Bolix S.A. Group
Consolidated financial statements
as at and for the year ended
31 December 2019
prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS UE)

BOLIX S.A. GROUP

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Consolidated statement of comprehensive income for the year ended 31 December 2019

in thousands of Polish zlotys	**Note**	**2019**	**2018**
Sales revenue	4A	149,404	132,477
Cost of sales	3B	(83,789)	(77,116)
Gross profit		**65,615**	**55,361**
Other operating income	4B	187	317
Selling costs	3A	(44,358)	(41,111)
General and administrative expenses	3A	(8,986)	(7,894)
Other operating expenses	5	(26)	(96)
Operating profit		**12,432**	**6,577**
Finance income	6	209	121
Finance costs	7	(989)	(1,176)
Loss on financing activities		**(780)**	**(1,055)**
Share in other comprehensive income of associates and joint ventures		**63**	**87**
Profit before income tax		**11,715**	**5,609**
Income tax expense	9	(1,882)	(984)
Net profit for the year		**9,833**	**4,625**
Foreign exchange differences on translation		**66**	**(52)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**9,899**	**4,573**

The consolidated statement of comprehensive income should be analysed together with the notes to the consolidated financial statements which are an integral part thereof.

Consolidated statement of financial position as at 31 December 2019

in thousands of Polish zlotys	**Note**	**31/12/2019**	**31/12/2018**
Assets			
Property, plant and equipment	10	25,015	23,673
Intangible assets	11	183	183
Goodwill	11	104,431	104,431
Long-term investments		294	231
Total non-current assets		129,923	128,518
Inventories	12	9,203	9,856
Trade and other receivables	13	28,799	21,588
Other current assets	14	1,901	1,292
Cash and cash equivalents	15	1,160	792
Total current assets		41,063	33,528
Total assets		**170,986**	**162,046**
Equity			
Share capital	16	10,000	10,000
Supplementary capital	16	88,912	86,491
Foreign exchange differences on translation		376	310
Retained earnings		18,666	13,476
Total equity		117,954	110,277
Liabilities			
Deferred income tax provision	9	13,105	13,610
Employee benefits payable	18	345	296
Lease liabilities		2,723	2,975
Total long-term liabilities		16,173	16,881
Liabilities in respect of loans and borrowings	17	14,033	15,878
Trade and other payables	20A	14,531	12,862
Lease liabilities		1,884	1,566
Corporate income tax liabilities		1,639	373
Employee benefits payable	20B	4,362	3,958
Provisions	19	410	251
Total short-term liabilities		36,859	34,888
Total liabilities		53,032	51,769
Total equity and liabilities		**170,986**	**162,046**

The consolidated statement of financial position should be analysed together with the notes to the consolidated financial statements which are an integral part thereof.

Consolidated statement of cash flows for the year ended 31 December 2019

in thousands of Polish zlotys	Note	2019	2018
Cash flows from operating activities			
Profit before tax		11,715	5,609
Adjustments for:			
Depreciation of property, plant and equipment	10	5,439	5,160
Amortization of intangible assets	11	108	156
Unrealized foreign exchange differences		-	(52)
Interest expense, net		776	780
Gains on sale/scrapping of fixed assets	3B	(244)	(248)
		17,794	11,405
Changes in working capital:			
Increase in inventories		653	(1,274)
Increase in trade and other receivables		(7,211)	(768)
Increase in other assets		(609)	133
Decrease in provisions		159	(76)
Increase in liabilities (including employee benefits)		2,343	1,479
		(4,665)	(506)
Interest paid		-	(780)
Income tax (paid)		(1,118)	(576)
Net cash from operating activities		12,011	9,543
Cash flows from investing activities			
Proceeds from the sale of fixed assets		285	343
Purchase of shares		-	(195)
Purchase of property, plant and equipment	10	(4,571)	(3,748)
Purchase of intangible assets	11	(108)	(173)
Net cash from investing activities		(4,394)	(3,773)
Cash flows from financing activities			
Proceeds from loans raised		-	-
Repayment of loans and borrowings raised		(1,845)	(782)
Payment of interest on loans raised		(580)	-
Repayment of lease liabilities		(2,054)	(1,299)
Payment of interest on leases		(196)	-
Dividend payment		(2,574)	(3,260)
Net cash from financing activities		(7,249)	(5,341)
Net increase/(decrease) in cash and cash equivalents		368	429
Cash and cash equivalents as at the beginning of the year		**792**	**363**
Effects of changes in the rates of exchange of cash and cash equivalents		-	-
Cash and cash equivalents as at the end of the year	15	**1,160**	**792**

The consolidated statement of cash flows should be analysed together with the notes to the consolidated financial statements which are an integral part thereof.

Consolidated statement of changes in equity

in thousands of Polish zlotys	Share capital	Supplementary capital	Foreign exchange differences on translation	Retained earnings	Total
As at 1 January 2018	**10,000**	**86,516**	**362**	**12,438**	**109,316**
Comprehensive income for the year					
Net profit for the year	-	-		4,625	4,625
Profit for 2017 earmarked for transfer to supplementary capital	-	3,587		(3,587)	-
Foreign exchange differences on translation of subsidiaries	-		(52)	-	(52)
Dividend		(3,612)			(3,612)
As at 31 December 2018	**10,000**	**86,491**	**310**	**13,476**	**110,277**
Comprehensive income for the year					
Net profit for the year	-	-		9,833	9,833
Profit for 2018 earmarked for transfer to supplementary capital	-	4,643		(4,643)	-
Foreign exchange differences on translation of subsidiaries	-		66	-	66
Dividend		(2,222)			(2,222)
As at 31 December 2019	**10,000**	**88,912**	**376**	**18,666**	**117,954**

The consolidated statement of changes in equity should be analysed together with the notes to the consolidated financial statements which are an integral part thereof.

1. Significant accounting policies

(a) General information concerning the Bolix S.A. Group

Parent company:
Name: Bolix Spółka Akcyjna
Registered office: 34-300 Żywiec, ul. Stolarska 8
Registration Court: National Court Register (KRS) 0000230009, District Court in Bielsko-Biała, 8th Business Department.

Subsidiaries subject to consolidation in the financial statements of the Bolix S.A. Group

Entity	Registered office	Interest
BUILD TRADE sp. z o.o.	34-300 Żywiec, ul. Stolarska 8	100%
Bolix UKRAINA sp. z o.o.	ul. Promyslowa 10 Wysznewe, Kijewskaja oblast Ukraine 08132	99% BOLIX S.A. 1% BUILD-TRADE sp. z o.o.
SOLTHERM EXTERNAL INSULATIONS LIMITED	Challenge House Sherwood Drive Bletchley Milton Keynes MK3 6DP UK	100%
SOLTHERM INSOLATIONS THERMIQUE EXTERIEURE SAS	14, rue Charles V 75004 Paris 04 France	100%

Bolix S.A. (the Parent Company) was established on 13 February 2003. The Parent Company's registered office is in Żywiec (Poland). The Group commenced its business activities in September 2003 by acquiring the business of the former Bolix Sp. z o.o.

On 7 March 2005, based on the resolution adopted by the Shareholders' Meeting on 14 February 2005, the Parent Company changed its legal status from that of a limited liability company, Bolix Sp. z o.o., to a joint stock company, Bolix S.A. Since 18 August 2008, Lusako Trading Limited, a Group incorporated under the law of Cyprus (no. HE 195096), owned by the Berger Paints India Limited Group, has been the Group's sole shareholder which controls it.

The Bolix S.A. Group (the "Group") consists of Bolix S.A. and its subsidiaries. The core activities of the BOLIX S.A. Group include the manufacture and sale of exterior insulation and finish systems (EIFS), including acrylic, silicate and mineral plasters, tile and thermal insulation adhesives, mortars and a variety of paints under the Bolix brand. Sales are made in Poland and abroad. Export sales include sales to customers situated in Great Britain, France, Ukraine, Russia, Lithuania, Latvia, Slovakia, Germany, Belgium and other countries.

Build-Trade spółka z ograniczoną odpowiedzialnością (limited liability company) was established in 2010 and entered in the National Court Register on 20 October 2010 with the reference number 0000368408. The entity commenced its activities in May 2011.

Bolix Ukraina Spółka z ograniczoną odpowiedzialnością (limited liability company), acting in Ukraine as ТОВ «Болікс Україна» вул. Промислова, буд. 10 м. Вишеневе, Київська обл. Україна 08132, was established in 2011 and was registered in Ukraine with the Identification number 37716684.
The entity commenced its activities in 2012.

Soltherm External Insulation Limited operating in Great Britain was established and commenced its activities on 22 January 2016.
Whereas Soltherm Insolations Thermique Extérieure operating in France, after the purchase of shares by Bolix S.A., commenced its activities on 11 July 2016.

Core activities of the Group entities

Group	Core activities
Bolix Spółka Akcyjna	**Manufacture and sale of construction materials – PKD (Polish Classification of Activities) 23.64.Z;** **Wholesale of wood, construction and sanitary materials (PKD 46.73.Z);** **Renting and leasing of other machinery (PKD 77.39.Z).**
BUILD-TRADE sp. z o.o.	**Activities of agents involved in the sale of timber and construction materials (PKD 46.13.Z);**
Bolix UKRAINA sp. z o.o.	**Trading activities – wholesale trade of construction materials;** **Manufacture of dry building mixtures.**
SOLTHERM EXTERNAL INSULATIONS LIMITED, Great Britain	**Distribution, marketing, advisory and sales support services.**
SOLTHERM INSOLATIONS THERMIQUE EXTERIEURE, France	**Distribution, marketing, advisory and sales support services.**

On 9 January 2018, the purchase of shares in Surefire Management Services Ltd. (SMS Ltd) was finalized. Bolix holds 75% of the shares in Surefire Management Services Ltd. However, control over the company is common as Bolix S.A. only has the right to appoint two out of four executives. Surefire Management Services Ltd. is recognized under the equity method.

In 2019, SMS Ltd. generated revenue of PLN 21,018 thousand and earned a net profit of PLN 84 thousand. Its total assets amount to PLN 8,740 thousand and include current assets only.

Duration of the Bolix S.A. Group entities

The Group entities were established for an unlimited period of time.

Period covered by the consolidated financial statements

The consolidated financial statements of the BOLIX S.A. Group include the data for the reporting period beginning on 1 January 2019 and ending on 31 December 2019. The comparative data covers the period from 1 January 2018 to 31 December 2018.
These consolidated financial statements for the financial year ended 31 December 2019 are consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

(b) Statement on compliance of the financial statements with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter called the "IFRS EU").

