for annual periods beginning on or after January 1st 2024, early application is permitted.	Amendments to IFRS 16 *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. The amendments confirm the following: - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction; - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains. A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. The amendments change the accounting for leases other than those resulting from a sale and leaseback transaction.

The Group did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.
The Group's Management Board does not expect the application of the new standards and interpretations to have any material effect on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2022

Note 1. REVENUE

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

Revenue from sales and total revenue and income of the Group:

Item	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Revenue from sale of finished goods and services	614,884	454,374
including revenue recognised over time	*530,485*	*389,148*
Revenue from sale of merchandise and materials	7,845	8,823
TOTAL revenue	**622,729**	**463,197**
Other income	4,837	2,120
Finance income	3,098	1,106
TOTAL revenue and income	**630,664**	**466,423**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
European Union	184,600	126,540
Russia	6,424	66,187
USA	230,655	117,076
Asia	176,833	131,793
Other	24,218	21,601
TOTAL revenue	**622,729**	**463,197**

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

MAIN PRODUCTS 2022

	MAIN PRODUCTS JAN 1–DEC 31 2022					Other	Total
	Vacuum Furnaces	Aluminium Process	Melting Furnaces	Aftersales services	Total		
Total revenue	190,549	154,259	151,868	123,976	620,652	2,077	622,729
Sales to customers accounting for 10% or more of revenue	-		-	-	-	-	-
Cost of sales	-146,919	-116,745	-135,876	-84,098	-483,638	-1,747	-485,385
Gross profit/(loss)	43,630	37,514	15,992	39,878	137,014	330	137,344

MAIN PRODUCTS 2021

	MAIN PRODUCTS JAN 1–DEC 31 2021					Other	Total
	Vacuum Furnaces	Aluminium Process	Melting Furnaces	Aftersales services	Total		
Total revenue	137,027	97,876	127,303	98,401	460,607	2,590	463,197
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	-	-
Cost of sales	-105,274	-79,642	-97,182	-71,368	-353,465	-5,471	-358,936
Gross profit/(loss)	31,753	18,235	30,122	27,033	107,143	-2,881	104,261

Note 2. OPERATING SEGMENTS

The Group operates in many markets around the globe, selling metal heat treatment equipment manufactured using three main technologies. As at the reporting date, the Group's main production centres were situated in Poland and China. Sales, handled by the individual Group companies, are made by the companies in global markets, usually related to their place of registration, although in practice there are often deviations from this allocation, especially if the company also has customers outside its country of registration. The SECO/WARWICK Group's key markets include Europe, the United States and China.

Based on the geographical criterion, the Group identifies two main operating segments: "China" and "Rest of the World".

The Chinese market accounts for an significant share of the SECO/WARWICK Group's revenue. The Chinese market is also a separate point of reference for the Group's operations and it is possible to allocate cash inflows to assets in that market. In principle, separate flows are generated from deliveries to the Chinese market (related to production by the plant in China and independent assets in China).

The Rest of the World segment includes mainly revenue generated in Europe and the United States. Apart from China, production and sales are global and are carried out based on the same assets – the assets of all the other Group companies. For these reasons, the second cash-generating unit is "Production and Distribution – Rest of the World".

In the Rest of the World, Poland and the United States accounted for a significant share as they generated revenue of PLN 272,587 thousand and PLN 166,022 thousand, respectively. The value of non-current assets for Poland was PLN 170,365 thousand and for the Unites States – PLN 24,354 thousand.

	2022		
	Production and distribution – Rest of the World	Production and distribution – China	Total
Total revenue	**509,290**	**113,439**	**622,729**
Sales to customers accounting for 10% or more of revenue	-	-	-
Cost of sales	**-406,126**	**-79,258**	**-485,385**
Gross profit	**103,163**	**34,181**	**137,344**
Recognition of impairment losses on property, plant and equipment	-	-	-
Reversal of impairment losses on property, plant and equipment	-	-	-
Other	-	-	-
Operating profit	**18,935**	**23,118**	**42,053**
Net profit attributable to owners of the parent	**10,537**	**20,082**	**30,619**
Non-current assets	**155,239**	**10,959**	**166,198**

	2021		
	Production and distribution – Rest of the World	Production and distribution – China	Total
Total revenue	**409,489**	**53,708**	**463,197**
Sales to customers accounting for 10% or more of revenue	-	-	-
Cost of sales	**-317,109**	**-41,827**	**-358,936**
Gross profit	**92,380**	**11,881**	**104,261**
Recognition of impairment losses on property, plant and equipment	-	-	-

Reversal of impairment losses on property, plant and equipment	-	-	-
Other	-	-	-
Operating profit	**17,016**	**6,995**	**24,011**
Net profit attributable to owners of the parent	**11,599**	**5,315**	**16,914**
Non-current assets	**150,075**	**6,249**	**156,324**

Note 3. OPERATING EXPENSES

COST OF PRODUCTS SOLD AND SERVICES RENDERED

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Depreciation and amortisation	15,008	12,894
Raw materials and consumables used	321,080	236,223
Services	68,833	85,255
Taxes and charges	3,338	1,796
Salaries and wages	114,743	84,098
Social security and other benefits	26,758	19,073
Other expenses	35,303	20,247
Total operating expenses, including:	**585,063**	**459,587**
Distribution costs	-35,130	-26,999
Administrative expenses	-59,641	-49,408
Change in products	5,762	-16,986
Cost of work performed by entity and capitalised	-10,669	-7,257
Cost of products sold and services rendered	**485,385**	**358,936**

DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Items recognised as cost of sales	**11,000**	**10,198**
Depreciation of property, plant and equipment	4,536	4,214
Depreciation of right-of-use assets	2,766	3,211
Amortisation of intangible assets	3,698	2,773
Items recognised as distribution costs	**980**	**1,069**
Depreciation of property, plant and equipment	446	526
Depreciation of right-of-use assets	205	231
Amortisation of intangible assets	329	312
Items recognised as administrative expenses	**3,028**	**1,603**
Depreciation of property, plant and equipment	671	571
Depreciation of right-of-use assets	2,131	872
Amortisation of intangible assets	226	160
Items recognised as other expenses	**-**	**24**
Depreciation of investment property	-	24

EMPLOYEE BENEFITS EXPENSE

PERSONNEL COSTS	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Salaries and wages	114,743	84,098
Social security and other benefits	26,758	19,073
Total employee benefits expense, including:	**141,501**	**103,171**
Items recognised as cost of sales	79,914	54,997
Items recognised as distribution costs	22,321	17,261
Items recognised as administrative expenses	39,265	30,913

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Depreciation and amortisation	980	1,074
Raw materials and consumables used	198	162
Services	3,007	4,177
Taxes and charges	477	454
Salaries and wages	18,630	13,429
Social security and other benefits	2,876	2,195
Business travel	1,543	640
Advertising expenses	2,741	1,903
Other	4,678	2,965
Total	**35,130**	**26,999**

Administrative expenses

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Depreciation and amortisation	4,362	2,804
Raw materials and consumables used	1,597	900
Services	9,129	9,107
Taxes and charges	355	214
Salaries and wages	27,805	22,088
Social security and other benefits	5,655	5,809
Business travel	1,122	629
Property insurance	2,576	2,348
Other	7,040	5,509
Total	**59,641**	**49,408**

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gain on disposal of property, plant and equipment	2,194	15
Penalties and compensation received	360	551
Income from lease of property, plant and equipment and investment property	922	897
Accounting for lease in connection with decision not to exercise the right to purchase the leased asset	186	331
Other	1,175	326
Total other income	**4,837**	**2,120**

OTHER EXPENSES	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Inventory write-downs	1,907	2,863
Loss on disposal of property, plant and equipment	-	529
Court expenses, compensation/damages, penalties	52	583
Cost related to income from lease of property, plant and equipment	764	552
Donations	27	4
Other	567	429
Total other expenses	**3,317**	**4,959**

Impairment of receivables and contract assets	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Impairment of receivables	2,040	1,004
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**2,040**	**1,004**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income	415	285
Net foreign exchange gains	2,549	821
Other	134	-
Total finance income	**3,098**	**1,106**

FINANCE COSTS	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Payment of interest	5,112	1,022
Interest on leases	1,079	705
Loss on derivative instruments at maturity	4,418	3,407
Net foreign exchange losses	-71	-
Other	796	287
Total finance costs	**11,334**	**5,421**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2022 and December 31st 2021 were as follows:

INCOME TAX DISCLOSED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Current income tax	**4,995**	**1,684**
Current income tax expense	4,995	1,671
Adjustments for prior years	-	12
Deferred income tax	**-3,713**	**461**
Related to recognition and reversal of temporary differences	-3,713	461
Income tax expense disclosed in the statement of profit or loss	**1,282**	**2,145**

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

Item	2022	2021
Profit before tax (PLN)	**33,337**	**19,454**
Tax rate applicable in Poland	**19%**	**19%**
Income tax calculated at the tax rate applicable in Poland	**6,334**	**3,696**
Income tax calculated at the applicable tax rate	**6,301**	**3,872**
Differences in tax rates	**-33**	**176**
USA	861	402
China	-960	-246
Germany	110	28
India	22	17
Russia	-65	-26
Tax effect of expenses that are not deductible in determining taxable profit	-392	279
Non-taxable income	221	-90
Use of tax losses	-2,284	-1,320
Tax loss assets from prior years	-1,293	-

Development tax credit	-1,297	-814
Decrease in opening balance of deferred tax due to lower tax rate	-	172
Other	25	47
Tax expense after consolidation	**1,282**	**2,145**
Effective tax rate	**4%**	**11%**

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

Item	Dec 31 2022 deferred income tax	Dec 31 2022 other comprehensive income	Dec 31 2022 amount recognised in the statement of comprehensive income	Dec 31 2021 deferred income tax	Dec 31 2021 other comprehensive income	Dec 31 2021 amount recognised in the statement of comprehensive income
Deferred tax liabilities						
Property, plant and equipment and intangible assets	9,178	-	1,502	7,676	-	-1,502
Contract assets	11,890	-	1,328	10,562	-	981
Foreign exchange gains	-	-	-60	60	-	-70
Measurement of forward contracts	249	158	84	7	-	-42
Right-of-use assets	660	-	-332	993	-17	993
Tax goodwill on acquisition of RETECH	7,794	-	-	7,794	-	-
Other	16	-	-121	136	-	118
Deferred tax liabilities	**29,788**	**158**	**2,401**	**27,228**	**-17**	**479**
Deferred tax assets						
Provision for disability severance payments and retirement bonuses	147	-	-51	198	-	-55
Provision for length-of-service awards and bonuses	1,965	-	647	1,319	-	349
Provision for accrued holiday entitlements	367	-	-51	418	-	49
Provision for losses on contracts	20	-	-60	80	-	-31
Provision for warranty repairs	1,274	-	53	1,222	-	349
Other provisions	42	-	-45	87	-	-246
Tax losses to be settled	1,720	-	1,720	-	-	-289
Contract liabilities	825	-	-26	851	-	-606
Foreign exchange losses	48	-	55	-7	-	16
Salaries, wages and social security contributions payable in subsequent periods	439	-	102	337	-	18
Inventory write-downs	1,688	-	464	1,225	-	-343
Lease liabilities	1,658	-	266	1,392	-	147
Impairment losses on receivables	2,741	-	1,318	1,423	-	77
R&D relief	1,672	-	806	866	-	-36
Measurement of forward contracts	377	-323	-36	736	62	88
Other	776	-	174	602	-	87

Exchange differences on translating foreign operations	-	-	1,260			442
Deferred tax assets	**15,760**	**-323**	**6,595**	**10,748**	**62**	**16**
Deferred tax liability (net)	**14,027**	**481**	**-4,194**	**16,480**	**-79**	**463**

After a net-basis presentation of the relevant items, net deferred tax assets amounted to PLN 1,786 thousand, whereas deferred tax liabilities were PLN 15,813 thousand in accordance with the items in the consolidated statement of financial position.

Note 7. EARNINGS PER SHARE

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

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

Item	Dec 31 2022	Dec 31 2021
Net profit/(loss) from continuing operations attributable to owners of the parent	30,619	16,914
Net profit/(loss) attributable to owners of the parent	30,619	16,914
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**30,619**	**16,914**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	8,496,365	8,845,099
Earnings per share (PLN)	**3.60**	**1.91**
Dilutive effect:		
Number of potential shares to be issued under the incentive scheme*	315,000	-
Number of potential shares to be issued at market price	-29,373	-
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	8,781,992	8,845,099
Diluted earnings per share (PLN)	**3.49**	**1.91**

*For information on the Incentive Scheme, see Note 33.
The weighted average number of shares is the number of shares less shares held in treasury.

In accordance with IAS 33, the Group's calculation of diluted earnings per share included shares issued conditionally under the Incentive Scheme, as described in Note 33. The calculation omitted those incentive scheme elements that had an antidilutive effect in the presented reporting periods, which in the future may potentially affect the dilution of earnings per share.

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

On April 21st 2022, the Supervisory Board approved SECO/WARWICK S.A. Management Board's proposal, contained in the Management Board Resolution No.1/2022 of April 21st 2022, on allocation of SECO/WARWICK S.A.'s net profit for 2021.

On April 21st 2022, in Current Report No. 2/2022, the Parent announced the Management Board's dividend proposal. The Management Board proposed that the Company's net profit of PLN 8,324,846.47 (eight million, three hundred and twenty-four thousand, eight hundred and forty-six złoty, 47/100) be allocated as follows:

- PLN 2,548,909.50 (two million, five hundred and forty-eight thousand, nine hundred and nine złoty, 50/100) – for payment of dividend to shareholders,
- PLN 5,775,936.97 (five million, seven hundred and seventy-five thousand, nine hundred and thirty-six złoty, 97/100) – to the Parent's statutory reserve funds.

Furthermore, the Parent's Management Board recommended that the dividend record date (Day R) should be June 15th 2022 and that the dividend payment (Day P) should be June 29th 2022.

On May 25th 2022, the Annual General Meeting resolved to distribute the Company's net profit for 2021 in accordance with the proposal of the Parent's Management Board.

The dividend was paid on June 29th 2022.

Item	Reporting year	Previous year
Dividends recognised as distributions to owners on a per-share basis (PLN)	0.3	0.55
Dividends proposed or approved by the date of authorisation of these financial statements for issue, not recognised as distributed to shareholders	-	-
Dividends proposed or approved by the date of authorisation of these financial statements for issue, not recognised as distributed to shareholders, on a per-share basis	-	-

Note 9. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2022

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Jan 1 2022	**8**	**37,816**	**44,821**	**4,244**	**15,475**	**102,362**
Increase, including:	**-**	**1,415**	**1,477**	**622**	**1,721**	**5,235**
acquisitions	-	1,415	1,477	622	1,721	5,235
self-constructed property, plant and equipment	-	-	-	-	-	-
executed lease contracts	-	-	-	-	-	-
other						
Decrease, including:	**-**	**-**	**23**	**401**	**104**	**528**
sale	-	-	15	401	97	513
retirement	-	-	8	-	7	14
separate recognition of right of use	-	-	-	-	-	-
other	-	-	-	-	-	-
Gross carrying amount as at Dec 31 2022	**8**	**39,231**	**46,275**	**4,465**	**17,093**	**107,070**
Cumulative depreciation as at Jan 1 2022	**-**	**10,962**	**30,388**	**3,718**	**8,727**	**53,795**
Increase, including:	**-**	**1,066**	**2,810**	**286**	**1,490**	**5,652**
amortisation	-	1,066	2,810	286	1,490	5,652
Decrease, including:	**-**	**-**	**19**	**99**	**88**	**206**
sale	-	-	12	99	88	199

retirement	-	-	8	-	-	8
remeasurement	-	-	-	-	-	-
separate recognition of right of use	-	-	-	-	-	-
reclassification – assets held for sale	-					
Cumulative depreciation as at Dec 31 2022	**-**	**12,028**	**33,179**	**3,905**	**10,129**	**59,241**
Impairment losses as at Jan 1 2022	**-**	**-**	**-**	**3**	**-**	**3**
Increase, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss recognition	-	-	-	-	-	-
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
use	-	-	-			-
reversal	-		-	-	-	-
Impairment losses as at Dec 31 2022	**-**	**-**	**-**	**3**	**-**	**3**
Net exchange differences on translating financial statements into presentation currency	24	935	1,238	288	1,047	3,533
Net carrying amount as at Dec 31 2022	**32**	**28,137**	**14,335**	**846**	**8,011**	**51,360**

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

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
Gross carrying amount as at Jan 1 2021	**8**	**37,627**	**47,998**	**4,353**	**10,608**	**100,592**
Increase, including:	**-**	**189**	**1,672**	**107**	**5,216**	**7,184**
acquisitions	-	189	1,672	107	5,216	7,184
Decrease, including:	**-**	**-**	**4,848**	**217**	**349**	**5,414**
sale	-	-	4,007	197	-	4,203
retirement	-	-	842	20	148	1,009
other	-	-	-	-	201	201
Gross carrying amount as at Dec 31 2021	**8**	**37,816**	**44,821**	**4,244**	**15,475**	**102,362**
Cumulative depreciation as at Jan 1 2021	**-**	**9,886**	**30,548**	**3,549**	**7,916**	**51,899**
Increase, including:	**-**	**1,076**	**2,798**	**277**	**1,160**	**5,311**
amortisation	-	1,076	2,798	277	1,160	5,311
Decrease, including:	**-**	**-**	**2,958**	**109**	**349**	**3,415**
sale	-	-	2,190	16	-	2,206
retirement	-	-	768	93	148	1,008
separate recognition of right of use					201	201
Cumulative depreciation as at Dec 31 2021	**-**	**10,962**	**30,388**	**3,718**	**8,727**	**53,795**
Impairment losses as at Jan 1 2021	**-**	**-**	**-**	**3**	**-**	**3**
Increase, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment loss recognition	-	-	-	-	-	-
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
use	-	-	-			-

reversal	-	-	-	-	-	-
Impairment losses as at Dec 31 2021	**-**	**-**	**-**	**3**	**-**	**3**
Net exchange differences on translating financial statements into presentation currency	24	947	911	243	573	2,698
Net carrying amount as at Dec 31 2021	**32**	**27,801**	**15,344**	**768**	**7,320**	**51,263**

Impairment losses on property, plant and equipment are recognised by the Group under other expenses in the statement of comprehensive income. No impairment losses on property, plant and equipment were made in 2022 or in the previous year.

RIGHT-OF-USE ASSETS

As at December 31st 2022, the Group had lease contracts, mainly for office space and production facilities located in the US and China. The lease contracts included extension and termination options. The Group has lease contracts with residual value guarantees, but they were included in the measurement of lease liabilities.

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Total
Gross carrying amount as at Jan 1 2022	**2,625**	**18,861**	**4,144**	**7,047**	**32,676**
Increase, including:	**-**	**6,682**	**-**	**2,435**	**9,795**
new lease contracts	-	6,682	-	2,435	9,795
modification of contracts	-	-	-	-	-
Decrease, including:	-	**537**	-	**1,129**	**1,667**
retirement	-	537	-	1,129	1,667
modification of contracts	-	-	-	-	-
Gross carrying amount as at Dec 31 2022	**2,625**	**25,005**	**4,823**	**8,352**	**40,804**
Cumulative depreciation as at Jan 1 2022	**96**	**6,211**	**483**	**3,440**	**10,230**
Increase, including:	**40**	**3,240**	**225**	**1,595**	**5,101**
amortisation	40	3,240	225	1,595	5,101
Decrease, including:	-	**540**	-	**1,252**	**1,789**
modification of contracts	-	3	-	243	243
retirement	-	537	-	1,009	1,546
Cumulative depreciation as at Dec 31 2022	**136**	**8,911**	**709**	**3,783**	**13,543**
Exchange differences	-	**-833**	-	-	-833
Net carrying amount as at Dec 31 2022	**2,488**	**15,261**	**4,114**	**4,569**	**26,428**

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Total
Gross carrying amount as at Jan 1 2021	**2,625**	**16,140**	**4,144**	**7,777**	**30,685**
Increase, including:	**-**	**2,721**	**-**	**986**	**3,706**
new lease contracts	-	2,707	-	986	3,693
modification of contracts	-	14	-	-	14
Decrease, including:	**-**	**-**	**-**	**1,716**	**1,716**
retirement	-	-	-	209	209

modification of contracts	-	-	-	1,506	1,506
Gross carrying amount as at Dec 31 2021	**2,625**	**18,861**	**4,144**	**7,047**	**32,676**
Cumulative depreciation as at Jan 1 2021	**59**	**4,287**	**299**	**3,016**	**7,661**
Increase, including:	**37**	**1,925**	**184**	**1,625**	**3,771**
amortisation	37	1,925	184	1,625	3,771
Decrease, including:	**-**	**-**	**-**	**1,201**	**1,201**
modification of contracts	-	-	-	1,201	1,201
Cumulative depreciation as at Dec 31 2021	**96**	**6,211**	**483**	**3,440**	**10,230**
Exchange differences	**-**	**-1,452**	**-**	**-**	**-1,452**
Net carrying amount as at Dec 31 2021	**2,529**	**11,198**	**3,661**	**3,607**	**20,993**

Note 10. COST OF PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION AND SELF-CONSTRUCTED PROPERTY, PLANT AND EQUIPMENT INCURRED IN THE PERIOD

Property, plant and equipment under construction:

Property, plant and equipment under construction as at Jan 1 2022	*Expenditure incurred in the financial year*	*Allocation of the expenditure*				*As at Dec 31 2022*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other property, plant and equipment*	
1,612	**5,251**	**336**	**1,748**	**-**	**567**	**4,210**

Property, plant and equipment under construction as at Jan 1 2021	*Expenditure incurred in the financial year*	*Allocation of the expenditure*				*As at Dec 31 2021*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other property, plant and equipment*	
3,407	**4,406**	**268**	**774**	**-**	**5,158**	**1,612**

Note 11. INTANGIBLE ASSETS

Changes in intangible assets (by type) in the period January 1st–December 31st 2022

Item	***Patents and licences, software***	***Development costs***	***Other intangible assets***	***Total***
Gross carrying amount as at Jan 1 2022	**17,140**	**48,683**	**5,093**	**70,917**
Increase, including:	**1,279**	**4,027**	-	**5,305**
acquisitions	1,279	4,012	-	5,290
other	-	15	-	15
Decrease, including:	**21**	**-**	**-**	**21**
retirement	-	-	-	-
reclassification	21	-	-	**21**
Gross carrying amount as at Dec 31 2022	**18,398**	**52,710**	**5,093**	**76,202**

Cumulative amortisation as at Jan 1 2022	**10,760**	**8,440**	**4,418**	**23,617**
Increase, including:	**1,530**	**2,457**	**265**	**4,252**
amortisation	1,530	2,457	265	4,252
Decrease, including:	**-**	**-**	**-**	**-**
retirement	-	-	-	-
other	-	-	-	-
Cumulative amortisation as at Dec 31 2022	**12,290**	**10,897**	**4,683**	**27,869**
Impairment losses as at Jan 1 2022	-	-	-	-
Impairment losses as at Dec 31 2022	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	59	84	-	143
Net carrying amount as at Dec 31 2022	**6,167**	**41,897**	**410**	**48,475**

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

Item	*Patents and licences, software*	*Development costs*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2021	**15,924**	**45,029**	**5,093**	**66,046**
Increase, including:	**1,396**	**3,672**	**-**	**5,068**
acquisitions	1,394	3,624	-	5,017
other	2	48	-	50
Decrease, including:	**179**	**18**	**-**	**197**
retirement	158	-	-	**158**
reclassification	21	18	-	**39**
Gross carrying amount as at Dec 31 2021	**17,140**	**48,683**	**5,093**	**70,917**
Cumulative amortisation as at Jan 1 2021	**9,760**	**6,704**	**4,151**	**20,615**
Increase, including:	**1,157**	**1,736**	**267**	**3,160**
amortisation	1,157	1,736	267	3,160
other				-
Decrease, including:	**158**	**-**	**-**	**158**
retirement	158	-	-	158
Cumulative amortisation as at Dec 31 2021	**10,760**	**8,440**	**4,418**	**23,617**
Impairment losses as at Jan 1 2021	-	-	-	-
Impairment losses as at Dec 31 2021	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	-61	10	-	-51
Net carrying amount as at Dec 31 2021	**6,320**	**40,253**	**675**	**47,248**

No intangible assets are pledged as security for liabilities.