Pursuant to Resolution No. 1 of the Extraordinary General Meeting of Bolix S.A. dated 24 January 2008 that was passed on the basis of Article 45, paragraph 1c of the Accounting Act dated 29 September 1994 (the "Accounting Act"), starting from 1 January 2007 the Group has been preparing its financial statements in accordance with IFRS EU to meet the legislative requirements.

The financial statements were approved by the Management Board of the Group on 11 May 2020.

(c) Principles of preparation of the financial statements

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of these financial statements, there are no circumstances indicating any threats to the Group's ability to continue in operation.

As at 31 December 2019, current assets exceeded short-term liabilities by PLN 4,204 thousand. The Management Board believes that the Company's liquidity risk is limited due to an increased level of receivables despite the payment of a dividend of PLN 2,222 thousand out of the retained earnings for the prior periods.

The Management Board also believes that the Group is able to pay its short-term liabilities which are largely composed of payments in respect of bank loans thanks to the Group's net cash inflows from operating activities on a timely basis.

The assessment of the Group's Management Board is based on the results of the action taken to refinance the bank loan agreements in another financial institution.

The financial statements have been prepared on the historical cost basis except for financial assets and financial liabilities which are measured at fair value through profit or loss.

The preparation of financial statements in accordance with the IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of the adopted accounting policies and the presented values of assets, liabilities, revenue and expenses whose actual values may differ from the estimated values.

(d) Significant estimates

Estimates and the underlying assumptions are verified on an ongoing basis. Changes in accounting estimates are recognized prospectively starting from the period in which an estimate was changed.

In particular, the significant areas of uncertainty regarding the judgments made by applying the accounting policies that have had the most significant effect on the values recognized in the financial statements are presented in Notes 8, 9, 10, 12, 19 and 20 B.

The accounting policies adopted by the Group were applied consistently in the periods covered by these financial statements.

New and amended standards and interpretations applied by the Group:

In the financial year beginning on 1 January 2019, the Group applied the following new and amended standards.

IFRS 16 "Leases"

Effective date and transitional provisions

IFRS 16 was published in 2016. In accordance with the transitional provisions, the Group adopted new guidelines by using a modified retrospective approach including the recognition of the aggregate effect in respect of the first-time adoption of IFRS 16 as an adjustment to the opening balance of retained earnings as at 1/01/2019, the data for the comparative period was not restated. The entities using the modified retrospective approach may also decide to use certain practical simplifications.

Summary of the main changes introduced by the standard.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee recognizing the right to use an asset at the start of the lease and an obligation to pay for that right. IFRS 16 eliminates the lessee's need to classify lease agreements as either operating leases or finance leases, which was required under IAS 17, and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) the amortization of a right-of-use asset separately from interest on lease liabilities. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor will continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. Indirect lessors will classify subleases by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset, which was the case under IAS 17, therefore, there is an increased probability that a sublease which was previously classified as an operating lease will be classified as a finance lease under IFRS 16.

The values recognized under IFRS 16 are described in the accounting policies and in Note 9.

a) Amendments to IFRS 9: Prepayment Features with Negative Compensation
As a result of the above amendment to IFRS 9, entities may measure financial assets with the so-called right of prepayment features with negative compensation either at amortized cost or at fair value through other comprehensive income if a certain condition is met – instead of making a fair value measurement through profit or loss.

The amendment has no effect on these financial statements.

b) Amendments to IAS 28 "Investments in Associates and Joint Ventures"
Amendments to IAS 28 "Investments in Associates and Joint Ventures" clarify that IFRS 9 impairment guidelines apply to long-term interests in an associate or joint venture to which the equity method is not applied but which form part of the net investment in those entities (e.g. long-term loans). In addition, the Board has also published an example illustrating the application of the requirements of IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

The amendment has no effect on these financial statements.

c) IFRIC 23: Uncertainty over Income Tax Treatments
IFRIC 23 clarifies the recognition and measurement requirements in IAS 12 in the event of uncertainty over income tax treatments.

The amendment has no effect on these financial statements.

d) Annual improvements to IFRS Standards 2015-2017 Cycle
"Annual improvements to IFRS Standards 2015-2017 Cycle" revise four standards: IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".
The improvements include explanations and clarify the guidelines of the standards on recognition and measurement.

The amendments have no effect on these financial statements.

e) IAS 19 "Employee benefits"
The improvements to the standard specify the requirements for the accounting treatment of amendments, curtailments or settlements of a defined benefit plan.

The amendment has no effect on these financial statements.

Published standards and interpretation which are not yet effective and have not been adopted early by the Company

In these financial statements, the Group did not decide to adopt the following published standards, interpretations or improvements to the existing standards early, before their effective dates:

a) IFRS 17 "Insurance Contracts"

IFRS 17 "Insurance Contracts" was published by the International Accounting Standards Board on 18 May 2017 and is effective for annual periods beginning on or after 1 January 2021.
The new IFRS 17 "Insurance Contracts" will replace the currently applicable IFRS 4 which permits various practices with regard to accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities which deal in insurance contracts and investment contracts.
The Group will adopt IFRS 17 once it has been adopted by the European Union.
As at the date of preparing these financial statements, the new standard has not yet been adopted by the European Union.

b) Amendments to the Conceptual Framework for IFRS

In 2019, amendments to the Conceptual Framework for IFRS were published, which will be effective as from 1 January 2020. The reviewed Conceptual Framework will be used by the Board and the Interpretations Committee in the future, while working on new standards. Nevertheless, the entities which prepare financial statements may use the Conceptual Framework to develop accounting policies for transactions which are not covered in the currently applicable IFRS.

c) IFRS 3 "Business combinations"

As a result of the amendment to IFRS 3, the definition of a "business" has been modified. The currently introduced definition has been narrowed down, and it will probably result in more acquisitions being classified as the acquisition of assets. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 January 2020.
As at the date of preparation of these financial statements, this amendment has not yet been adopted by the European Union.

d) IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

The Board has published a new definition of the term "material". The amendments to IAS 1 and IAS 8 clarify the definition of "material" and make the standards more consistent, but it is not expected that they will have a significant effect on the preparation of financial statements. The amendment is obligatory for annual periods beginning on or after 1 January 2020.

e) Amendments to IFRS 9, IAS 39 and IFRS 7 in response to the IBOR reform

The amendments to IFRS 9, IAS 39 and IFRS 7 published in 2019 modify certain detailed requirements for hedge accounting, mainly to ensure that the anticipated reform of the reference rates (the IBOR reform) does not generally result in phasing out hedge accounting.
The amendments to the standards are effective for annual periods beginning on or after 1 January 2020.

f) Amendments to IAS 1 "Presentation of Financial Statements"

The Board has published amendments to IAS 1 which clarify how to present liabilities as long-term and short-term. The published amendments are effective for periods beginning on or after 1 January 2020.
As at the date of the preparation of these financial statements, this amendment has not yet been adopted by the European Union.

g) IFRS 14 "Regulatory Deferral Accounts"
This standard permits entities which are the first-time adopters of IFRS (as from or after 1 January 2016) to recognize regulatory deferral account balances in accordance with the accounting policies they used previously. To improve the comparability with entities which have already adopted IFRS and do not show such balances, in accordance with the published IFRS 14 regulatory deferral account balances should be presented separately both in the statement of financial position and statement of profit or loss and other comprehensive income.
By decision of the European Union, IFRS 14 will not be adopted.

h) Amendments to IFRS 10 and IAS 28 concerning Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business".
Full gain or loss will be recognized by the investor where the non-monetary assets constitute a "business". If the assets do not meet the definition of a business, the gain or loss is recognized by the investor to the extent of the other investors' interests.
The amendments were published on 11 September 2014. As at the date of preparation of these financial statements, the adoption of this amendment has been deferred by the European Union.

In the opinion of the Management Board, the above amendments will have no effect on these or future financial statements.

(e) Foreign currency transactions

Functional and presentation currency

The financial statements are presented in Polish zlotys, rounded off to the nearest thousand.

The Group presents its financial reporting in the currency which reflects the nature of the events and the circumstances relating to the Group's operations (the "functional currency"). The Polish zloty (PLN) is the Group's functional currency.

Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate in force on the transaction date. As at the balance sheet date, monetary assets and liabilities denominated in foreign currencies were translated into Polish zlotys at the exchange rate in force as at that date. Foreign exchange differences arising on the translation of transactions denominated in foreign currencies into Polish zlotys were reported as a profit or loss for the current period. Non-monetary assets and liabilities denominated in foreign currencies, which are reported on the historical cost basis, are translated at the exchange rate in force on the transaction date.

(f) Property, plant and equipment

Property, plant and equipment owned by the Group

Items of property, plant and equipment are recognized at cost of purchase or manufacture, less accumulated depreciation (see below) and impairment write downs (if any) (see point (l) of the accounting policies below).

The cost of purchase includes the purchase price of an asset and the costs directly attributable to the purchase and to bringing the asset to a working condition, including expenses relating to transport, loading and unloading, storage, as well as direct labour costs (in the case of an item of property, plant and equipment manufactured internally). Rebates, trade discounts, or other such items, and recovered amounts reduce the cost of purchase of an asset. The cost of manufacture of a fixed asset or fixed assets under construction includes total costs incurred during the period of its construction, assembling, adaptation and improvement incurred by the date of such asset being commissioned for use (or by the balance sheet date if the asset has not yet been commissioned for use). Where required, the cost of manufacture also includes a preliminary estimate of the costs of dismantling and removing items of property, plant and equipment and restoring to the original condition. The cost of purchase may also be adjusted for gains or losses on the eligible cash flow hedges, transferred from the respective equity items, relating to foreign purchases of property, plant and equipment, previously recognized in the statement of comprehensive income. Purchased software which is necessary for the proper functioning of the related equipment is capitalized as part of that equipment.

Borrowing costs related to the acquisition or manufacture of specific assets increase the cost of purchase or manufacture of these assets.

Where a specific item of property, plant and equipment consists of separate and significant components with different useful lives, these components are treated as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the assets disposed of, and are recognized as a profit or loss for the current period, in other operating income or other operating expenses.

Leased fixed assets

Accounting policies in force up until 31 December 2018

Agreements related to the use of fixed assets in which the Group assumes all risks and rewards of the ownership of a fixed asset are classified as finance leases. Fixed assets used in the form of a finance lease are stated at the lower of the fair value and the present value of lease instalments and initial costs at the inception of the lease agreement, less the accumulated depreciation of the fixed asset (see below) and impairment write-downs (see the accounting policy (m)). Lease payments are recognized in accordance with the accounting policies described in point (s).