As at December 31st 2022 and December 31st 2021, the Group had no intangible assets held for sale.
In 2022, the research costs recognised in the statement of comprehensive income were PLN 4,113 thousand (2021: PLN 2,827 thousand).
As at December 31st 2022, PLN 32,486 thousand of costs of completed development work and PLN 9,411 thousand of costs of ongoing development work were recognised. The costs include the development of innovative equipment for metal heat treatment and vacuum metallurgy.
Costs of completed development work include:

- PLN 23,807 thousand allocated to the vacuum furnace product category;
- PLN 3,185 thousand allocated to the aluminium furnace product category;
- PLN 4,622 thousand allocated to the melting furnace product category;
- PLN 872 thousand in other costs.

Costs of ongoing development work include:

- PLN 7,743 thousand allocated to the vacuum furnace product category;
- PLN 602 thousand allocated to the aluminium furnace product category;
- PLN 389 thousand allocated to the melting furnace product category.
- PLN 677 thousand of other costs.

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

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

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

Kay assumptions for the calculation of value in use

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

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

Sensitivity to changes of assumptions

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

Note 12. GOODWILL

Consolidation goodwill	Dec 31 2022	Dec 31 2021
Retech Systems LLC	30,081	30,081
SW Germany	1,667	1,667
Total goodwill at end of period	**31,748**	**31,748**

In 2022, no increase/decrease in goodwill was recognised.

The Parent's Management Board analyses business performance by vertically integrated units within the Group. The Group operates in many markets around the globe, selling metal heat treatment furnaces manufactured using three main technologies. The Group's main production centres are situated in Poland, US and China. Sales, handled by the individual Group companies, are made by the companies in global markets, usually related to their place of registration, although in practice there are often deviations from this allocation, especially if the company also has customers outside its country of registration.

Cash-generating units were recognised at the Group in accordance with the geographical criteria as cash inflows may be identified according to the Group's product markets.

In principle, separate flows are generated from deliveries to the Chinese market (related to production by the plant in China and independent assets in China). The Chinese market is also a separate point of reference for the Group's operations and it is possible to allocate cash inflows to assets in that market. Therefore, the first cash-generating unit is "Production and distribution – China".

The assets of this unit are all production and distribution assets in the Chinese companies.

The smallest asset group to which the remaining inflows may be allocated is all other production and distribution assets of the Group. Apart from China, production and sales are global and are carried out based on the same assets – the assets of all the other Group companies. For these reasons, the second cash-generating unit is "Production and Distribution – Rest of the World".

At the level of a group of units, impairment tests are conducted with respect to corporate assets and intangible assets resulting from internal and acquired development work in the area of furnace construction technologies.

As at the reporting date, the Group did not identify any indications of impairment of the above units. However, a test for the "Rest of the World" unit was required due to the recognition of goodwill as one of the assets of that unit.

The recoverable amount of all cash-generating units was determined based on the calculations of value in use. The calculations are based on post-tax cash flow projections adopted in financial models approved by the Management Board for a period of five years. Cash flows beyond five years are extrapolated using the estimated growth rates set out below. The growth rate after the forecast period is the weighted average of expected growth rates until the end of the period covered by the financial model and expected inflation rates after that period.

The key assumptions used in the calculations of value in use as at December 31st 2022 are as follows:

	Production and distribution – Rest of the World
Average annual revenue growth in the forecast period	6.1%
Long-term growth rate after the forecast period	2%
Discount rate	15.93%

Recoverable amount of the unit	181,659
Carrying amount of the unit	108,125
Excess of recoverable amount over carrying amount of the unit	73,535

The discount rate was determined based on the Group's after-tax underlying cost of capital.

The carrying amount of the remaining undepreciated/unamortised assets covered by the test was PLN 31,748 thousand.

The key assumptions used in the calculations of value in use as at December 31st 2021 are as follows:

	Production and distribution – Rest of the World
Average annual revenue growth in the forecast period	6.70%
Long-term growth rate after the forecast period	2%
Discount rate	11.46%
Recoverable amount of the unit	214,224
Carrying amount of the unit	113,675
Excess of recoverable amount over carrying amount of the unit	100,549

Sensitivity to changes of assumptions
A simulation of the recoverable amount was made with changed discount rates for 2022–2026 for each company covered by the impairment test:

Discount rates assumed in the test

+1/-1% change in discount rate	-13,338	13,873
+10/-10% change in average revenue growth rate	44,328	-36,947
+1/-1% change in growth rate after forecast period	8,165	-7,071

As a key assumption, for each cash-generating unit the Parent's Management Board adopted a forecast revenue growth rate resulting from the Group's financial plan for the forecast period, and a long-term revenue growth rate after the forecast period. The sales volume and the selling price of products for each period are the principal revenue drivers. The cost assumptions are based on estimated costs of materials and labour for volumes required to generate revenue. The cumulative annual volume growth rate is based on the Management Board's expectations as to market growth and limited by the maximum production capacity of the plants. The applied long-term growth rates are consistent with forecasts presented in industry reports. Discount rate – the weighted average cost of capital (WACC) was used as a discount rate for the purposes of the impairment tests; WACC was adjusted on a case-by-case basis for premiums and discounts related to risks specific to a given tested asset.

No impairment at the level of a group of units was identified.

Note 13. EQUITY-ACCOUNTED INVESTEES

OOO SCT

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

OOO SCT provides metal heat treatment services in Russia, but its activities are not material to the SECO/WARWICK Group's business.

Condensed financial information of the associate

Balance sheet	Dec 31 2022	Dec 31 2021
Non-current assets	2,012	1,480
Current assets	2,689	1,917
Non-current liabilities	-	3
Current liabilities	816	156
Revenue	3,667	2,373
Net profit/(loss) from continuing operations	-959	-484

Carrying amount of investment	
As at Dec 31 2021	**-**
Share of loss of jointly controlled entity 2021	-480
Exchange differences on translating foreign operations	803
Impairment losses	-322
As at Dec 31 2022	**-**

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

Assumptions adopted for the impairment test as at December 31st 2022:

	OOO SCT
Average annual revenue growth in the forecast period	5.00%
Long-term growth rate after the forecast period	2%
Discount rate	30.16%
Recoverable amount of the unit	-
Carrying amount of the unit	323
Impairment loss on investment	323

Sensitivity to changes of assumptions:

Discount rates assumed in the test		
+1/-1% change in discount rate	-6	7
+10/-10% change in average revenue growth rate	56	-37
+1/-1% change in growth rate after forecast period	3	-3

The excess of the carrying amount over recoverable amount was PLN 323 thousand, resulting in the recognition of an impairment loss on the investment in OOO SCT.

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

Note 14. INVENTORIES

Item	Dec 31 2022	Dec 31 2021
Materials	53,114	30,713
Semi-finished products and work in progress	29,702	28,695
Finished goods	6,141	2,733
Merchandise	282	650
Total inventories (carrying amount)	**89,239**	**62,790**
Inventory write-downs	12,831	10,855
Gross inventories	**102,070**	**73,645**

CHANGE IN WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	Total
Jan 1 2021	**1,187**	**6,085**	**733**	**5**	**8,009**
Increase, including:	**2,275**	**588**	**-**	**-**	**2,863**
- write-downs recognised in correspondence with other expenses	2,275	588	-	-	2,863
Decrease, including:	**-**	**17**	**-**	**-**	**17**
Net exchange differences on translating financial statements into presentation currency	-	17	-	-	17
Dec 31 2021	**3,462**	**6,656**	**733**	**5**	**10,855**
Increase, including:	**1,349**	**558**	**-**	**-**	**1,907**
- write-downs recognised in correspondence with other expenses	1,349	558	-	-	**1,907**
Decrease, including:	**-**	**-68**	**-**	**-**	**-68**
Net exchange differences on translating financial statements into presentation currency	-	-68	-	-	-68
Dec 31 2022	**4,811**	**7,282**	**733**	**5**	**12,831**

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

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

Note 15. CONTRACT ASSETS/LIABILITIES

Contract assets

Contract assets are recognised when the Group has satisfied a performance obligation to a customer by delivering goods or services, but payment for these services and goods has not yet been made and no invoice has been issued. Where the right to receive consideration is unconditional, i.e., where the Group has satisfied a performance obligation to a customer and issued an invoice for the goods/services, the right to receive consideration is recognised as trade receivables. In view of the performance of large contracts for individual customers, the Group believes that there is a concentration of credit risk with respect to contract assets and receivables. Therefore, in order to determine impairment losses the Group analyses balances on a case-by-case basis. The Group's maximum exposure to credit risk at the end of the reporting period corresponds to the carrying amount of these assets.

Changes in contract assets in the twelve months ended December 31st 2022 were as follows:

	2022	2021
Opening balance	**78,434**	**66,583**
Increase	482,891	379,583
Invoiced amounts transferred to trade receivables	-419,472	-369,198
Impairment losses on contract assets	-973	-38
Exchange differences	-6	1,504
Closing balance	**140,873**	**78,434**

Contract liabilities

The balance of contract liabilities of approximately PLN 61,886 thousand as at January 1st 2022 was recognised as revenue generated in the 12 months ended December 31st 2022.

The significant amounts of contract assets and liabilities result from the payment schedules agreed with the customers and are recognised at the level of individual contracts.

As at December 31st 2022, the transaction price allocated to unsatisfied performance obligations under contracts with customers was PLN 127,423 thousand. The following table shows the time periods during which the Group expects to satisfy those performance obligations and recognise related revenue.

	Dec 31 2022	Dec 31 2021
Up to 1 year	126,065	78,917
1–2 years	1,357	1,357
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
In more than 5 years	-	-
Total unsatisfied performance obligations	**127,423**	**80,274**

Note 16. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2022	Dec 31 2021
Trade receivables	**1,830**	**1,456**
from other entities	1,830	1,456
Other receivables		
from other entities	-	-
Total long-term trade and other receivables	**1,830**	**1,456**

Item	Dec 31 2022	Dec 31 2021
Trade receivables	**85,788**	**83,570**
a) trade receivables, with maturities of up to 12 months	85,788	83,570
- prepayments and security deposits paid	-	-
b) from other entities	-	-
Total other short-term receivables	**19,023**	**18,318**
- taxes, customs duties, social security	5,171	10,561
- sale of S/W Brasil shares	-	328
- prepayments	9,210	5,629
- other receivables	4,642	1,799
Total net trade and other receivables	**104,811**	**101,888**
Impairment losses	17,540	15,501
Total gross trade and other receivables	**122,352**	**117,388**

As at December 31st 2022, an impairment loss was recognised for trade receivables amounting to PLN 17,540 thousand (2021: PLN 15,501 thousand). For more information on the method of estimating expected credit losses, see Section 33.4.

Changes in impairment losses on receivables were as follows:

Item	Dec 31 2022	Dec 31 2021
At beginning of period	**15,501**	**14,497**
Increase	2,825	2,028
Reversal (-)	-138	-546
Net exchange differences on translating financial statements into presentation currency	-647	-478
At end of period	**17,541**	**15,501**

The following tables present gross carrying amounts of trade receivables measured at amortised cost and the allowance for expected credit losses on such receivables for each period past due.

Dec 31 2022	Weighted-average loss rate	Loss allowance for the period January 1st–December 31st 2022
Not past due	2%	1,596
Past due from 1 to 90 days	4%	490
Past due from 91 to 180 days	22%	350
Past due more than 180 days	57%	104
Based on a case-by-case analysis of receivable balances		15,001
Total		**17,541**

Dec 31 2021	Weighted-average loss rate	Loss allowance for the period January 1st–December 31st 2021
Not past due	0%	238
Past due from 1 to 90 days	3%	176
Past due from 91 to 180 days	8%	119
Past due more than 180 days	58%	247
Based on a case-by-case analysis of receivable balances		14,722
Total		**15,501**

Trade receivables (gross) by maturity as of the reporting date:

Item	Dec 31 2022	Dec 31 2021
up to 1 month	47,590	41,160
more than 1 month, up to 6 months	24,161	27,978
more than 6 months, up to 1 year	8,095	9,386
more than 1 year	5,159	3,599
past due	2,613	2,903
Total trade receivables (net)	**87,618**	**85,026**
Long-term receivables	1,830	1,456
Short-term receivables	85,788	83,570
Impairment losses on trade receivables	17,540	15,501
Total trade receivables (gross)	**105,159**	**100,526**

Income tax assets

As at December 31st 2022, income tax assets amounted to PLN 1,570 thousand (December 31st 2021: PLN 280 thousand).

Note 17. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets

Item	Dec 31 2022	Dec 31 2021
Shares in other entities	3	3
Derivative financial instruments	1,311	35
Total financial assets, including:	**1,314**	**38**
- long-term	100	3
- short-term	1,214	35

Financial liabilities

Item	Dec 31 2022	Dec 31 2021
Bank borrowings	65,995	49,792
Other financial liabilities	25,794	22,411
- derivative financial instruments	1,984	3,872
- lease liabilities	23,810	18,539
Total financial liabilities, including:	**91,789**	**72,204**
- long-term	26,344	26,627
- short-term	65,446	45,577

	Dec 31 2022		Dec 31 2021	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments	1,311	1,984	38	3,871
Total financial assets and liabilities at fair value through profit or loss				
- non-current	-	-	-	-
- short-term	-	-	-	-
Total hedging instruments				
- long-term	97	-	-	90
- short-term	1,214	1,984	35	3,781

Disclosures of derivative financial instruments which qualify for hedge accounting

The Group applies cash flow hedge accounting with respect to currency risk arising from future, highly probable cash flows associated with the Group’s foreign-currency revenue from sale of merchandise in foreign currencies.

Currency risk hedges

As part of its risk management strategy, involving mainly the management of currency risk associated with foreign-currency revenue from export sale of the Group's products, the Group enters into appropriate FX Forward contracts hedging its projected cash flows. The purpose of the Group's currency risk hedging measures (the Group hedges against the risk of changes in the EUR and USD exchange rates) is to reduce the volatility of foreign-currency revenue from sale of merchandise.

The Group enters into FX Forward hedges with settlement dates matching the dates when it expects to receive the hedged revenue. The Group hedges up to 80% of its revenue for a maximum period of two calendar years. In view of possible differences between the actual timing and amount of cash flows and those estimated, the Group assumes that FX Forwards constituting hedging instruments may be adjusted accordingly, especially by entering into FX Swap contracts with appropriate parameters.

Hedging instruments include:

- FX Forward contracts for sale of a foreign currency (EUR, USD or GBP),
- FX Swap contracts postponing the original payment dates, in the same currencies as original FX Forward contracts.

The Group determines whether there is an economic relationship between a hedged item and the hedging instrument by comparing the key terms of the hedged item and the hedging instrument, in particular the maturity dates, the cash flow currencies and the amounts of the foreign-currency cash flows.

The Group has set a hedge ratio at 1:1 by comparing the nominal amounts of foreign-currency cash flows under the hedging instrument and the hedged item.

In relation to currency risk in cash flow hedging relationships, the main sources of ineffectiveness identified by the Group include:

- non-linearity of Swap points, as a result of which forward exchange rates resulting from a rollover of a derivative instrument may differ from forward exchange rates obtained for the same maturity date without the rollover (using a single FX Forward),
- impact of credit risk on the fair value of FX Forward contracts.

Save for those indicated above, the Group has not identified any other sources of ineffectiveness with respect to the currency risk hedging relationships.

Total figures related to all hedging relationships used*:*

Amount, timing and uncertainty of future cash flows

The following table presents the notional amounts of hedging instruments and their timing as at December 31st 2022:

	TIME REMAINING TO MATURITY					TOTAL
	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	MORE THAN 3 MONTHS, UP TO 1 YEAR	FROM 1 TO 5 YEARS	OVER 5 YEARS	
CASH FLOW HEDGE						
CURRENCY RISK						
EUR/PLN FX Forward (including FX Swap)						
Notional amount (EUR '000)	1,550	2,956	6,066	550	-	**11,122**
Average exchange rate	4.79	4.78	4.98	5.15	-	**4.91**
USD/PLN FX Forward (including FX Swap)						
Notional amount (USD '000)	1,378	1,890	3,555	-	-	**6,823**
Average exchange rate	4.02	4.11	4.27	-	-	**4.18**
GBP/PLN FX Forward (including FX Swap)						

Notional amount (USD '000)	-	-	-	-	-	-
Average exchange rate	-	-	-	-	-	-

Impact of hedge accounting on financial position and results:

The following table shows the impact of cash flow hedging on the financial position and profit or loss with respect to hedging instruments as at December 31st 2022:

Instrument type	Unit	Notional amount Dec 31 2022	Assets Dec 31 2022	Liabilities Dec 31 2022	Statement of financial position item that includes the hedging instrument	Changes in fair value of the hedged item (as a basis for determining the ineffective portion in the period)	Hedging gains or losses for the reporting period recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
Forward – sale of currency	EUR	54,584	1,246	78	Derivative financial instruments	1,168	1,252	-	Finance income/costs	-907	Finance income/costs
Forward – sale of currency	USD	28,495	65	1,906	Derivative financial instruments	-1,841	774	-	Finance income/costs	-3,926	Finance income/costs
Forward – sale of currency	GBP	-	-	-	Derivative financial instruments	-	23	-	Finance income/costs	8	Finance income/costs
TOTAL		83,079	1,311	1,984		-673	2,049			-4,825	

And as at December 31st 2021:

Instrument type	Unit	Notional amount Dec 31 2021	Assets Dec 31 2021	Liabilities Dec 31 2021	Statement of financial position item that includes the hedging instrument	Changes in fair value of the hedged item (as a basis for determining the ineffective portion in the period)	Hedging gains or losses for the reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
Forward – sale of currency	EUR	21,116	35	1,712	Other financial assets/liabilities	68	540	-	NA	-974	finance costs
Forward – sale of currency	USD	7,859	-	2,128	Other financial assets/liabilities	-	-	-	NA	-563	finance costs
Forward – sale of currency	GBP	210	-	31	Other financial assets/liabilities	-	-	-	NA	-2	finance costs
TOTAL		29,185	35	3,872		68	540	-		-1,539	

The following table shows the effect of cash flow hedging on the financial position and profit or loss with respect to hedged items as at December 31st 2022:

(PLN '000)	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedge reserve for continuing hedges	Balance remaining in cash flow hedge reserve in respect of all hedging relationships for which hedge accounting is no longer applied
	CASH FLOW HEDGE CURRENCY RISK		
Revenue in EUR from sale of merchandise	-1,168	682	-
Revenue in USD from sale of merchandise	1,841	-493	-
Revenue in GBP from sale of merchandise	-	-	-
TOTAL	**673**	**189**	**-**

The following table presents the change in cash flow hedge reserve over the reporting period:

	2022	2021
AT BEGINNING OF PERIOD	**-1,861**	**-1,524**
	CASH FLOW HEDGE CURRENCY RISK	
Hedging gains or losses recognised in other comprehensive income during the reporting period	-2,776	-3,725
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	NA	NA
Amount reclassified from cash flow hedge reserve to statement of profit or loss (revenue) as reclassification adjustment	-4,825	-3,389
AT END OF PERIOD	**189**	**-1,861**

Note 18. OTHER NON-FINANCIAL ASSETS

Item	Dec 31 2022	Dec 31 2021
Prepayments and accrued income	3,856	2,620
Total other non-financial assets	**3,856**	**2,620**

The main items of prepayments and accrued income include insurance and software leases.

Note 19. CASH AND CASH EQUIVALENTS

Item	Dec 31 2022	Dec 31 2021
Cash at banks and cash in hand	73,505	52,352
Short-term deposits	395	1,873
Total cash and cash equivalents	**73,900**	**54,225**

Note 20. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Item	Dec 31 2022	Dec 31 2021
Number of shares	10,298,554	10,298,554
Par value of shares	0.2	0.2
Share capital	2,059	2,059
Restatement due to hyperinflationary conditions	1,557	1,557
Share capital at end of period	**3,616**	**3,616**

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

Shareholding structure:

Shareholders as at Dec 31 2022	Share preference	Type of limitation on rights to shares	Number of shares	Ownership interest (%)
SW Holding	None	-	3,387,139	**32.89%**
Spruce Holding Limited Liability Company (USA)	None	-	1,091,952	**10.60%**
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	-	600,000	**5.83%**
SECO/WARWICK S.A.	None	-	1,802,189	**17.50%**
NNLife Otwarty Fundusz Emerytalny*	None	-	577,470	**5.61%**
Other	None	-	2,839,804	**27.57%**
TOTAL			**10,298,554**	**100%**

* formerly: MetLife OFE.

Shareholders as at Dec 31 2021	Share preference	Type of limitation on rights to shares	Number of shares	Ownership interest (%)
SW Holding	None	-	3,387,139	**32.89%**
Spruce Holding Limited Liability Company (USA)	None	-	1,091,952	**10.60%**
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	-	600,000	**5.83%**
SECO/WARWICK S.A.	None	-	1,802,189	**17.50%**
NNLife Otwarty Fundusz Emerytalny*	None	-	577,470	**5.61%**
Other	None	-	2,839,804	**27.57%**
TOTAL			**10,298,554**	**100%**

* formerly: MetLife OFE.