Accounting policies in force as from 1 January 2019

Leases are accounted for as right-of-use assets and obligations to pay for these rights on the date on which the leased assets are available for use by the Company.
Right-of-use assets are presented separately in the statement of financial position, except for those which meet the definition of an investment property, presented in the statement of financial position as a separate item "Investment properties".
On the date of inception of a lease, lease liabilities are stated at an amount equal to the present value of the following lease payments for the right to use the underlying asset over the life of the lease:
● fixed payments (including in-substance fixed payments), less any lease incentive receivables;
● variable lease payments that depend on an index or a rate;
● amounts expected to be payable by the lessee under residual value guarantees;
● the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
● payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.
Lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined, or the lessee's incremental borrowing rate.
Each lease payment is allocated between the liability and a finance cost. After initial recognition, lease liabilities are measured using the effective interest rate. The carrying amounts of the liabilities are updated to reflect changes in the estimated lease term, purchase option, changes in lease payments and the guaranteed residual value, and modifications to the lease agreement.
The lease term is the non-cancellable period of the lease; the periods covered by an option to extend and to terminate the lease are included as part of the lease term, if there is a reasonable probability that the lease will be extended or the agreement will not be terminated.

Right-of-use assets are initially measured at the cost which includes:
● the initial measurement of the lease liability;
● all lease payments at or prior to the commencement date, less all lease incentives received;
● all initial direct costs incurred by the lessee;
● estimated costs of dismantling, removing the underlying asset and restoration.
After initial recognition, right-of-use assets are measured at cost less accumulated depreciation and all accumulated impairment write-downs and adjusted for the remeasurement of the lease liability due to the reassessment or modification of the lease.
Right-of-use assets are amortized over the shorter of the useful life of the asset and the lease term, using the straight line method. The amortization periods for right-of-use assets are as follows:
● the right to use land: 99 years;
● the right to use premises on which retail stores are run: 5–15 years;
● the right to use an office building: 10 years.
Payments relating to all short-term leases and certain leases of low-value assets are recognized on a straight line basis as an expense in profit or loss. For low-value assets, the Group elects a method of recognition for each agreement – the Group has assumed that a right-of-use asset is recognized along with the corresponding lease liability if such asset is subleased, whereas for all other leases of low-value assets the payments relating to such leases are recognized as an expense on a straight line basis over the lease term.

Short-term leases are leases with a term of 12 months or less.
Low-value assets include computers, tablets, mobile phones and small office furniture.

Effect of the adoption of IFRS 16 on the Group's financial statements
The Group decided to implement the new standard retrospectively, including the recognition of the cumulative effect of the first-time adoption of IFRS 16 in equity (retained earnings) as at 1 January 2019. This means that the data presented for 2018 and 2019 is not comparable.
Under the requirements of the standard, this election was applied consistently to all lease agreements in which the Group is the lessee and the sublessor.
The Group as a lessee
For all leases, except for short-term leases and leases of low-value assets which have not been subleased (PLN 33 thousand), previously classified as operating leases:
- as at 1/01/2019, the Group recognized a lease liability at the amount of the present value of the outstanding lease payments discounted using the Group's incremental borrowing rate as at 01/01/2019;
- for all leases, the Group elected to recognize a right-of-use asset at the amount equal to the lease liability adjusted for the prepaid or accrued lease payments recognized in the statement of financial position directly before the first-time adoption of IFRS 16.

The Group decided to use the following practical simplifications:
- it used one discount rate for a portfolio of leases with substantially similar characteristics;
- it relied on an assessment made in accordance with IAS 37, as to whether lease agreements give rise to encumbrances as a solution alternative to analysing the right-of-use assets in terms of impairment as at 1/01/2019. The analysis of the agreements which give rise to encumbrances as at 31/12/2018 did not result in the need to recognize an impairment write-down. Therefore, the right-of-use assets as at 1/01/2019 were not adjusted for impairment write-downs;
- it did not use the new lease accounting model to leases for which the term of the lease ends within 12 months from the date of the first adoption of the standard. Instead, the Group recognized such lease agreements as short-term ones.

	01/01/2019
Operating lease liabilities as at 31/12/2018 under IAS 17	1,044
Leases not previously taken into account	-
Short-term leases eliminated	(110)
Low-value assets eliminated (except for those subleased)	-
Effect of discounting using an incremental borrowing rate as at 01/01/2019	(32)
Lease liabilities as at 01/01/2019	**902**
Short-term portion	392
Long-term portion	510

	IAS 17	Adjustments	IAS 16
	31 December 2018	**IFRS 16**	**1 January 2019**
Right-of-use assets	-	902	902
Total non-current assets	128,518	902	129,420
Other assets	-	-	-
Total current assets	33,528	-	33,528
Total assets	**162,046**	**902**	**162,948**
Total equity	110,277	-	110,277
Lease liabilities	2,975	510	3,485
Long-term liabilities	13,906		13,906
Lease liability	1,566	424	1,990
Trade and other payables	33,322	(32)	33,290
Short-term liabilities	**34,888**	**392**	**35,280**
Total equity and liabilities	**162,046**	**902**	**162,948**

Expenditure incurred in subsequent periods

The costs of replacing parts of an item of property, plant and equipment incurred in subsequent periods, which can be reliably estimated and it is probable that the Group will derive economic benefits relating to the items of property, plant and equipment being replaced, are capitalized. The carrying amount of the removed parts of an item of property, plant and equipment is derecognized. The expenditure incurred in connection with day-to-day servicing of property, plant and equipment is recognized in profit or loss for the current period, when incurred.

Depreciation

Property, plant and equipment, including their significant components, are depreciated on a straight line basis over the estimated useful lives, taking into consideration the net realizable value of the remains of a fixed asset (the residual value) expected at the time of scrapping. Freehold land is not depreciated.

The expected economic useful lives of these assets are as follows:

buildings: from 19 to 40 years, plant and machinery: 2-10 years, vehicles: 4-8 years.

The correctness of the adopted useful lives, depreciation methods and the residual values of fixed assets (if they are insignificant) is verified by the Company annually.

(g) Intangible assets

Goodwill

Goodwill originates from an acquisition which took place before 1 January 2010. Goodwill includes the excess of the cost of the combination over the Group's interest in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquiree. If the said difference is negative, a gain on the purchase transaction is recognized immediately in profit or loss.

Transaction costs other than those relating to debt incurred or the issue of bonds, incurred in connection with a business combination, increase the cost of the combination.

Goodwill is an element of intangible assets and is stated at cost of purchase less impairment write-downs. Goodwill is allocated to groups of cash-generating assets and is tested annually for impairment (see point (m) of the accounting policies below). Goodwill is not amortized.

Other intangible assets

Intangible assets are stated at cost of purchase or manufacture, less accumulated amortization (see below) and impairment write-downs (if any) (see point (m) of the accounting policies below).

Subsequent expenditure on the existing intangible assets is capitalized only when it increases the future economic benefits relating to a given asset. Other expenditure, including expenditure on the internally generated trademarks, goodwill and brand, is recognized in profit or loss for the current period, when incurred.

Amortization

Intangible assets are amortized on a straight line basis over an estimated useful life unless the period is indefinite. Goodwill and other intangible assets with an indefinite useful life are tested for impairment each year (see point (m) of the accounting policies below) without being amortized. Amortizable intangible assets are amortized as from the date of being commissioned for use. The estimated useful lives range from 5 to 7 years.

The correctness of the adopted useful lives, amortization methods and the residual values of intangible assets is verified at each balance sheet date and adjusted in justified cases.

(h) Long-term investments

Long-term investments include shares in subsidiaries which are stated at cost of purchase, less impairment write-downs.

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on active markets. They are initially recognized at fair value and subsequently measured at amortized cost, less impairment write-downs.

(j) Inventories

Inventories are measured at the lower of the cost of purchase or manufacture and the net realizable value. Inventory issues are measured using the first-in first-out cost formula. The cost of purchase of inventories includes the costs directly attributable to the purchase of inventories, incurred in bringing them to their current location and preparing them for sale. In the case of finished goods and work in progress, the cost includes a share of overheads determined on the basis of normal production capacity. The net realizable value is an estimated selling price in the ordinary course of business, less the costs of preparing inventories for sale and the costs necessary to effect a sale.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand and at bank (call deposits).

(l) Impairment write-downs of assets

Impairment of financial assets measured at amortized cost

The Group assesses the expected credit losses (ECL) related to debt instruments measured at amortized cost and at fair value through other comprehensive income, regardless of whether there have been any indications of impairment.
In the case of short-term trade receivables which do not have a significant element of financing, the Group uses the simplified approach required under IFRS 9 and measures impairment write-downs at the amount of the credit losses expected over the entire life cycle of a receivable as from its initial recognition. The Group uses a write-down matrix in which write-downs are calculated for trade receivables classified into different ageing brackets or past-due periods.
For the purposes of determining expected credit losses, trade receivables were grouped on the basis of the similarity of credit risk characteristics. In order to determine the overall default ratio, an analysis of irrecoverability is carried out for the last three years. The default ratios are calculated for the following brackets: (1) up to 30 days;(2) from 31 to 90 days; (3) from 91 to 180 days; (4) from 181 to 360 days; and (5) over 360 days.

In order to determine the default ratio for a given ageing bracket, the balance of receivables written off is compared with the balance of uncollected receivables. The effect of future factors on the amount of credit losses was also taken into account.
An impairment write-down is calculated, taking into account the default ratios adjusted for the effect of future factors and the balance of uncollected receivables as at the balance sheet date for each bracket of the ageing analysis.

The Group uses a three-step impairment model for financial assets other than trade receivables:
- Step 1 – includes balances for which credit risk has not increased significantly since initial recognition. The expected credit losses are determined on the basis of probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur within the next 12 months);
- Step 2 – includes balances for which credit risk has increased significantly since initial recognition, but there are no objective indications of impairment; the expected credit losses are determined on the basis of probability of default over the entire contractual life of a given asset;
- Step 3 – includes balances with an objective indication of impairment.

Trade receivables are classified into Step 2 or Step 3:
- Step 2 – includes trade receivables for which a simplified approach to the measurement of expected credit losses over the entire life cycle of a receivable is used, except for certain trade receivables classified into Step 3;
- Step 3 – includes trade receivables overdue by more than 90 days or identified individually as not being serviced.