Other components of equity

Other components of equity:	Share-based payment reserve	Share buyback reserve	Hedging reserve	Actuarial gains/(losses)	Translation reserve	Total other components of equity
Other components of equity as at Jan 1 2022	**6,219**	**42,765**	**-1,861**	**-142**	**17,640**	**64,621**
Valuation of management stock option plan	1,526	-	-	-	-	**1,526**
Award of management stock options	-	-	-	-	-	-
Repurchase of shares	-	-	-	-	-	-
Sale of treasury shares under the incentive scheme	-	-	-	-	-	-
Translation reserve	-	-	-	-	2,635	**2,635**
Other comprehensive income	-	-	2,049	-	-	**2,049**

Other components of equity as at Dec 31 2022	**7,744**	**42,765**	**189**	**-142**	**20,275**	**70,831**
Other components of equity as at Jan 1 2021	**7,973**	**29,765**	**-1,524**	**-142**	**13,795**	**49,866**
Valuation of management stock option plan	648	-	-	-	-	**648**
Award of management stock options	-2,555	-	-	-	-	**-2,555**
Repurchase of shares		13,000	-	-	-	**13,000**
Sale of treasury shares under the incentive scheme	153	-	-	-	-	**153**
Translation reserve		-	-	-	3,845	**3,845**
Other comprehensive income	-	-	-336	-	-	**-336**
Other components of equity as at Dec 31 2021	**6,219**	**42,765**	**-1,861**	**-142**	**17,640**	**64,620**

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

Hedging reserve

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

	Cash flow hedge reserve – fair value of a forward contract
As at Jan 1 2021	**-1,524**
Plus: change in fair value of hedging instruments recognised in other comprehensive income	-37
Minus: reclassification from other comprehensive income to profit or loss	-378
Minus: Deferred income tax	79
As at Dec 31 2021	**-1,861**
Plus: change in fair value of hedging instruments recognised in other comprehensive income	68
Minus: reclassification from other comprehensive income to profit or loss	2,462
Minus: Deferred income tax	-481
As at Dec 31 2022	**189**

Share buyback reserve and treasury shares

The acquisition of treasury shares by the Group and its purpose are disclosed in Section I *General information*, Section 6 *Major holdings of shares.* As at December 31st 2022 and December 31st 2021, the Group held 1,802,189 shares in treasury, representing 17.50% of the share capital. In 2021, the Group acquired 595,488 treasury shares worth PLN 8,750 thousand. 102,203 treasury shares worth PLN 2,555 thousand were issued under the incentive scheme.

The Group presents the acquired treasury shares in accordance with IAS 1 as a separate item of equity, deducting their value from equity. As at December 31st 2022, the amount was PLN -28,533 thousand (PLN -28,533 thousand as at December 31st 2021). The acquisition, sale, issue or retirement of treasury shares does not result in the recognition of any gains or losses in the entity's profit or loss.

Proceeds from sale or issue of own shares in 2021 amounted to PLN 153 thousand, and resulted from the terms of participation in the Incentive Scheme set out in its rules.

The treasury shares are shares in SECO/WARWICK S.A. held by Biuro Maklerskie mBanku (mBank Brokerage Office) for the purpose of issuing shares under an agreement for the purchase of treasury shares with participants of the Incentive Scheme, as discussed in more detail in Note 33 *Management stock options.*

The share buyback reserve is used to recognise fair value as at the date of allotment of shares issued in connection with the Incentive Scheme.

Treasury shares

Data in PLN

Item	Number of shares	Par value of shares	Book value of shares	Equivalent of the value of shares acquired or sold for consideration	Percentage of share capital represented by shares
Shares as at Jan 1 2022	**1,802,189**	**0.20**	360,438	28,532,101	17.5%
Increase, including:					
- acquisition of shares for the Incentive Scheme	-	-	-	-	-
Decrease, including:					
- sale of shares under the Incentive Scheme	-	-	-	-	-
Shares as at Dec 31 2022	**1,802,189**	**0.20**	360,438	28,532,101	17.5%

Item	Number of shares	Par value of shares	Book value of shares	Equivalent of the value of shares acquired or sold for consideration	Percentage of share capital represented by shares
Shares as at Jan 1 2021	**1,308,904**	**0.20**	**261,781**	**22,337,600**	12.7%
Increase, including:					
- acquisition of shares, including for the Incentive Scheme	595,488	0.20	119,098	8,749,576	-
Decrease, including:					
- sale of shares under the Incentive Scheme	-102,203	0.20	-20,441	-2,555,075	-
Shares as at Dec 31 2021	**1,802,189**	**0.20**	**360,438**	**28,532,101**	17.5%

Share premium reserve

As at December 31st 2022 and December 31st 2021, the share premium reserve, created as a result of issue of Parent shares, stood at PLN 78,666 thousand.

Note 21. BORROWINGS

On March 12th 2020, SECO/WARWICK S.A. executed a PLN 15,000 thousand investment credit facility agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 1,000,000 Company shares pursuant to Resolution No. 5 of the Company's Extraordinary General Meeting of February 12th 2020. As at the date of signing Annex 3, i.e., November 10th 2020, the amount drawn under the facility was PLN 14,500 thousand. As at December 31st 2022, the total amount drawn under the facility was PLN 7,250 thousand. As at December 31st 2021, the total amount drawn under the facility was PLN 10,472 thousand.

On October 5th 2021, SECO/WARWICK S.A. executed a PLN 10,400 thousand investment credit facility agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 850,000 Company shares under the share buyback programme established pursuant to Resolution No. 5 of the Company's Extraordinary General Meeting of October 7th 2021. As at the date of signing Annex 1, i.e., November 26th 2021, the amount drawn under the facility was PLN 6,908 thousand. As at December 31st 2022, the total amount drawn under the facility was PLN 5,181 thousand. As at December 31st 2021, the total amount drawn under the facility was PLN 6,562 thousand.

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

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

Credit facilities as at December 31st 2022:

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	PLN '000	In foreign currency ('000)						
Huntington National Bank	92	21	USD	36	Jan 31 2026		*fixed – 7%*	Overdraft facility
Volkswagen Credit	74	17	USD	27	Sep 30 2026		*fixed*	Overdraft facility
SANTANDER	-	-	PLN	2,000	Feb 28 2024	promissory note	1M WIBOR + 1.0% p.a.	Overdraft facility
mBank	41	-	PLN	-	-	promissory note	-	Credit card limit
mBank	103	22	EUR	-	-	promissory note	-	Credit card limit
mBank	76	-	PLN	-	-	promissory note	-	Credit card limit
mBank	39	9	USD	-	-	promissory note	-	Credit card limit
mBank	81	17	EUR	-	-	promissory note	-	Credit card limit
BNP Paribas	21,622	-	PLN	30,000	Oct 25 2023	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.1% p.a.	Overdraft facility
PEKAO	23,356	-	PLN	35,000	Aug 31 2023	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.25% p.a.	Overdraft facility
mBank	-	-	PLN	5,000	Jun 28 2024	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.1% p.a.	Overdraft facility
mBank	7,250	-	PLN	14,500	Mar 31 2025	mortgage, surety provided by SWE, hold on securities account	1M WIBOR + 1.35% p.a.	Investment facility
mBank	5,181	-	PLN	6,908	Sep 30 2026	mortgage, surety provided by SWE, hold on securities account	1M WIBOR + 1.35% p.a.	Investment facility

Santander	8,080	-	PLN	19,000	Feb 28 2023	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.0% p.a.	Overdraft facility
Total	**65,995**							

Credit facilities as at December 31st 2021:

Lender	Amount			Limit/amount as per agreement	Repayment date	Security	Interest rate	Type
	PLN '000	In foreign currency ('000)	Currency					
Huntington National Bank	109	27	USD	32	Jan 31 2026		*fixed – 7%*	Overdraft facility
Volkswagen Credit	87	21	USD	26	Sep 30 2026		*fixed*	Overdraft facility
SANTANDER	1,103	-	PLN	2,000	Feb 28 2022	-	variable	Overdraft facility
mBank	41	-	PLN	-	-	-	-	Credit card limit
mBank	12	3	EUR	-	-	-	-	Credit card limit
mBank	46	-	PLN	-	-	promissory note	-	Credit card limit
mBank	2	1	USD	-	-	promissory note	-	Credit card limit
mBank	101	22	EUR	-	-	promissory note	-	Credit card limit
HSBC Bank	2,639	650	USD	650	Dec 31 2022		variable	Overdraft facility
BNP Paribas	14,082	-	PLN	20,000	Sep 30 2022	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.1% p.a.	Overdraft facility
PEKAO	-	-	PLN	25,000	Aug 31 2022	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.25% p.a.	Overdraft facility
mBank	6,562	-	PLN	6,908	Sep 30 2026	mortgage, surety provided by SWE,	1M WIBOR + 1.35% p.a.	Investment facility

						hold on securities account		
mBank	10,472	-	PLN	14,500	Mar 31 2025	mortgage, surety provided by SWE, hold on securities account	1M WIBOR + 1.35% p.a.	Investment facility
Santander	14,535	-	PLN	19,000	Feb 28 2022	representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	1M WIBOR + 1.0% p.a.	Overdraft facility
Total	**49,792**							

Borrowings by maturity:

Item	Dec 31 2022	Dec 31 2021
Short-term borrowings	58,047	37,207
Long-term borrowings	7,948	12,585
- repayable in more than 1 year, up to 3 years	6,912	9,362
- repayable in more than 3 years, up to 5 years	1,036	3,223
Total borrowings	**65,995**	**49,792**

Borrowings by currency:

Item	Dec 31 2022		Dec 31 2021	
	amount in foreign currency	amount in PLN	amount in foreign currency	amount in PLN
PLN		65,606		46,842
EUR	39	184	25	114
USD	47	205	699	2,837
CNY	-	-	-	-
Total borrowings		**65,995**		**49,792**

Note 22. LEASES

The Group as a lessee

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

Item	2022	2021
As at Jan 1	18,540	21,556
Increase (new leases)	10,081	2,319
Amendments to lease contracts	-378	-941
Payment of interest	1,079	705
Payments	-5,513	-5,099
As at Dec 31	**23,809**	**18,540**
Short-term	5,414	4,588
Long-term	18,396	13,952

As at the end of 2022, the largest items increasing lease liabilities were related to the production facility of SECO/WARWICK Retech in China (PLN 3,064 thousand) and the new office and production complex of SVT in Meadville, Pennsylvania (US) (PLN 1,937 thousand). In 2021, there were no significant increases of lease liabilities.

For information on the maturities of the lease liabilities, see Note 32.3. *Liquidity risk.*

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

Item	2022	2021
Depreciation of right-of-use assets	5,064	4,315
Interest expense on lease liabilities	1,079	705
Cost of short-term leases (included in cost of products and services sold)	378	324
Cost of leases of low-value assets (included in administrative expenses)	103	69
Total amount recognised in the statement of comprehensive income/statement of profit or loss	6,624	5,413

Undiscounted future payments under operating leases – the Group as a lessor

The lease income recognised by the Group under other income amounted to PLN 920 thousand in 2022. As at December 31st 2022 and December 31st 2021, the maturities of lease payments were as follows (at undiscounted amounts):

Item	Dec 31 2022	Dec 31 2021
In the 1st year	920	897
In the 2nd year	610	574
In the 3rd year	598	563
In the 4th year	598	563
In the 5th year	598	563
In more than 5 years	299	281
Total	**3,623**	**3,441**

The Group mainly leases out its premises to cooperating entities where the terms of cooperation require location in close proximity.