To the extent to which, under the above model, it is necessary to assess whether credit risk has increased significantly, in making the assessment the Group takes into account the following indications:
- a loan is overdue by at least 30 days;
- there have been legislative, technological or macroeconomic changes which have a significant negative effect on the debtor;
- information has been obtained, regarding a significant unfavourable event relating to a loan or another loan of the same debtor from another lender, e.g. termination of the loan agreement, breach of its terms and conditions or renegotiation of the terms and conditions due to financial difficulties, etc.;
- the debtor has lost a major customer or supplier or has experienced other unfavourable changes on its market.

Financial assets are written off in full or in part, when the Company has exhausted practically all debt collection activities and come to the conclusion that collecting a receivable may no longer be reasonably expected. This usually takes place, when an asset is overdue by at least 360 days.

Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred income tax assets are assessed at the end of each reporting period to determine whether there is any indication that they may be impaired. If any such indications exist, the Group estimates the recoverable amounts of the individual assets. The recoverable amounts of goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet ready to use are estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amounts of assets or cash-generating units (CGUs) are defined as the larger of their net realizable value and their value in use. In estimating value in use, the future cash flows are discounted using a pre-tax interest rate which reflects the current market assessment of the time value of money and the risk factors specific to a given asset or CGU. For the purposes of impairment testing, assets are grouped into the smallest determinable sets of assets which generate cash inflows in a manner that is largely independent of other assets and groups of assets ("a cash-generating unit or CGU").

The Group assesses the impairment of goodwill by grouping cash-generating units in such a manner as to ensure that the level of the organization, no higher than the identified operating segment which is being assessed, reflects the lowest level of the organization at which the Group monitors goodwill for internal purposes.

For the purposes of impairment testing, the goodwill acquired in a business combination is allocated to those cash-generating units which are expected to benefit from the synergies of the business combination.

The Group's shared (corporate) assets do not generate any separate cash inflows and are used by one CGU.

An impairment write-down is recognized, when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment write-downs are recognized as a profit or loss for the current period. The impairment of a cash-generating unit is first recognized as a reduction in the goodwill allocated to that unit (group of units) and then as a reduction in the carrying amounts of the other assets in that unit (group of units) on a pro rata basis.

An impairment write-down of goodwill is not reversed. As regards other assets, the impairment write-downs recognized in the prior periods are assessed at the end of each reporting period for any indications that the impairment has decreased or has been reversed in full. An impairment write-down is reversed if there has been a change in the estimates used to estimate the recoverable amount. An impairment write-down is reversed only up to the amount of the asset's carrying value, less depreciation or amortization, which would have been reported if no impairment write-down had been recognized.

(m) Provisions

Provisions are recognized, when the Group has a legal or constructive obligation as a result of past events, which can be measured reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The value of a provision is determined as an expected amount of future cash flows, discounted using a pre-tax discount rate which reflects the time value of money and the risks specific to a given liability. The unwinding of the discount is recognized as a finance cost.

Provisions for liabilities resulting from restructuring are recognized, when the Group has a detailed, formal restructuring plan and such restructuring has either commenced or has been announced publicly. Future operating expenses are not provided for.

Warranties

Provisions for warranties are recognized in respect of finished goods or services sold. The provisions are recognized on the basis of historical data concerning warranty claims and the anticipated outcome of warranty proceedings, taking into account the probability of their occurrence.

(n) Employee benefits

Long-term employee benefits

The Group's liabilities in respect of long service benefits constitute the amount of future benefits which the employees have earned as part of their employment in the current and past accounting periods. In accordance with the Group's labour regulations, the employees are entitled to a lump sum payment due to retirement. The provision reflects the Group's estimate of the future benefits which the employees have earned in the current and prior periods, discounted at an interest rate based on the Group's cost of capital.

Other employee benefits

Except for the above costs of one-time retirement benefits, the Group does not have a pension scheme of its own. The Group feeds the State social insurance system by transferring the required part of gross pay to the Social Insurance Institution (ZUS). Such expense is charged to costs, when it occurs. The Group has no related obligation to pay benefits to its employees.

(o) Liabilities in respect of loans and borrowings

Liabilities in respect of loans and borrowings are initially measured at fair value, net of transaction costs incurred. Subsequently, interest-bearing loans are recognized at cost, including accrued interest. The difference between the cost and the actual redemption value is recognized as a gain or loss in the period for which a loan was granted, using the effective interest rate method.

If a loan is repaid before the maturity date, any difference between the fair value and the present value is recognized as a profit or loss for the current period, when it occurs.

(p) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently at amortized cost. Short-term liabilities are not discounted.

(q) Revenue

Revenue is presented net of value-added tax.
Under one contract, for both finished goods as well as services and goods for resale, there is generally one performance obligation. In contracts with one performance obligation, there is no need to allocate a consideration.

a) Sales of finished goods (construction chemicals for thermal insulation systems, paints)
The Group manufactures and sells construction chemicals and paints. Its goods are not specifically tailored to the requirements of a concrete customer but are products which may be used for processing orders for various customers.
Sales of products are recognized on a one-time basis at the time control over the goods is transferred, which occurs when products are delivered by the Company to a customer, and the customer accepts them.
Revenue is presented net of value-added tax.
Sales are made mainly with payment terms of up to 30 days, which is in line with market practice and is not considered an element of financing. Once accepted, finished goods sold may not be returned. Therefore, the Group does not accrue any liabilities in respect of returns.
The Group also transports finished goods to a customer; transport does not constitute a separate performance obligation, because it is performed in respect of goods before the control over them is transferred to a customer.

The Group gives its customers rebates which are dependent on the volume of sales made within a calendar year. Such rebates constitute a variable component of a consideration and are recognized as a reduction in revenue. An obligation to repay a consideration is recognized for the anticipated rebates allowed to customers on the sales made by the end of a reporting period and is presented in “Trade and other receivables” (Note 13). As at the end of a financial year, there is no need to estimate the amount of a rebate, because the actual amount of the rebate earned is known (based on the sales for a given calendar year).

As regards the manufactured products, the Group grants a warranty to the extent provided for in the legal regulations (i.e. a 12-month warranty) and an extended warranty for a period of up to 10 years. The warranties granted are provided for in accordance with the accounting policies presented in

point (m) Provisions. An extended guarantee constitutes a separate performance obligation, but the amount of the consideration allocated to this separate performance obligation is immaterial.

b) Sales of services
The Group resells transport services. Sales of services are recognized in the period in which the services were provided and the price was agreed. Transport services are short-term services (the average time for completion is two days). The Group does not provide any long-term services. The revenue from transport services is accounted for on a straight line basis, over the duration of transport.
Sales are mainly made with payment terms of up to 14 days, which is in line with market practice and is not considered an element of financing.

c) Sales of goods for resale and materials
The Group recognizes sales of goods for resale and materials at the time the control over the inventories is transferred to a customer, which takes place when the inventories have been accepted by the customer. The Group sells goods for resale and materials relating to thermal insulation systems for facades, among other things, foamed polystyrene, mesh, grit and construction chemicals which supplement the sales mix.
Sales of goods for resale and materials are mainly made with payment terms of 30 days, which is in line with market practice and is not considered an element of financing.

According to the Act, a customer is entitled to a warranty for a period of two years against manufacturing defects. The liability is transferred to the seller of the goods for resale/materials, therefore, the Company does not recognize a provision in this respect, because it does not have a legal or constructive obligation to repair defects. No additional warranty is granted.

Goods for resale and materials sold may not be returned.

(r) Expenses

Payments in respect of lease agreements

Lease payments are apportioned between a finance cost and a reduction in the outstanding liability. The finance cost is allocated to individual periods over the lease term, using the effective interest rate method.

Payments made under lease agreements for which the Group did not recognize a lease liability due to the simplifications applied (low-value and short-term leases) are recognized as a profit or loss for the current period, on a straight line basis, over the lease term. Any special promotional offers received are recognized as a profit or loss for the current period, as part of lease expenses.

Finance costs and income

Finance income includes interest receivables on cash invested by the Group, gains on disposal of available-for-sale financial instruments, gains on movements in the fair value of financial instruments at fair value through profit or loss, foreign exchange gains, and gains on hedging instruments which are recognized as a profit or loss for the current period. Interest income is recognized as a profit or loss for the current period on the accruals basis, using the effective interest rate method.

Finance costs include interest payable on borrowings, the unwinding of the discount on provisions, foreign exchange losses, losses on movements in the fair value of financial instruments at fair value through profit or loss, impairment write-downs of financial assets, and gains and losses on hedging instruments which are recognized as a profit or loss for the current period. All interest expense is

determined on the basis of the effective interest rate.

Borrowing costs which are not directly attributable to the acquisition, manufacture, construction or production of specific assets are recognized in the profit or loss for the current period, using the effective interest rate method.

Foreign exchange gains and losses are reported on the net basis as either finance income or finance costs, depending on their total net position.

(s) Income tax

Income tax includes current and deferred tax.
Current and deferred income tax is recognized as a profit or loss for the current period, except when it relates to a business combination or items recognized directly in equity or as other comprehensive income.

Current tax includes tax calculated on the basis of the taxable income for a given year, using the income tax rates in force as at the balance sheet date, and adjustments to the income tax liability for the previous years.

The value of deferred income tax is calculated using the liability method, based on temporary differences between the book values of assets or liabilities and their tax bases. The following temporary differences are not taken into account in determining the value of deferred income tax: goodwill which is not deductible for income tax purposes, transactions in which the initial recognition of assets or liabilities affects neither the accounting nor taxable profit of the Group. The value of deferred tax reported takes into account the planned manner of realization or accounting for the carrying amounts of assets and liabilities. Deferred tax is measured using the tax rates which are expected to apply when the temporary differences are reversed, with the tax regulations applicable at law or in fact up until the reporting date being used as the basis.

Deferred income tax assets are determined at the amount of corporate income tax recoverable in the future with respect to deductible temporary differences which will result in a lower tax base in the future, taking account of the prudence principle, i.e. the carrying amount of a deferred income tax asset is reduced to the extent that it is not probable that taxable income will be obtained, sufficient for a partial or full realization of the deferred income tax asset.

(t) Financial instruments

Classification of financial assets.
The Group classifies financial assets into the following measurement categories:
- measured at amortized cost;
- measured at fair value through profit or loss;
- measured at fair value through other comprehensive income.

The classification is dependent on the adopted financial asset management model and the terms of contractual cash flows. The Group reclassifies its investments in debt instruments, when and only when the model of management of these assets changes.

Recognition and derecognition

Financial assets are recognized, when the Group becomes a party to the contractual terms of an instrument. Financial assets are derecognized from the books of accounts, when the rights to receive the

cash flows from the financial assets have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership.