Note 23. TRADE AND OTHER PAYABLES

Item	Dec 31 2022	Dec 31 2021
short-term	84,699	62,382
long-term	-	-
Total	**84,699**	**62,382**

SHORT-TERM TRADE AND OTHER PAYABLES

Item	Dec 31 2022	Dec 31 2021
Trade payables		
To other entities	70,156	52,016
Total	**70,156**	**52,016**
Taxes, customs duties, social security and other charges payable	10,792	8,912
Income tax payable	2,178	120
Other liabilities	1,574	1,334
Total other payables	**14,543**	**10,366**
Total trade and other payables	**84,699**	**62,382**

Capital commitments

As at December 31st 2022, the Group had commitments of PLN 709 thousand to incur capital expenditure on property, plant and equipment.

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

The Act on Company Social Benefits Fund of March 4th 1994 (as amended) stipulates that an employer is required to create a Company Social Benefits Fund if it has more than 50 full-time employees. The Group has set up such a fund and makes periodic contributions to it at the basic rate/the amount agreed upon with the trade unions. The fund holds property, plant and equipment. The purpose of the fund is to partly finance the Company's social activities, loans to its employees and other social costs.
The Group set off the fund's assets against its liabilities towards the fund because the fund's assets are not separate from the Group's assets.
The table below presents analytic data on the fund's assets, liabilities and expenses, as well as the fund's net balance.

Item	Dec 31 2022	Dec 31 2021
Loans to employees	49	32
Cash	696	169
Liabilities to the fund	582	207
Net balance	163	-6
Contributions to the fund during the year	858	-

CONTINGENT LIABILITIES

Contingent liabilities under guarantees and sureties issued were PLN 8,460 thousand as at the end of 2022, and PLN 9,250 thousand as at the end of 2021. The following guarantees were issued:

Item	Dec 31 2022	Dec 31 2021
performance bond	6,349	5,440
bid bond	2,110	3,810
Total	**8,460**	**9,250**

As at December 31st 2022, there were no material expected credit losses under financial guarantees issued.

Note 24. EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

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

Provision for retirement bonuses and similar benefits

LONG-TERM PROVISION FOR EMPLOYEE BENEFIT OBLIGATIONS	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2021
at beginning of period	**1,143**	**2,173**
increase	750	83
recognition	750	83
use	273	166
reversal	200	947
at end of period	**1,421**	**1,143**

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

Item	Dec 31 2022	Dec 31 2021
Discount rate (%)	3.60%	3.60%
Expected inflation rate (%)	5%	5%
Expected rate of growth of salaries and wages (%)	5%	5%

SHORT-TERM PROVISION FOR EMPLOYEE BENEFIT OBLIGATIONS/ ACCRUED HOLIDAY ENTITLEMENTS, ETC.	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2021
1. Accrued holiday entitlements		
at beginning of period	**3,679**	**3,389**
- recognition	6,832	6,793
- use	6,280	6,502
at end of period	**4,231**	**3,679**
2. Accrued bonuses		
at beginning of period	**8,423**	**5,577**
- recognition	12,196	7,837
- use	7,513	4,991
at end of period	**13,107**	**8,423**
3. Employee benefit obligations		
at beginning of period	**44**	**12**
- recognition	-	32
- use	10	-
at end of period	**35**	**44**
4. Current salaries and wages	**9,056**	**6,983**
Total employee benefit obligations	**26,428**	**19,130**

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

Item	Dec 31 2022	Dec 31 2021
Discount rate (%)	-	2.46%
Expected rate of return on assets (%)	6.00%	6.00%

RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)

Item	2022	2021
Change in plan's obligation		
Obligation as at beginning of period	**15,726**	**16,226**
Administration costs	-	-
Interest expense	204	326
Actuarial gain/(loss)	-1,518	-930
Contributions paid	-627	-1,116
Sale of plan	-15,363	-
Effect of currency translation on presentation currency	1,578	1,220
Obligation as at end of period	**-**	**15,726**
Change in plan's assets		
Fair value of plan's assets at beginning of period	**19,361**	**16,280**
Interest income/(loss) on plan's assets	204	324
Additional gain/(loss) on plan's assets	-2,523	2,484
Benefits paid	-627	-1,116
Sale of plan	-18,361	-
Effect of currency translation on presentation currency	1,946	1,389
Fair value of plan's assets at end of period	**-**	**19,361**

Future actuarial measurements may differ significantly from current measurements used by the actuary to calculate the pension benefit obligation of SECO/WARWICK Corp. due to factors such as:

- changes in underlying economic or demographic assumptions;
- economic developments;
- increases or decreases which can be expected to result naturally from the methodology used for these measurements, such as changes in estimated asset depreciation/amortisation periods, amendments of the terms of the plan or to applicable laws or regulations.

In 2022, all the liabilities and assets of the retirement benefit plan of SECO/WARWICK Corp. were transferred to a third party. The transaction resulted in the recognition of a net gain of PLN 995 thousand.

Disaggregation of the fair value of the assets of the Seco/Warwick Corp. pension plan into asset classes:

As at Dec 31 2021:

	Market value	Percentage of market value	Estimated annual income	Current profitability
Current investments	376	1.96%	0.07	0.02%
Fixed income assets	2,673	13.90%	73.23	2.88%
Equity investments	10,863	56.50%	128.24	1.24%
Trust funds	5,314	27.64%	100.61	1.99%
Total	**19,226**	**100.00%**	**302.15**	**1.65%**

Note 25. OTHER PROVISIONS

Item	Provision for warranty repairs and returns	Provision for contractual penalties	Provision for loss-making contracts	Other provisions – contingent liability	Total
As at Jan 1 2021	**7,179**	**298**	**579**	**-**	**8,056**
Provisions recognised during the financial year	6,581	-	912	-	7,493
Increase	**6,581**	**-**	**912**	**-**	**7,493**
Provisions used	-4,803	-	-816	-	-5,619
Provisions reversed	-	-	-164	-	-164
Decrease	**-4,803**	**-**	**-980**	-	**-5,783**
As at Dec 31 2021	**8,957**	**298**	**511**	**-**	**9,766**
Provisions recognised during the financial year	3,619	-	851	-	4,469
Increase	**3,619**	**-**	**851**	**-**	**4,469**
Provisions used	-3,900	-	-	-	-3,900
Provisions reversed	-	-	-318	-	-318
Decrease	**-3,900**	**-**	**-318**	**-**	**-4,218**
As at Dec 31 2022	**8,676**	**298**	**1,044**	**-**	**10,018**

The Group reviews its provisions as at the end of each reporting period and adjusts them to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Accordingly, all other provisions are recognised as current provisions as in each case they will be used or settled within the next 12 months.
The Group has identified no need to recognise provisions for disassembly of property, plant and equipment and site restoration or for decommissioning of property, plant and equipment, and no need to recognise a provision for asbestos removal.

Provision for warranty repairs

The provision for warranty repairs is calculated on a case-by-case basis for each contract and reflects the contractual obligations towards the Customer during the warranty period. The amount of the provision is planned in accordance with internal guidance for each technology. On average, it ranges from 1.5% to 2% of the contract value. The assumptions adopted for the current period are consistent with those applied in the previous year. The Group calculates the provision for warranty repairs based on planned costs updated for the purpose of calculating the warranty provisions, less the costs of warranties, taking into account the stage of completion measured by reference to contract costs incurred.
Recognising the provision for warranties, the Group considers the percentage of contract completion (pro rata to revenue recognition), planning the costs of complaints until the contract is 100% complete (the final acceptance report is signed).

As warranty costs arise or at the start of the warranty period, the provision is gradually reduced by the costs of warranty repairs incurred or by the amounts stated by the entity performing the contract if it determines that the claims for which the provision was recognised will not occur in the future. The provision is fully reversed at the end of the warranty period or once all outstanding warranty repairs have been completed.

As at December 31st 2022, the carrying amount of the provision was PLN 8,676 thousand (December 31st 2021: PLN 8,957 thousand).

A 10% difference in the cost of warranty claims relative to management estimates would result in an increase or decrease in the provision for warranty costs of approximately PLN 867.6 thousand (as at December 31st 2021 – an increase or decrease by PLN 895.7 thousand).

Provision for penalties

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

The provision for penalties did not change during the financial year.

Provision for loss-making contracts

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

As at December 31st 2022, the carrying amount of the provision was PLN 1,044 thousand (December 31st 2021: PLN 511 thousand).

Note 26. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	Dec 31 2022	Dec 31 2021
Cash in the statement of financial position	73,900	54,225
Total cash and cash equivalents in the statement of cash flows	**73,900**	**54,225**

Item	Dec 31 2022	Dec 31 2021
Depreciation and amortisation:	**15,008**	**12,894**
Amortisation of intangible assets	4,252	3,245
Depreciation of right-of-use assets	5,103	4,314
Depreciation of property, plant and equipment	5,653	5,311
Depreciation of investment property	-	24
Change in provisions (including elimination of change in deferred tax liabilities) results from the following items:	**1,133**	**7,800**
Net change in provisions	5,446	7,063
Elimination of change in deferred tax liabilities	2,381	-1,577
Exchange differences	-1,835	-1,101
Provisions for employee benefits	-4,859	3,415
Change in inventories results from the following items:	**-25,119**	**283**
Net change in inventories	-26,449	-1,236
Exchange differences	1,330	1,519
Change in receivables (excluding elimination of income tax receivable) results from the following items:	**-5,219**	**134**
Net change in receivables	-4,586	-252
Elimination of income tax receivable	1,290	-201
Exchange differences	-1,923	587
Change in liabilities (excluding financial liabilities) results from the following items:	**24,148**	**7,450**
Net change in liabilities	25,698	9,502
Change in investment commitments	-409	-295
Exchange differences	2,239	2,046
Change in lease liabilities	-5,269	-3,014
Valuation of derivative instruments	1,887	-788

Change in contract assets and liabilities results from the following items:	**-14,198**	**-42,409**
net change in contract assets and liabilities	-15,290	-45,125
Exchange differences	1,092	2,716
Change in currency derivative instruments results from:	**-633**	**683**
net change in assets	-1,276	310
revaluation reserve	2,530	-415
net change in liabilities	-1,887	788

Proceeds from grants received in the 2022 financial year were PLN 523 thousand, compared with PLN 849 thousand in the previous year.