Measurement at initial recognition

At initial recognition, the Group measures a financial asset at fair value, in the case of a financial asset which is not measured at fair value through profit or loss, the transactions costs directly attributable to the acquisition of the financial asset. The costs of transactions relating to financial assets measured at fair value through profit or loss are recognized in profit or loss.

Measurement after initial recognition

(i) *Debt instruments - Financial assets measured at amortized cost*

Debt instruments held to collect contractual flows which include solely payments of principal and interest ("SPPI") are measured at amortized cost. Interest income is calculated using the effective interest rate method and shown in "Interest income" in profit or loss. Impairment write-downs are recognized in accordance with the accounting policy indicated in the note and presented in "Impairment write-downs of financial assets".

In particular, this category includes:

- trade receivables other than receivables subject to factoring;
- loans which pass the SPPI classification test and which, in accordance with the business model, are disclosed as "held to receive cash flows";
- cash and cash equivalents.

(ii) *Debt instruments – Financial assets measured at fair value through comprehensive income*

Debt instruments the cash flows from which constitute solely payments of principal and interest and which are held to collect contractual cash flows and for sale are measured at fair value through other comprehensive income. Changes in carrying amounts are recognized through other comprehensive income, except for gains and losses on impairment, interest income and foreign exchange differences which are recognized in profit or loss. If a financial asset is derecognized, the total gain or loss previously recognized in other comprehensive income is transferred from equity to profit or loss and recognized as other gains/(losses). Interest income on such financial assets is calculated using the effective interest rate method and recognized in "Interest income". Impairment write-downs are recognized in accordance with the accounting policy indicated in the note and presented in "Impairment write-downs of financial assets".

As at 01/01/2019 and 31/12/2019, the Group did not have any financial assets classified into this category.

(*iii) Debt instruments – Financial assets measured at fair value through profit or loss*

Assets which do not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss. In particular, this category includes the following instruments:

- trade receivables subject to factoring used regularly for liquidity management purposes, when the terms and conditions of the factoring contract result in the derecognition of receivables; and
- loans which do not pass the SPPI test (i.e. the cash flows from these loans are not solely principal and interest payments) because the frequency of interest rate changes does not correspond to the interest calculation formula.

A gain or loss on the measurement of debt investments at fair value is recognized in profit or loss and presented in "Gains (losses) on changes in the fair value of financial instruments" in the period in which they occurred. Such gains/losses on the fair value measurement include the contractual interest received on financial instruments included in this category.

Non-derivative financial liabilities

Debt instruments issued and subordinated liabilities are recognized in the Group's books of account as

they arise. All other financial liabilities, including liabilities measured at fair value through profit or loss, are initially recognized as at the trade date on which the Group becomes a party to a contract which requires it to issue a financial instrument.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position, when and only when the Group has a legally enforceable right to offset particular financial assets and liabilities or it intends to settle, on a net basis, a given transaction involving the financial assets and liabilities being offset or it intends to realize the financial assets being offset and to settle the financial liabilities simultaneously.

The Group has the following non-derivative financial liabilities: liabilities in respect of loans and borrowings, and trade and other payables.

Such financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. After initial recognition, these liabilities are measured at amortized, cost using the effective interest rate method.

Other financial liabilities include loans, borrowings and other debt instruments, overdraft facilities, and trade and other payables.

Ordinary shares

Ordinary shares are recognized in equity. Any costs directly attributable to the issue of ordinary shares and share options, adjusted for any tax effects, are recognized as a reduction in equity.

The Group did not use any derivative financial instruments.

2. Foreign exchange rates applied and the rules of translation of foreign entities' data

The individual items of the income statement of foreign related companies recognized in the statement of comprehensive income were translated at the weighted average monthly exchange rates of UAH, EUR and GBP into Polish zlotys for the individual months of the year at the exchange rates of the National Bank of Poland. In 2019, these exchange rates fluctuated between PLN 0.1348 and PLN 0.1630 / UAH 1, between PLN 4.7381 and PLN 5.0394 / GBP 1, and between PLN 4.2721 and PLN 4.3547 / EUR 1 and, respectively, in 2018: between PLN 0.1406 and PLN 0.1200 / UAH 1, between PLN 4.9016 and PLN 4.7112 / GBP 1, and between PLN 4.3301 and PLN 4.1636 / EUR 1.
Individual assets and liabilities were translated at the mid exchange rates as at 31 December 2019 and 31 December 2018, announced by the National Bank of Poland (table 251/A/NBP/2019; table 252/A/NBP/2018).

3. Expenses

3A. Selling costs, and general and administrative expenses

	2019	2018
Costs of wages and salaries, and other benefits	21,195	20,646
Marketing services	5,766	4,707
Depreciation and amortization	4,028	3,539
Transport costs	11,954	10,853
Fuel, gas and electricity	1,514	1,476
Taxes and other charges	1,512	1,136
Repairs and spare parts	1,890	1,549
IT and telecommunications costs	688	635
Rent expense	198	470
Business travel	1,358	1,251
Insurance	571	510
Advisory services	1,735	1,810
Other	935	423
	53,344	**49,005**

3B. Cost of sales

	2019	2018
Costs of direct materials	56,837	53,434
Costs of wages and salaries, and other benefits	6,275	6,007
Depreciation and amortization	1,519	1,777
Transport costs	44	77
Fuel, gas and electricity	564	517
Repairs and spare parts	1,375	1,145
Other	890	752
Cost of purchase of goods for resale	15,253	12,451
Cost of services sold	1,032	956
	83,789	**77,116**

4. Revenue

4A. Sales revenue

	2019	2018
Business-to-Business (B2B) channel	119,929	107,565
Do It Yourself (DIY) channel	9,483	8,300
Export sales	10,577	9,416
Indoor paints (retail)	7,640	5,355
Other	1,775	1,841
	149,404	**132,477**

The Group has customers that are significantly dispersed, and it is not dependent on any of them. In the presented period, none of its counterparties exceeded 10% of the Group's total sales.
The Group recognizes all revenue at a point in time, except for Sales revenue "Other" which represents revenue from the provision of services that is accrued.
Information about the amounts of sales revenue from the related entities is contained in Note 25. Transactions with related entities.

4 B. Other operating income

	2019	2018
Revaluation of provisions	3	48
Gains on disposal of non-financial non-current assets	160	248
Other	24	21
	187	**317**

5. Other operating expenses

	2019	2018
Donations	15	24
Other charges and other	11	72
	26	**96**

6. Finance income

	2019	2018
Interest income	3	13
Net foreign exchange gains	206	-
Other		108
	209	121

7. Finance costs

	2019	2018
Interest expense	776	780
Net foreign exchange losses	116	319
Other	97	77
	989	1.176

8. Employee benefit expenses

	2019	2018
Wages and salaries (under employment and other contracts)	22,883	21,127
Social insurance and transfer to the Social Fund	4,331	4,144
External training	146	150
Compensation under the non-competition clause	28	34
Increase in liabilities in respect of the provision for old age and disability pensions and untaken holiday	82	97
	27,470	25,552

9. Income tax

9A. Income tax recognized as a profit or loss for the current period

The Group is subject to the tax regulations applicable in Poland. The structure of the income tax recognized in the statement of comprehensive income is as follows:

	2019	2018
Current income tax	**(2,387)**	**(872)**
Income tax for the period	(2,387)	(872)
Deferred income tax	**505**	**(112)**
Recognition and reversal of temporary differences	-	-
Total income tax expense recognized in the statement of comprehensive income	(1,882)	(984)

The reconciliation of the income tax at the applicable tax rate to the actual income tax expense recognized in the statement of comprehensive income is presented below:

	2019	2018
Profit before tax	11,715	5,609
Income tax at the applicable tax rate (19%)	(2,226)	(1,066)
Expenses permanently non-deductible for tax purposes	(309)	(273)
Changes in recognized temporary differences	245	(29)
Utilization of a research and development allowance	408	384
Income tax expense recognized in the statement of comprehensive income	(1,882)	(984)

The tax authorities may inspect tax settlements within five years of the end of the year in which the tax returns were filed, and they may charge the Company with additional tax along with penalties and interest.

The findings of a penal fiscal audit concerning the income tax for 2014 and 2015 include an income tax calculation excluding the trademark amortization expense, as a result of which a decision should be expected which will assess a new amount of income tax and resultant overdue tax liability of PLN 552 thousand for 2014 and PLN 619 thousand for 2015.

The Group's Management Board, using tax advisors and in consultation with the Supervisory Board, is of the opinion that attempts at excluding tax amortization/depreciation from tax-deductible expenses are not supported by the applicable laws, and the Group does not intend to adjust the income tax for the above periods and plans to appeal against possible decisions assessing additional tax.

9B. Deferred income tax provision and assets

The deferred income tax provision and assets as at 31 December 2019 and 31 December 2018 arise from the following items:

	Assets		Liabilities		Net	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Property, plant and equipment	(163)	(26)	966	969	803	943
Goodwill	-	-	14,467	14,467	14,467	14,467
Trade and other receivables	(214)	(265)	-	-	(214)	(265)
Inventories	(8)	(8)	-	-	(8)	(8)
Bank loans	-	-	3	3	3	3
Borrowings from the shareholder and related entities	-	-	-	-	-	-
Provisions, trade and other payables	(1,143)	(667)	-	-	(1,143)	(667)
Other (lease liabilities)	(803)	(863)	-	-	(803)	(863)
Deferred income tax (assets)/ provision after a valuation adjustment	(2,331)	(1,829)	15,436	15,439	13,105	13,610
Net deferred income tax (assets)/ provision	-	-	-	-	13,105	13,610

As at 31/12/2019, the Group has no tax loss carryforwards.

According to the Group's expectations, the deferred income tax provision and assets will crystallize in the short and long term:

	31 December 2019	31 December 2018
Short-term asset	2,168	1,803
Long-term asset	163	26
Total deferred income tax asset	**2,331**	**1,829**
Short-term provision	(3)	(3)
Long-term provision	(15,433)	(15,436)
Total deferred income tax provision	**(15,436)**	**(15,439)**
Deferred income tax provision	**(13,105)**	**(13,610)**

10. Property, plant and equipment

Movements in property, plant and equipment for the period from 1 January 2019 to 31 December 2019 and for the period from 1 January 2018 to 31 December 2018 are presented in the tables below:

2019	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets under construction	Total
Gross value					
As at 1 January 2019	18,584	41,166	6,955	738	67,443
Additions	-	-	-	6,927	6,927
Reclassifications	1,528	5,016	886	(7,429)	-
Disposals	(132)	(922)	(298)	-	(1,351)
As at 31 December 2019	19,980	45,260	7,543	236	73,019
Accumulated depreciation					
As at 1 January 2019	10,653	28,164	4,953	-	43,770
Additions	812	3,697	930	-	5,439
Disposals	(25)	(886)	(294)	-	(1,205)
As at 31 December 2019	11,440	30,975	5,589	-	48,004
Net value as at 1 January 2019	**7,931**	**13,002**	**2,002**	**738**	**23,673**
Net value as at 31 December 2019	**8,540**	**14,285**	**1,954**	**236**	**25,015**

2018	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets under construction	Total
Gross value					
As at 1 January 2018	18,109	39,068	7,762	243	65,182
Additions	-	-	-	6,400	6,400
Reclassifications	475	4,635	795	(5,905)	-
Disposals	-	(2,537)	(1,602)	-	(4,139)
As at 31 December 2018	18,584	41,166	6,955	738	67,443
Accumulated depreciation					
As at 1 January 2018	9,812	27,348	5,494	-	42,654
Additions	841	3,271	1,048	-	5,160
Disposals	-	(2,455)	(1,589)	-	(4,044)
As at 31 December 2018	10,653	28,164	4,953	-	43,770
Net value as at 1 January 2018	**8,297**	**11,720**	**2,268**	**243**	**22,528**
Net value as at 31 December 2018	**7,931**	**13,002**	**2,002**	**738**	**23,673**

Depreciation

The depreciation expense relating to property, plant and equipment is recorded in the following item lines of the statement of comprehensive income:

	2019	2018
Selling costs	3,501	3,001
General and administrative expenses	419	382
Cost of sales	1,519	1,777
	5,439	5,160

Fixed assets used under finance lease agreements

In 2019, the Group concluded agreements on the lease of six cars and two agreements on the lease of dispensing and mixing equipment (**DME**) which were classified as finance leases. As at 31 December 2019, the net value of all 58 cars used under finance lease agreements amounts to PLN 2,381 thousand, and the value of 350 pieces of DME amounts to PLN 2,702 thousand (PLN 5,083 thousand in total).
As at 1 January 2019, the Group recognized agreements on the lease of a retail store, warehouse space in Poland, and office and warehouse space and vehicles in the English company, totalling PLN 902 thousand, as finance leases. The warehouse space lease agreement was terminated in July 2019, and the value of the current agreement amounts to PLN 425 thousand as at 31 December 2019.
The weighted average incremental borrowing rate used to measure lease liabilities amounts to 2.6%.

In 2018, the Group concluded agreements on the lease of 18 cars and three agreements on the lease of dispensing and mixing equipment which were classified as finance leases. As at 31 December 2019, the net value of all cars used under finance lease agreements amounts to PLN 2,901 thousand, and the value of 243 pieces of DME amounts to PLN 2,201 thousand (PLN 5,102 thousand in total).
The contracts with the lessor concluded up until 2018 and some of the contracts concluded in 2019 provide for the option of purchasing the vehicles and the dispensing and mixing equipment, and the Group intends to use that option. The depreciation rates used reflect the economic usefulness of the fixed assets and take into account the option of purchasing the cars.
In 2019, the Group recorded some (10 cars and a lifting device) which it does not intend to purchase.

Right-of-use assets

	Offices, apartments/ warehouses	DME	Cars	**Total**
Balance as at 31/12/2018		2,201	2,901	5,102
Adjustments due to the adoption of IFRS 16	639		263	902
Balance as at 01/01/2019	639	2,201	3,164	6,004
Increases - new lease agreements	-	928	396	1,324
Terminations of agreements	(106)	-		(106)
Amortization	(204)	(668)	(1,061	(1,933)
Balance as at 31/12/2019	**326**	**2,461**	**2,499**	**5,289**

	IFRS 16
Lease-related amounts recognized in the reporting period	
Amortization of right-of-use assets by class	
Offices, apartments/warehouses	204
DME	668
Cars	1,061
Total amortization expense	1,933
Interest on lease liabilities (recognized in finance costs)	179
Cost of lease of low-value assets, which is not a short-term lease (recognized in General and administrative expenses and Selling costs)	181
Total costs relating to lease agreements	**2,293**

Minimum lease payments for all cars and dispensing and mixing equipment (DME) used under finance lease agreements and the rent for a retail store, warehouses and an office are as follows:

	2019	**2018**
up to 1 year	2,001	1,665
from 1 to 5 years	2,802	3,107
	4,803	4,772

The total minimum lease payments, net of finance costs (interest), reconcile to the amount of the liabilities in respect of the lease agreements.

	2019	**2018**
Minimum lease payments	4,803	4,772
Finance costs (interest)	(196)	(231)
Lease liabilities	4,607	4,541

Assets put up as collateral

As at 31 December 2019, the Group's assets are subject to contractual capped mortgages of PLN 34.3 million and the assignment of rights from insurance policies to secure the repayment of a bank loan liability (see Note 17), and the change is due to the amendments made to the loan agreement in connection with the extension of its scope to include a possible guarantee of PLN 5,300 thousand.

Future contractual commitments in respect of the purchase of non-current assets

During the year, no agreements on the implementation or construction of new fixed assets or intangible assets were signed, which will be performed in the future.

Changes in estimates

In 2019, the Group did not make any changes in estimates in relation to the useful lives of property, plant and equipment.

11. Intangible assets

Movements in intangible assets for the period from 1 January 2019 to 31 December 2019 and for the period from 1 January 2018 to 31 December 2018 are presented in the tables below.

2019	Goodwill	Other
Gross value		
As at 1 January 2019	104,431	10,886
Additions	-	108
Disposals	-	-
As at 31 December 2019	104,431	10,994
Accumulated amortization		
As at 1 January 2019	-	10,703
Additions	-	108
Disposals	-	-
As at 31 December 2019	-	10,811
Net value as at 1 January 2019	**104,431**	**183**
Net value as at 31 December 2019	**104,431**	**183**

2018	Goodwill	Other
Gross value		
As at 1 January 2018	104,431	10,759
Additions	-	173
Disposals	-	(46)
As at 31 December 2018	104,431	10,886
Accumulated amortization		
As at 1 January 2018	-	10,593
Additions	-	156
Disposals	-	(46)
As at 31 December 2018	-	10,703
Net value as at 1 January 2018	**104,431**	**166**
Net value as at 31 December 2018	**104,431**	**183**

Amortization

The amortization expense relating to other intangible assets is recorded in the following item lines of the statement of comprehensive income:

	2019	2018
General and administrative expenses	108	156
	108	**156**

Goodwill – impairment test

The Group manufactures two main lines of thermal insulation products: wet products (acrylic plasters, sold as ready-to-use) and dry products (mineral plasters, ready to use after adding water) and paints. Each product is manufactured using separate machines. However, all types of products are intended for the same groups of customers (wholesalers), the final users of the products are the same, and the products are distributed by the same sales teams and through the same distribution network. As a result, the Group treats the entire enterprise as a single group of assets generating cash flows.

The recoverable amounts of the assets generating cash flows are calculated on the basis of the calculation of value in use. This calculation makes use of cash flow projections based on a five-year financial projection. The average annual increase in cash flows during the forecast period is 6.3%. In estimating the cash flows for the years not covered by the projection, it was assumed that cash flows with a fixed growth rate would be maintained. In discounting the future cash flows, a pre-tax discount rate of 9.3% was used.

The adopted forecasts of future cash flows are based on a number of assumptions; even a slight change in these assumptions may have a significant impact on the results of the financial projections and the results of the impairment test. The most important of these include the trend in economic growth, the state policy on thermo-modernization subsidies and demand from the Group's key customers.

The level of the net discount rate at which the value in use of the business equals the net value of its non-current assets is 15% before income tax.

Based on the results of the test, the impairment of goodwill has not been recognized.

12. Inventories

Inventories as at 31 December 2019 and 31 December 2018 are presented in the table below:

	31 December 2019	31 December 2018
Materials	4,611	5,212
Semi-finished goods and work in progress	1,848	1,950
Finished goods	1,707	1,663
Goods for resale	1,037	1,031
	9,203	9,856

Inventories are stated at the net value. As at 31 December 2019, inventory write-downs amounted to PLN 43 thousand (PLN 50 thousand as at 31 December 2018).

13. Trade and other receivables

Trade and other receivables as at 31 December 2019 and as at 31 December 2018 are presented in the table below:

	31 December 2019	31 December 2018
Trade receivables from third parties	29,469	21,336
Other receivables	406	770
VAT receivables	633	575
Provision for bonuses for customers and a margin adjustment (the UK market)	(1,709)	(1,093)
	28,799	21,588

Trade and other receivables are presented net of impairment write-downs of PLN 1,698 thousand and PLN 1,993 thousand, as at 31 December 2019 and as at 31 December 2018, respectively, recognized by the Company at the amount of credit losses expected over the entire life cycle of a receivable from its initial recognition. The Group uses a write-down matrix in which write-downs are calculated for trade receivables classified into different past-due periods: (1) up to 30 days (a 0.1% write-down); (2) from 31 to 90 days (a 2.3% write-down); (3) from 91 to 180 days (a 8.8% write-down); (4) from 181 to 360 days (a 20.9% write-down). Impairment write-downs have been recognized as an element of selling costs in the statement of comprehensive income.
The Group uses the possibility of factoring to improve its liquidity. As at 31 December 2019, the factoring exposure amounted to PLN 0.00.

14. Other current assets

Other current assets as at 31 December 2019 and as at 31 December 2018 are presented in the table below:

	31 December 2019	31 December 2018
Certificates	1,608	1,018
Prepaid non-life insurance expenses	64	125
Leases relating to future periods	22	35
Other	207	114
	1,901	1,292

15. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash at bank	997	736
Cash in hand	31	25
Bank deposits	132	13
Loans granted	-	18
	1,160	792

16. Equity

Share capital and supplementary capital

The share capital and the supplementary capital as at 31 December 2019 and 31 December 2018 are presented in the table below:

	31 December 2019	31 December 2018
Share capital	10,000	10,000
Supplementary capital	88,912	86,491
	98,912	96,491

As at 31 December 2019, the share capital consisted of 10,000,000 ordinary shares issued and paid up, with a par value of PLN 1 each. All the shares issued have been paid up in full.

The supplementary capital as at 31 December 2019 representing additional capital contributions made in the previous years increased by the appropriation of profits for the years 2007-2018. The supplementary capital in a joint stock company may not be freely paid out to the shareholders in the form of a dividend.
On 27 February 2019, the Extraordinary Shareholders' Meeting adopted a resolution on the payment of a dividend of PLN 4,000 thousand. By resolution of the Extraordinary Shareholders' Meeting of 30 December 2019, the resolution was adjusted to the amount realized, to PLN 2,222 thousand.