CASH FLOWS FROM INVESTING ACTIVITIES	2022	2021
Proceeds from disposal of intangible assets and property, plant and equipment	**1,524**	**1,622**
Sale of property, plant and equipment item No AOO/00419	1,331	-
Sale of property, plant and equipment item No 452/01130	52	1,017
Sale of property, plant and equipment item No 741/00278	-	96
Sale of property, plant and equipment item No 452/01045	-	227
Sale of property, plant and equipment items to employees	65	-
Other	76	282
Other proceeds from financial assets	**51**	**216**
Other proceeds from financial assets	51	216
Other payments under financial assets	**-35**	**-80**
Other payments under financial assets	-35	-80
Investments in intangible assets and property, plant and equipment	**-13,207**	**-10,312**
Development work	-4,012	-3,531
Computers and licences	-1,586	-1,211
Solar PV	-1,077	-
Construction and refurbishment of production and office buildings	-2,538	-2,759
Plant and equipment	-1,765	-1,110
Vehicles	-126	-85
Other non-current assets	-2,103	-1,616
Net cash from investing activities	**-11,667**	**-8,554**

Reconciliation of debt liabilities to cash flows from financing activities as at December 31st 2022:

	Bank borrowings	Lease liabilities	Other	Total
Jan 1 2022				
Changes in cash flows from financing activities				
Payment of liabilities under:	-8,558	-4,435	-	-12,993
Payment of interest on:	-3,514	-1,079	-	-4,593
Proceeds from bank borrowings:	24,488	-	-	24,488
Net cash flows from financing activities	**12,416**	**-5,514**	**-**	**6,901**

Other changes	-	-	-	-
Dividend	-	-	-2,549	-2,549
Other	-	-	523	523
Total other changes	-	-	-2,026	-2,026
Total as at Dec 31 2022	**12,416**	**-5,514**	**-2,026**	**4,876**

Reconciliation of debt liabilities to cash flows from financing activities as at December 31st 2021:

	Bank borrowings	Lease liabilities	Other	Total
Jan 1 2021				
Changes in cash flows from financing activities				
Payment of liabilities under:	-39	-4,394	-	-4,433
Payment of interest on:	-458	-405	-	-862
Proceeds from bank borrowings:	18,261	-	-	18,261
Net cash flows from financing activities	**17,764**	**-4,799**	**-**	**12,965**
Other changes	-	-	-	-
Dividend	-	-	-4,944	-4,944
Other	-	-	1,002	1,002
Repurchase of shares	-	-	-8,750	-8,750
Total other changes	-	-	-12,692	**-12,692**
Total as at Dec 31 2021	**17,764**	**-4,799**	**-12,692**	**273**

Note 27. RELATED PARTIES

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

Note 28. REMUNERATION OF KEY PERSONNEL

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

Remuneration of the Management Board

Name and surname	Remuneration in the period	Other benefits	Accrued incentive scheme costs	Total remuneration in the period
Dec 31 2022	**(PLN '000)**	**(PLN '000)**	**(PLN '000)**	**(PLN '000)**
Sławomir Woźniak	548	549	444	1,541
Piotr Walasek	387	255	218	859
Earl Good	1,104	250	223	1,578
Bartosz Klinowski	387	311	218	916
Total	**2,426**	**1,365**	**1,103**	**4,894**

Dec 31 2021				
Sławomir Woźniak	480	365	262	1,107
Jarosław Talerzak (1)	130	43	-	173
Piotr Walasek	360	250	87	697
Earl Good	1,162	-	87	1,249
Bartosz Klinowski	360	215	87	662
Total	**2,492**	**873**	**524**	**3,888**

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

Remuneration of the Supervisory Board:

Name and surname	Total remuneration	
	Dec 31 2022	Dec 31 2021
Andrzej Zawistowski, including:	332	325
- for his service as Chair of the Supervisory Board	212	205
- under contract for advisory services (1)	120	120
Jeffrey Boswell, including:	196	169
- under employment contract (2)	196	169
Henryk Pilarski (3)	22	54
Marcin Murawski	43	45
Jacek Tucharz (4)	17	42
Robert Jasiński (5)	25	-
Maciej Karnicki (6)	38	-
Total	**673**	**635**

(1) Under a service contract between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities as USŁUGI DORADCZE Andrzej Zawistowski. The contract of January 2nd 2020 is for the provision of technical and product development advisory services.
(2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.
(3) Mr Henryk Pilarski served on the Supervisory Board until May 25th 2022.
(4) Mr Jacek Tucharz served on the Supervisory Board until May 25th 2022.
(5) Mr Robert Jasiński has been serving on the Supervisory Board since May 25th 2022.
(6) Mr Maciej Karnicki has been serving on the Supervisory Board since May 25th 2022.

Note 29. FINANCIAL INSTRUMENTS

Item	Category under IFRS 9	Carrying amount		Maximum credit risk exposure in 2022
		Dec 31 2022	Dec 31 2021	
Financial assets				
Loans advanced	At amortised cost	-	-	-
Trade and other receivables	At amortised cost	106,382	102,167	106,382
Long-term receivables	At amortised cost	1,830	1,830	1,830
Hedging instruments	At fair value	1,214	35	1,214
Cash and cash equivalents	At amortised cost	73,900	54,225	73,900
Financial liabilities				
short-term				
Short-term bank borrowings	At amortised cost	58,047	33,370	-
Lease liabilities	At amortised cost	5,414	4,589	-
Trade and other liabilities	At amortised cost	77,565	56,690	-
Hedging instruments	At fair value	1,984	3,782	-
long-term				
Long-term bank borrowings	At amortised cost	7,948	12,585	-
Hedging instruments	At fair value	0	90	-
Lease liabilities	At amortised cost	18,396	13,950	-

At amortised cost – measurement at amortised cost

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

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

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

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

2022

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	Gains/(losses) on derecognition of financial assets
Financial assets						
Loans advanced	41	-	-	-	-	-
Trade and other receivables	206	1,022	-	-805	-	-
Long-term receivables	-	-	-	-	-	-
Derivative financial instruments	-	-	-	444	270	-
Cash and cash equivalents	165	2,439	-	80	-	-
TOTAL	**413**	**3,461**	**-**	**-281**	**270**	**-**

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	
Financial liabilities						
short-term						
Short-term bank borrowings	-4,980	7	-	-4	-	-
Lease liabilities	-1,054	-	-	-	-	-
Trade and other payables	-155	-426	-	237	-	-
Hedging instruments	-	-	-	141	-5,321	-
long-term	-	-	-	-	-	-
Long-term bank borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Hedging instruments	-	-	-	48	-	-
TOTAL	**-6,189**	**-420**	**-**	**426**	**-5,321**	

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

2021

	Other interest income/(expense)	**Foreign exchange gains/(losses)**	**Impairment losses reversed/(recognised)**	**Valuation gains/(losses)**	**Gains/(losses) on settlement of financial instruments**	**Gains/(losses) on derecognition of financial assets**
Financial assets						
Loans advanced	89	-	-29	-	-	-
Trade and other receivables	87	765	127	-537	-	-
Long-term receivables	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-219	383	-
Cash and cash equivalents	113	414	-	-385	-	-
TOTAL	**289**	**1,179**	**98**	**-1,140**	**383**	**-**

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	
Financial liabilities						
short-term						
Short-term bank borrowings	-874	-	-	-3	-	-
Lease liabilities	-691	-	-	-	-	-
Trade and other payables	-166	-360	-	541	-	-
Hedging instruments	-	-	-	-512	-3,028	-
long-term	-	-	-	-	-	-
Long-term bank borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Hedging instruments	-	-	-	48	-	-
TOTAL	**-1,731**	**-360**	**-**	**77**	**-3,028**	

Changes in liabilities arising from financing activities

2022

	Jan 1 2022	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2022
Interest-bearing borrowings (long-term)	12,585	**-4,638**	**-**	**-**	**-**	**7,948**
Lease liabilities (long-term)	13,950	**-1,363**	**6,184**	**-375**	**-**	**18,396**
Interest-bearing borrowings (short-term)	33,370	**24,591**	**-**	**86**	**-**	**58,047**
Lease liabilities (short-term)	4,589	**-3,072**	**3,897**	**-**	**-**	**5,414**
Derivative financial instruments	3,782	**-**	**-**	**-**	**-1,797**	**1,984**
Total liabilities arising from financing activities	68,276	**15,518**	**10,082**	**-289**	**-1,797**	**91,790**

2021

	Jan 1 2021	changes resulting from cash flows from financing activities	increase under leases	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2021
Interest-bearing borrowings (long-term)	10,690	**1,895**	**-**	**-**	**-**	**12,585**
Lease liabilities (long-term)	16,908	**-3,532**	**906**	**-331**	**-**	**13,952**
Interest-bearing borrowings (short-term)	21,321	**15,723**	**-**	**163**	**-**	**37,207**
Lease liabilities (short-term)	4,647	**-259**	**200**	**-**	**-**	**4,589**
Derivative financial instruments	3,084	**-**	**-**	**-**	**788**	**3,872**
Total liabilities arising from financing activities	56,650	**13,828**	**1,106**	**-168**	**788**	**72,204**

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

This Note explains the judgements and estimates made in the determination of the fair value of financial assets recognised and measured at fair value in financial statements. In order to clarify the reliability of the inputs used to calculate the fair value, the Group has classified its financial assets and liabilities into three levels as specified by the accounting standards. An explanation of each level follows under the table.

	2022		
	Level 1	Level 2	Level 3
	PLN'000	PLN'000	PLN'000
Financial assets			
Derivative financial instruments	-	1,214	-
- *Currency forwards*	-	1,214	-
Total	-	1,214	-
Financial liabilities			
current			
Currency forwards	-	1,984	-
Total	-	1,984	-

	2021		
	Level 1	Level 2	Level 3
	PLN'000	PLN'000	PLN'000
Financial assets			
Derivative financial instruments	-	35	-
- *Currency forwards*	-	35	-
Total	-	35	-
Financial liabilities			
current			
Currency forwards	-	3,782	-
Total	-	3,782	-

There were no transfers during the financial year between fair value levels 1, 2 and 3 for recurring fair value measurements.
The Group follows the principle of recognising transfers between fair value hierarchy levels at the end of the reporting period.

Level 1: The fair value of financial instruments traded on active markets (such as listed financial derivatives and equity securities) results from their prices at the end of the reporting period. The market price used to measure financial assets held by the Group is the current purchase price. Such instruments are classified as Level 1.
Level 2: The fair value of financial instruments which are not traded on active markets (such as OTC derivatives) is determined based on appropriate measurement techniques which use observable inputs as much as possible, minimising the use of estimates made by the entity. If all relevant inputs necessary for the fair value measurement of an instrument are actually observable, the instrument is classified as Level 2.
Level 3: If at least one type of significant inputs is not observable market data, the instrument is classified as Level 3. Unlisted equity securities are Level 3 instruments.

The techniques used to measure financial instruments include:

- use of market prices or broker prices for similar instruments,
- for interest rate swaps: the present value of estimated future cash flows based on observable yield curves,
- for currency forwards: the present value of future cash flows based on forward exchange rates as at the reporting date,
- for foreign exchange options: option valuation models (such as the Black-Scholes model),
- for other financial instruments: analysis of discounted cash flows.

All fair value estimates thus calculated are classified as Level 2, except for unlisted equity securities, contingent consideration receivables and certain derivative contracts whose fair value was determined on the basis of their present value, and discount rates have been adjusted for counterparty risk and own credit risk.

Note 30. EMPLOYMENT STRUCTURE

Item	Dec 31 2022	Dec 31 2021
Production and product unit employees	629	566
White-collar employees	199	185
Employees on parental leaves	2	3
Total	**830**	**754**

Note 31. DISCONTINUED OPERATIONS

No operations were discontinued in 2022.

Note 32. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and increase the shareholder value.
The Group manages its capital structure and modifies it in response to changes in the economic environment. In order to maintain or adjust the capital structure, the Company may change dividend payments, return capital to shareholders or issue new shares. In the year ended December 31st 2022, no changes were introduced to the objectives, principles and processes applicable in this area.
The Group monitors its equity using a gearing ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Group's net debt includes interest-bearing borrowings and finance lease liabilities, less cash and cash equivalents.
The gearing ratio at end of the respective years was as follows:

	As at Dec 31 2022 PLN '000	As at Dec 31 2021 PLN '000
Debt	89,805	68,331
Cash and cash equivalents	-73,900	-54,225
Net debt	15,905	14,106
Equity	224,073	193,502
Net debt to equity	**7.10%**	**7.29%**

The level of the net debt to equity ratio is a result of the Management Board's conservative approach to debt. Accumulated cash is used to finance the Group's operating activities. The level of the ratio is in line with the Group's expectations. The Group wants its net debt to equity ratio to remain within the range of 5–15%.