One ordinary share carries one vote at the General Shareholders' Meeting of the Group.

17. Liabilities in respect of loans and borrowings

The table below presents the maturity dates of liabilities in respect of loans and borrowings as at 31 December 2019 and as at 31 December 2018:

	31 December 2019	31 December 2018
Current	14,033	15,878
Total loans and borrowings	14,033	15,878

The table below presents short-term liabilities in respect of loans and borrowings as at 31 December 2019 and as at 31 December 2018 (there are no long-term liabilities).

Short-term	Currency	Interest	31 December 2019	31 December 2018
Short-term portion of long-term loans and borrowings			-	-
BGŻBNP PARIBAS S.A. (working capital loan)	PLN	Variable interest rate WIBOR 1M + a margin	14,033	15,878
			14,033	**15,878**

On 15 November 2019, by means of Amendment No. 6 to the agreement, the Group extended the overdraft facility agreement with BGŻ BNP Paribas S.A. to 31 July 2021, with the maximum amount of the overdraft of PLN 34.3 million in the period from 30 April to 30 September and the maximum amount of the overdraft of PLN 31.3 million in the remaining period.
The maximum amount of the overdraft was increased by PLN 5.3 million to be used for providing a limit on a performance bond line, a warranty for repairing defects and faults, and a payment guarantee.

The facility is secured with a blank bill of exchange, a mortgage of up to PLN 34.3 million on the ownership of real estate situated in Żywiec, the assignment of rights from the insurance policy on the real estate, a general "silent" assignment of receivables (i.e. without the debtors being notified), and the assignment of rights from the receivables insurance contract.

According to the above-mentioned loan agreement, the Group is also obliged to maintain the financial ratios defined in that agreement at a certain level.

According to the loan agreement, the breach of the financial ratios gives the Lender the right to:
- terminate the working capital loan in full or in part or reduce the loan amount;
- request that a recovery programme is presented and implemented;
- refrain from placing the unused part at the Group's disposal;
- request the establishment of additional collateral or increase the bank's margin.

18. Employee benefits

Employee benefits consist of provisions for other long-term liabilities in respect of employee benefits relating to one-time retirement benefits and disability pension benefits.

According to the calculation carried out by an actuary based on current estimates, the Group's liabilities in respect of one-time retirement benefits amounted to PLN 345 thousand and PLN 296 thousand as at 31 December 2019 and 31 December 2018 respectively.

19. Provisions

Movements relating to provision balances are presented in the table below:

	Provision for complaints	Total
As at 1 January 2019	251	251
Increase	159	159
As at 31 December 2019	410	410
Increase /utilization 2019	-	-
As at 31 December 2019	410	410

20. Liabilities

20A. Trade and other payables include the following items:

	31 December 2019	31 December 2018
Trade payables	9,829	10,048
Accruals	2,936	1,458
Other liabilities	174	204
VAT liabilities	1,169	324
Liabilities to the owner (a dividend)	-	352
Deferred income (a grant)	423	476
	14,531	12,862

20B. Liabilities in respect of employee benefits

	31 December 2019	31 December 2018
Liabilities to employees	751	521
Tax and social insurance liabilities	1,812	1,690
Wages and salaries payable	1,570	1,536
Special funds	229	211
	4,362	3,958

21. Debt reconciliation

	Loans	Total lease liabilities	Cash and cash equivalents	Net debt
Balance as at 1 January 2018	(16,660)	(2,866)	363	(19,163)
Cash flows	782	(1,675)	429	(464)
Accrued interest				-
Balance as at 31 December 2018	**(15,878)**	**(4,541)**	**792**	**(19,627)**
Adjustment due to the adoption of IFRS 16		(902)		(902)
Balance as at 1 January 2019	**(15,878)**	**(5,443)**	**792**	**20,529)**
Cash flows	1,845	2,250	368	4,463
New lease agreements		(1,324)		(1,324)
Termination of a lease agreement		106		106
Accrued interest		(196)		(196)
Balance as at 31 December 2019	**(14,033)**	**(4,607)**	**1,160**	**(17,480)**

Financial instruments

22. Classification of financial instruments

	IFRS 9 31 December 2019	IFRS 9 31 December 2018
Financial assets measured at amortized cost:		
Loans and trade receivables	31,776	23,398
Cash and cash equivalents	1,160	792
Financial liabilities measured at amortized cost:		
Lease liabilities	(4,607)	(4,541)
Other financial liabilities	(26,104)	(27,588)
	2,225	**(7,939)**

22B. Financial risk management

Credit risk, liquidity risk and market risk (which include mainly interest rate risk and currency risk) occur in the normal course of the Group's activities. The aim of the Group's financial risk management is to minimize the impact of market factors such as foreign exchange rates and interest rates on the basic financial parameters approved in the Group's budget for a given year (profit/loss, cash flow levels).

Credit risk

Credit risk is the risk that the Group will incur financial losses as a result of a customer or a counterparty which is a party to a financial instrument failing to meet its contractual obligations. Credit risk is mainly related to the Group's receivables from its customers and to financial investments.

The Group operates in an industry which is characterized by an increased level of credit risk. This is due to the fact that, in the Group's main markets, the payment terms which are obligatory in customer relationships are between 30 and 120 days. As at 31 December 2019, the Group's trade receivables from third parties totalled PLN 29,469 thousand.

The Group assesses the creditworthiness of its customers on a current basis and, in justified cases, requests appropriate collateral. In order to mitigate customer default risk, the Group has entered into a receivables insurance contract which covers receivables representing approximately 78% of its total trade receivables from third parties. Moreover, in many cases, the Group has additional collateral for its receivables in the form of bills of exchange.

The counterparties for which the Group does not have a cooperation record or to which sales are made sporadically make purchases in cash. Whereas trade credit is granted to customers who have a positive cooperation record and creditworthiness assessed on the basis of both internal and external sources. The exposure to credit risk is defined as total outstanding receivables which are monitored on a current basis, individually for each customer.

The Group monitors the financial standing of its customers and the level of credit risk on a current basis.
Financial assets in respect of receivables that are past due amount to PLN 9,842 thousand as at 31 December 2019 and PLN 8,247 thousand as at 31 December 2018. These receivables are, in most cases, insured, and due to the fact that the Group is not dependent on making sales to one or a few large customers, at present the Group is of the opinion that the receivables can be recovered.

The table below presents the Group's maximum exposure to credit risk:

	31 December 2019	**31 December 2018**
Trade and other receivables	31,776	23,398
Cash and cash equivalents	1,160	792
	32,936	**24,190**

The increases and decreases in write-downs of receivables were as follows:

	31 December 2019	31 December 2018
Write-downs of receivables as at the beginning of the period	1,993	2,338
Recognition of write-downs of receivables	955	962
Reversal of write-downs of receivables	(870)	(947)
Utilization of write-downs of receivables	(380)	(360)
Write-downs of receivables as at the end of the period	**1,698**	**1,993**

Cash & cash equivalents and deposits

Cash and cash equivalents are deposited with BGŻ BNP Paribas S.A. (foreign currencies) and Pekao S.A. and Santander S.A. which are financial institutions with a high financial credibility confirmed by the high ratings assigned by rating agencies, whereas the low credit risk as at the reporting date and the potential write-downs have no effect on the cash disclosed.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The activities which are aimed at mitigating this risk include proper management of liquidity carried out by assessing cash resources correctly on the basis of cash flow plans in various time horizons.

31 December 2019

	Carrying amount	Contracted cash flow value	Up to 1 year	1-5 years
Liabilities				
Trade payables and other non-financial liabilities	(10,003)	(10,003)	(10,003)	-
Bank loans	(14,033)	(14,381)	(14,381)	-
Liabilities to the owner (a dividend)	-	-	-	-
Lease liability	(4,607)	(4,803)	(2,001)	(2,802)
	(28,643)	**(29,187)**	**(26,385)**	**(2,802)**

31 December 2018

	Carrying amount	Contracted cash flow value	Up to 1 year	1-5 years
Liabilities				
Trade payables and other non-financial liabilities	(10,252)	(10,252)	(10,252)	-
Bank loans	(15,878)	(16,273)	(16,273)	-
Liabilities to the owner (a dividend)	(352)	(352)	(352)	-
Lease liability	(4,541)	(4,772)	(1,665)	(3,107)
	(31,023)	**(31,649)**	**(28,542)**	**(3,107)**

The Group operates in an industry that is significantly capital-intensive as regards the needs to finance working capital. This is due to the fact that, in the Group's main markets, the payment terms which are obligatory in customer relationships are between 30 and 120 days. Furthermore, the payment terms imposed by the suppliers of the main raw materials are shorter. In this situation, apart from trade payables, the equity and liabilities in the Group's statement of financial position also show significant liabilities in respect of loans raised.

Market risk

Interest rate risk

The Group's exposure to changes in interest rates concerns mainly cash and cash equivalents, borrowings and bank loans bearing variable interest rates which are based on WIBOR + a margin.

In order to finance its investments and current activities, the Group has raised the bank loans and the loan from the shareholder as described in Note 17. The interest rate on the bank loan is variable, therefore, each increase in interest rates causes a simultaneous increase in the Group's finance costs in respect of interest on the bank loans raised.

The table below presents the profile of the Group's sensitivity (maximum exposure) to interest rate risk:

	Carrying amount 31 December 2019	Carrying amount 31 December 2018
Financial assets	1,160	792
Financial liabilities	(18,640)	(20,419)
	(17,480)	**(19,627)**

The activities concerning the mitigation of interest rate risk include monitoring the situation on the money market on a current basis.

The Group does not have any financial instruments bearing fixed interest rates, which are measured at fair value through profit or loss. Moreover, the Group does not have any instruments bearing fixed interest rates, which are recognized directly in equity, either.

The Group performed an analysis of the sensitivity of financial instruments bearing variable interest rates to changes in market interest rates. The table below presents the effect which an increase and decrease in interest rates of 100bp would have on the profit/loss and on equity. The analysis was performed on the assumption that all other variables such as, e.g., foreign exchange rates, remain unchanged.

	Profit/loss		Income tax	Equity, including profit/loss	
	increases 100bp	decreases 100bp	Increases/decreases 100bp	increases 100bp	decreases 100bp
2019	(306)	306	(58)	(248)	248
2018	(310)	310	(59)	(251)	251

Foreign exchange risk

Due to the fact that some of the Group's sales and purchases are made and accounted for in euros, the Group is exposed to the risk of changes in the EUR/PLN exchange rate.

Export sales represent approximately 7.01% of the Group's total sales. Purchases in foreign currencies constitute approximately 44.0% of total purchases. Therefore, exchange rate fluctuations affect the value of sales revenue and the costs of purchase of raw materials and goods for resale. A significant fluctuation in the domestic currency has a negative effect on the profitability of export sales and on domestic sales. However, any changes in revenue from export sales and from domestic sales valued on the basis of quotations, caused by exchange rate fluctuations, are balanced by changes in the costs of imports of raw materials (or those valued on the basis of foreign currency quotations), thus moderating the Group's exposure largely to foreign exchange risk.

Foreign exchange risk management includes the following processes: risk identification and measurement, monitoring the situation on the financial markets, and adjusting – where possible – the amounts of liabilities and receivables in each currency.

In order to mitigate the foreign exchange risk, the bank loans raised were denominated in Polish zlotys.

The tables below show the foreign exchange balance as at 31 December (in PLN thousand):

31 December 2019	total in PLN	position in PLN	position in EUR	position in USD	position in SEK	position in UHA	position in GBP
Total assets	170,986	161,357	2,905	65	16	135	6,508
Total equity and liabilities	(170,986)	(166,550)	(3,246)	-	-	(1)	(1,189)
Foreign exchange exposure in PLN thousand (an equivalent in EUR)			(341)				
Foreign exchange exposure in PLN thousand (an equivalent in USD)				65			
Foreign exchange exposure in PLN thousand (an equivalent in SEK)					16		
Foreign exchange exposure in PLN thousand (an equivalent in UHA)						134	
Foreign exchange exposure in PLN thousand (an equivalent in GBP)							5,319
The Group's loss when the EUR exchange rate increases by 1%, in PLN thousand			(3)				
The Group's loss when the USD exchange rate increases by 1%, in PLN thousand							
The Group's profit when the SEK exchange rate increases by 1%, in PLN thousand							
The Group's profit when the UHA exchange rate increases by 1%, in PLN thousand							
The Group's profit when the GBP exchange rate increases by 1%, in PLN thousand							53

The tables below show the foreign exchange balance as at 31 December (in PLN thousand):

31 December 2018	**total in PLN**	**position in PLN**	***position in EUR***	***position in USD***	**position in UAH**	**position in GBP**
Total assets	162,046	155,053	2,491	3	211	4,288
Total equity and liabilities	(162,046)	(156,726)	(4,217)	-	(16)	(1,087)
Foreign exchange exposure in PLN thousand (the equivalent in EUR)	-	-	(1,726)	-	-	-
Foreign exchange exposure in PLN thousand (the equivalent in USD)	-	-	-	-	-	-
Foreign exchange exposure in PLN thousand (the equivalent in UAH)	-	-	-	-	195	-
Foreign exchange exposure in PLN thousand (the equivalent in GBP)	-	-	-	-	-	3,201
The Group's loss when the EUR exchange rate increases by 1%	-	-	(17)	-	-	-
The Group's loss when the USD exchange rate increases by 1%	-	-	-	-	-	-
The Group's profit when the UHA exchange rate increases by 1%	-	-	-	-	2	-
The Group's profit when the GBP exchange rate increases by 1%	-	-	-	-	-	32

Risk of changes in raw material prices

The Group's activities are characterized by the relative volatility of raw material prices in relation to goods for resale and finished goods sold. The effect of these fluctuations is the volatility of the margins earned on the sale and production of individual types of goods. In particular, the prices of products such as polymer dispersions and dyeing agents are highly sensitive to the level of petroleum prices on the international markets, which is very difficult to forecast.

The Group's procurement policy assumes the diversification of the suppliers of all raw materials necessary for the manufacture of the Group's products so as to have a number of alternative contractors within each group of raw materials. The value of purchase in the case of any of the suppliers does not exceed 7.5% of the total raw material costs.

In trade agreements, there are no mechanisms of the automatic transfer of a cost price to a selling price, which requires the Group to monitor market price levels on an ongoing basis and to determine them appropriately through a discount system in place and to update the basic price lists. For this reason, it may be assumed that some of the stocks of finished goods maintained by the Company as at the balance sheet date carried the risk that the cost prices of raw materials did not match the selling prices of finished goods. It is estimated that in case of such discrepancy of 1%, the Group is exposed to a gain or loss of approximately PLN 31 thousand.

22C. Fair value of financial instruments

Detailed information about the fair values of financial instruments for which such values may be estimated are presented below:

- Cash and cash equivalents, short-term bank deposits and short-term bank loans and borrowings: the carrying amounts of the above-mentioned instruments are approximate to their fair values because of the short maturities of these instruments;
- Trade receivables, other receivables, trade payables, other payables: the carrying amounts of the above-mentioned instruments are approximate to their fair values because of their short-term nature;
- Long-term bank loans, lease liabilities: the carrying amounts of the above-mentioned instruments are approximate to their fair values due to the variable nature of the interest rates they bear.

22D. Equity management

The basic assumption behind the Group's equity management policy is to maintain a strong capital base which will be a basis for the trust of investors, lenders and the market and which will ensure the Group's development in the future. The Group monitors changes in its shareholding structure, the return on equity and the equity/liabilities ratios.

The Group's objective is to achieve a return on equity whose level is satisfactory to its shareholder.

There were no changes in the Group's equity management policy during the financial year.

23. Contingent liabilities

The Group has entered into an agreement with Solid Wall Insulation Agency in Great Britain, under which it provided a guarantee to its subsidiary, Soltherm External Insulations Ltd., to cover the costs of possible claims resulting from the use of the thermal insulation systems produced by Bolix and introduced by Soltherm on the British market under ECO programmes. The guarantee is limited to GBP 1,000,000, and it represents the concretization of the product liability of the manufacturer of thermal insulation systems.

24. Post balance sheet events

On 2 March 2020, the owner of the minority interests in a subsidiary, SUREFIRE MANAGEMENT SERVICES LIMITED, changed. Green Dynamo Ltd. became the new shareholder.

Impact of the COVID-19 Pandemic on the Group's environment and its operations.
Current situation.
The main markets and the logistics supply chain which operates thereon have not felt any perturbation. In Poland and on most export markets, to date sales revenue has been at a level higher than the prior year's level – higher than expected. There are no unexpected changes in the collection of receivables. There is no disruption in the supply of raw materials, and there are no signals about the suspension of production, a slowdown in production or warnings about the lack of liquidity. The employees are not subject to obligatory quarantine, and the agreed measures considerably reduce the possibility of the

virus spreading at the workplace. As a rule, there are no problems with the availability of staff. The production is smooth and is accompanied by insignificant staff shortages which do not differ from seasonal diseases / holidays / turnover. Fifty percent of the administrative tasks are carried out remotely, on a rotating basis. The sales staff are mainly working over the telephone and via the Internet, without travelling to customers except in special situations.

Anticipated situation.
According to the information collected from wholesale outlets and construction companies at home, at present these entities are planning and making additional purchases and building up stocks in view of the possible turbulence. Few construction sites have seen a slowdown in work – for the development market due to staff shortages – but the market is looking very good in general. We have seen a drop in activity in the Leroy Merlin network. The Group is not dependent on exports to Italy or to Spain, where the greatest effects of the epidemic are recorded. The Company's customers in France demonstrate activity in spite of some of the economy being frozen as a result of the virus. After the very good first quarter of the year, the companies in Great Britain have entered the lockdown phase which should end in the last days of May. The company in Ukraine, being the smallest one, is the most exposed to perturbation, but its low fixed costs allow it to survive even many months of stagnation.

So far, there have been no problems with deliveries to the related companies abroad. In Great Britain, which is our largest export market, just as in Poland, the customers have finished building up stockpiles. We do not expect any increased delays in the collection of receivables. The forecasted, budgeted results of operations assume an increase compared with 2019 in spite of COVID-19. We do not expect a major deviation from this forecast, although if the economy of the entire EU should go into deep recession, this will have an impact on the Group's results.

The Group monitors and analyses its liquidity position in different scenarios assuming a significant deterioration in the level of economic activity on a current basis. As part of the safety measures, it enjoys a higher overdraft facility limit, it has applied for the postponement of payment of social insurance contributions, and it has a factoring limit which has not been used so far.

On 30 April 2020, by way of Notarial Deed Rep. A 1986/2020 the Extraordinary General Meeting of the Company adopted a resolution on paying a dividend out of retained earnings transferred to the supplementary capital, of PLN 2,700 thousand, by 30 November 2020.

The Management Board does not see any significant reasons why COVID-19 should pose a serious threat to the Group's existence. As far as key raw materials are concerned, the Company is not dependent on a single source of supplies.

In the opinion of the Management Board, the present situation does not affect the Company's uncertainty as to its going concern status. The situation has been assessed as it is now, but there is a high uncertainty as to the subsequent developments and the scale of the pandemic, and therefore the situation may change radically.

After 31 December 2019, i.e. after the last day of the reporting period, to the best of our knowledge, there were no other significant events which may have had a material effect on the assessment of the Company's financial position or results of operations which have not been recognized in the financial statements as at and for the year ended 31 December 2019.

25. Transactions with related entities

As presented in Note 1(a), the Group is owned and controlled by Lusako Trading Limited. Lusako is an entity wholly owned by the Berger Paints India Limited Group ("Berger") based in India.

The Group purchased colour palettes from BERGER PAINTS INDIA LTD for PLN 49 thousand and reinvoiced costs of PLN 60 thousand to it.

The Group sold services to Surefire Management Services Ltd (SMS Ltd) of PLN 1,691 thousand (including reinvoicing property insurance and other current costs of PLN 217 thousand), and the receivable from that related company amounts to PLN 1,359 thousand as at 31 December 2019.

Transactions with related entities were conducted on terms equivalent to those that apply to transactions carried out on an arm's length basis.

In 2019, the following persons were on the Management Board:
- Mr. Maciej Korbasiewicz;
- Mr. Ryszard Czech.

The members of the Management Board were employed on the basis of employment contracts and were entitled only to short-term benefits.
Due to the fact that the Management Board consists of two persons only, the expenses arising from these contracts have not been disclosed.

26. Other

The Group's financial statements were approved for publication by the Group's Management Board on 11 May 2020.

Signatures of the Members of the Management Board

President of the
Management Board
Maciej Korbasiewicz

.....
Member of the
Management Board
Ryszard Czech

Signature of the person responsible for maintaining the books of account

.....
Chief Accountant
Brygida Salwitzek-Wypchałowska

Żywiec, 11 May 2020