Note 33. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

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

33.1. Currency risk

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

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

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

	As at Dec 31 2022 in foreign currency	As at Dec 31 2022 in PLN	As at Dec 31 2021 in foreign currency	As at Dec 31 2021 in PLN
Liabilities				
EUR	5,608	26,302	6,397	29,423
USD	13,189	58,057	5,076	20,608
Assets				
EUR	25,217	118,263	28,068	129,097
USD	29,640	130,468	13,807	56,056
Notional amount of the hedging instrument – for currency sale transactions				
EUR	11,122	52,161	21,115	97,116
USD	6,823	30,033	7,859	31,908

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

Assumptions:

- exchange rate at reporting date Dec 31 2022

- 10% increase in exchange rate

- 10% decrease in exchange rate

Exchange rate at Dec 31 2022	Exchange rate	10% increase in exchange rate	10% decrease in exchange rate
USD	4.4018	0.4402	-0.4402
EUR	4.6899	0.4690	-0.4690

Exchange rate at Dec 31 2021	Exchange rate	10% increase in exchange rate	10% decrease in exchange rate
USD	4.0600	0.4060	-0.4060
EUR	4.5994	0.4599	-0.4599

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

Effect on equity		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
ASSETS					
Increase in exchange rate	10%	17,050	9,609	12,013	13,096
Decrease in exchange rate	-10%	-17,050	-9,609	-12,013	-13,096
LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-8,809	-5,252	-7,846	-12,654
Decrease in exchange rate	-10%	8,809	5,252	7,846	12,654
TOTAL					
Increase in exchange rate	10%	8,241	4,357	4,167	442
Decrease in exchange rate	-10%	-8,241	-4,357	-4,167	-442

Effect on profit/loss		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
ASSETS					
Increase in exchange rate	10%	13,047	5,606	11,826	12,910
Decrease in exchange rate	-10%	-13,047	-5,606	-11,826	-12,910
LIABILITIES AND BANK BORROWINGS					
Increase in exchange rate	10%	-8,809	-5,252	-7,846	-12,654
Decrease in exchange rate	-10%	8,809	5,252	7,846	12,654
TOTAL					
Increase in exchange rate	10%	4,238	354	3,980	256
Decrease in exchange rate	-10%	-4,238	-354	-3,980	-256

33.2. Interest rate risk

The Group companies use interest-bearing credit facilities. Credit facilities with a value equivalent to PLN 65,995 thousand and lease liabilities of PLN 8,792 thousand bear interest at floating rates, while lease liabilities of PLN 15,018 thousand bear interest at fixed rates. Accordingly, the Group is exposed to interest rate risk. The risk is estimated on the basis of interest rate increase/decrease by 1%.

	Effect on profit/loss before tax	Effect on profit/loss before tax
	+ 1%/- 1%	+ 1%/- 1%
	Year ended Dec 31 2022	Year ended Dec 31 2021
Lease liabilities	+/- 88	+/- 63
Other financial liabilities at amortised cost (bank borrowings)	+/- 660	+/- 491

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

33.3. Liquidity risk

Liquidity risk is the risk that the Group may face difficulties in meeting financial liabilities. The liquidity risk management process at the Group involves projecting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring the liquidity ratios based on items of the statement of financial position, and maintaining access to various sources of financing.
The Group also manages liquidity risk by maintaining open and undrawn credit facilities Which serve as a liquidity reserve and secure solvency and financial flexibility. The Group recognises bank borrowings as financial instruments which may potentially cause concentration of liquidity risk as the Group maintains relationships with selected financial institutions only. As at December 31st 2022, bank borrowings represented 19% of total current liabilities (December 31st 2021: 17%).

The table below presents the Group's financial liabilities by maturity as at December 31st 2022 and December 31st 2021, based on contractual payments.

The Company has undrawn credit facilities of PLN 47,679 thousand; for summary information see Note 20 to these financial statements.

Dec 31 2022	up to 1 year	1–2 years	2-3 years	3-4 years	4–5 years	over 5 years	Total (undiscounted)	Carrying amount
Trade payables	84,699	-	-	-	-	-	**84,699**	**84,699**
Leases	5,414	7,641	4,107	2,410	1,569	9,032	**30,173**	**23,810**
Derivatives	1,984	-	-	-	-	-	**1,984**	**1,984**
Interest-bearing borrowings	58,047	4,724	2,187	1,036	-	-	**65,995**	**65,995**
Other liabilities	-	-	-	-	-	-	-	-
TOTAL	**150,145**	**12,365**	**6,294**	**3,446**	**1,569**	**9,032**	**182,851**	**176,488**

Dec 31 2021	up to 1 year	1–2 years	2-3 years	3-4 years	4–5 years	over 5 years	Total (undiscounted)	Carrying amount
Trade payables	62,382	90	-	-	-	-	**62,472**	**62,472**
Leases	4,589	3,501	2,480	2,658	1,197	10,412	**24,837**	**18,539**
Derivatives	3,731	90	-	-	-	-	**3,821**	**3,821**
Interest-bearing borrowings	37,207	5,335	3,222	3,222	806	-	**49,792**	**49,792**
Other liabilities	51	-	-	-	-	-	**51**	**51**
TOTAL	**107,960**	**9,016**	**5,702**	**5,880**	**2,003**	**10,412**	**140,973**	**134,674**

33.4. Credit risk

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

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

The risk of impairment of other financial assets is monitored by the Group through impairment tests of discounted cash flows. As regards contract assets, a case-by-case analysis is performed, with impairment losses recognised under a simplified model described in the following paragraph.

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

The maturity structure of receivables is presented in Note 16.

Impairment loss rates for each past due category of trade receivables were calculated based on a two-year historical reference period. A matrix was created with quarterly movement rates between past due categories for eight consecutive historical quarters. For the longest past due period considered (more than 180 days), the cure rate, reflecting recovered amounts of receivables previously considered uncollectible, was also taken into account. The average of the rates was then calculated and, on this basis, the final parameters of impairment losses were calculated for each quarterly past due category, ranging from 2.29% for non-delinquent receivables to 56.78% for receivables past due over 180 days.

A significant increase in risk occurs in the case of receivables past due more than 180 days. This is due to the nature of the Group's business and industry, characterised by longer payment periods. However, the longer periods before receivables become past due do not affect the Group's ability to settle its liabilities, nor do they increase its credit risk. The Group keeps monitoring the risks associated with possible consequences of the longer payment periods.

In the reporting period, the Group did not adjust its calculated rates for expected future changes in collectability of receivables (forward looking adjustments) as, in the Management Board's opinion, the calculation based on the last eight quarters adequately reflects the expected levels of credit losses on the Group's receivables portfolio.

Note 34. INCENTIVE SCHEME

Adoption of the Incentive Scheme for members of the SECO/WARWICK Group's management staff for 2022–2024

SECO/WARWICK S.A. Incentive Scheme

On December 16th 2021, by Resolution No. 1/2021 the Supervisory Board defined the individual targets for 2022 for the participants of the Incentive Scheme, as announced by the Company in Current Report No. 21/2021 of December 17th 2021. Achievement of the individual targets is a condition for the award of rights under the Incentive Scheme to its participants, provided that they remain employed with the Company in the period from January 1st to December 31st 2022. The targets cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a Scheme participant.

Costs incurred in 2022 in connection with the 2022–2024 Incentive Scheme amounted to PLN 1,460 thousand.
Costs incurred in 2022 in connection with the 2018–2020 Incentive Scheme amounted to PLN 65 thousand.

The total cost of option vesting recognised in 2022 was PLN 1,525 thousand (PLN 648 thousand in 2021).

Note 35. LITIGATION

Seco/Warwick Corporation (SWC) with its registered office in Pennsylvania, US, along with a third party which is not associated with SECO/WARWICK (the "Third Party"), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1982–1986. SWC and the Third Party are seeking coverage for the claims being raised against SWC and the Third Party in connection with product liability personal injury lawsuits filed by individuals alleging injury from asbestos as a result of their exposure to the Third Party's products manufactured by legal predecessors of SWC and the Third Party in 1958-1984 (the "Asbestos Claims"). SWC was established in 1984 and was not part of the SECO/WARWICK Group until 2006.
SWC and the Third Party have alleged in court that the insurance policy contract entered into by LMI extends additional coverage to include the Asbestos Claims, including the costs of settlements entered into with the injured parties and the legal costs incurred to verify the legitimacy of such claims and negotiate the settlements. LMI claims that the policy limits have been exhausted, citing certain special provisions of the insurance policy. SWC and the Third Party disagree with LMI's interpretation of the contract provisions.
To the best of the Group's knowledge, by the date of these financial statements, 932 Asbestos Claims had been filed against SWC, of which 336 Claims were dismissed, 57 Claims ended in settlement with the insurers for a total amount of USD 5,105 thousand, and with respect to 476 Claims verification procedures are under way or the terms of potential settlement with the injured parties are being negotiated.
If no agreement is reached with LMI on continued insurance coverage for SWC or if the lawsuit against LMI is dismissed, there arises the risk that SWC will be forced to bear the costs relating to the Asbestos Claims while SWC and the Third Party pursue the excess carriers to take over the asbestos product liability claims.
To the best of the Group's knowledge, the risk of SWC being forced to bear further costs relating to the Asbestos Claims is not significant, as the Third Party holds other excess insurance policies contracted with other insurance providers, which policies can, according to the information obtained from SWC, cover the Asbestos Claims.
As at the date of these financial statements, the Group's Management Board is not in a position to make a reliable estimate of the total amount of the Group's contingent liability related to the claims described above. The Group will disclose further material information on this event to the public.

Note 36. TAX SETTLEMENTS

Tax settlements and other regulated areas of activity (e.g., customs or foreign exchange control) are subject to inspection by competent administrative authorities, which are authorised to impose high penalties and sanctions.
Tax settlements may be subject to tax inspection for a period of five years from the end of the year in which the tax was paid. As a result of such inspections, the Group's current tax settlements may be increased by additional tax liabilities.

In the opinion of the Management Board, as at December 31st 2022, there was no need to recognise provisions for known and quantifiable tax risk. The Company pays its tax liabilities when due.

Note 37. EVENTS SUBSEQUENT TO THE REPORTING DATE

There were no events subsequent to the reporting date.

Note 38. FEES OF AUDITORS

In 2022, the Company used selected audit firm services, such as audit of the full-year separate financial statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group, review of the half-year separate and consolidated financial statements, and assessment of the report on

remuneration of Supervisory Board and Management Board members. In addition, the audit firm also audited the financial statements of three subsidiaries: SWS, SWR and Retech.
The table below lists the entities authorised to review half-year and audit full-year consolidation packages of the Group companies for the purposes of consolidation.

SECO/WARWICK Group company	Entity authorised to audit financial statements
SECO/WARWICK S.A.	KPMG Audyt Sp. z o.o. sp. k.
Retech Systems LLC	KPMG Audyt Sp. z o.o. sp. k.
SECO/WARWICK Retech	KPMG Huazhen LLP Branch
SECO/WARWICK Services	KPMG Audyt Sp. z o.o. sp. k.

The table below presents total auditors’ fees for 2022 and 2021.

Total auditors’ fees for 2022 and 2021

Service	Fees for 2022 (PLN ‘000)	Fees for 2021 (PLN ‘000)
Audit of full-year consolidated financial statements	598	450
Review of consolidated financial statements	217	190
Other services	23	20
Total	**838**	**660**

Date: April 27th 2023

Sławomir Woźniak, President of the Management Board

Bartosz Klinowski, Member of the Management Board

Earl Good, Member of the Management Board

Piotr Walasek, Member of the Management Board