ŚNIEŻKA
GROUP

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CONSOLIDATED FINANCIAL STATEMENTS OF THE ŚNIEŻKA GROUP FOR THE YEAR ENDED December 31, 2023

Prepared in accordance with the International Financial Reporting Standards in the version approved by the European Union

26 march 2024

We believe colours matter.

TABLE OF CONTENTS

1. Basic elements of the financial statements

1.1. Consolidated statement of comprehensive income for the year ended 31 December 2023

		for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Sales revenues	**3.2.1.**	**857 773**	**791 686**
Cost of sales	**3.2.4.**	473 569	487 453
Gross profit from sales		384 204	304 233
Other operating revenues	**3.2.2.**	5 785	6 256
Selling costs	**3.2.4.**	151 425	142 605
General administrative costs	**3.2.4.**	112 711	92 836
Other operating expenses	**3.2.2.**	4 849	5 627
Profit from operating activities		121 004	69 421
Financial revenues	**3.2.3.**	4 551	5 368
Financial expenses	**3.2.3.**	24 907	21 910
Share in associate's profit	**3.11**	366	134
Gross profit		101 014	53 013
Income tax	**3.4.1.**	17 533	11 741
Net profit from continued activities		83 481	41 272
Net profit for the period		83 481	41 272
Items subject to reclassification to profit / (loss) in subsequent net reporting periods:		(8 988)	(18 314)
Exchange differences from translation of foreign operations	**3.3**	(8 726)	(17 419)
Cash flow hedge		(262)	12
Net investment hedge in a foreign entity	**3.26**	0	(907)
Items not subject to reclassification to profit / (loss) in subsequent net reporting periods:		(471)	1 477
Change in fair value of financial instruments measured at fair value through other comprehensive income		240	250
Actuarial gains (losses) after considering deferred income tax	**3.3**	(711)	1 227
Other net comprehensive income		(9 459)	(16 837)
COMPREHENSIVE INCOME FOR THE PERIOD		74 022	24 435
Profit attributable to:		83 481	41 272
Shareholders of the parent company		77 634	36 684
Non-controlling interests		5 847	4 588
Total income attributable to:		74 022	24 435
Shareholders of the parent company		68 505	22 922
Non-controlling interests		5 517	1 513

Earnings per share (in PLN):	**3.6**		
- basic, from profit for the period attributable to shareholders of the parent company		6.15	2.91
- basic, from profit on continued operations for the period attributable to shareholders of the parent company		6.15	2.91
- basic, from profit on discontinued operations for the period attributable to shareholders of the parent company		0.00	0.00
- diluted, from profit for the period attributable to shareholders of the parent company		6.15	2.91
- diluted, from profit on continued operations for the period attributable to shareholders of the parent company		6.15	2.91
- diluted, from profit on discontinued operations for the period attributable to shareholders of the parent company		0.00	0.00

1.2. Consolidated statement of financial position as at 31 December 2023

	Note	*31 December 2023*	*31 December 2022*
Fixed assets		564 088	572 889
Tangible fixed assets	**3.8**	492 172	496 131
Goodwill	**3.5**	4 080	4 209
Intangible assets	**3.10**	62 509	68 171
Investments in affiliates using the equity method	**3.11**	2 037	1 783
Other financial assets	**3.12**	1 348	1 108
Long-term lease receivables	**3.9.2.**	176	725
Deferred tax assets	**3.4.3.**	1 766	762
Current assets		254 698	221 126
Current assets excluding non-current assets held for sale		254 698	220 946
Inventory	**3.14**	116 169	124 553
Trade and other receivables	**3.15**	58 760	65 339
Income tax receivables	**3.15**	14 104	11 138
Cash and cash equivalents	**3.16; 3.25.3.**	65 665	19 916
Fixed assets held for sale		0	180
TOTAL ASSETS		818 786	794 015
Equity (attributable to the shareholders of the parent company)		347 799	292 942
Share capital	**3.17.1.**	12 618	12 618
Option to acquire shares in minority ownership	**3.17.2.**	-33 679	-45 267
Other supplementary capital	**3.17.3.**	-64 118	-55 700
Retained earnings	**3.17.4.**	432 978	381 291
Equity of non-controlling interests		26 345	28 300
Total equity		374 144	321 242
Long-term liabilities		223 545	244 850
Interest-bearing loans and borrowings	**3.18**	203 054	225 886
Provisions, including:		6 014	4 454
- Provisions for employee benefits	**3.13**	5 659	3 940
- Other provisions		355	514
Lease liabilities	**3.9.1.**	3 135	4 535
Provision for deferred income tax	**3.4.3.**	11 342	9 975
Short-term liabilities		221 097	227 923
Short-term liabilities, excluding assets held for sale		221 097	227 923
Trade and other liabilities	**3.19**	101 448	103 216
Current portion of interest-bearing loans and borrowings	**3.18**	77 775	70 904
Lease liabilities	**3.9.1.**	2 186	1 078
Liabilities under option to acquire shares in minority ownership		33 261	44 848
Income tax liabilities	**3.19**	392	3 356
Provisions, including:		6 035	4 521
- Provisions for employee benefits	**3.13**	5 819	4 250
- Other provisions		216	271
Total liabilities		444 642	472 773
TOTAL LIABILITIES		818 786	794 015

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements on pages from 9 to 79 constitute its integral part.

1.3. Consolidated statement of cash flows for the year ended 31 December 2023

	Note	*for the period of 12 months ended as at 31 December 2023*	*for the period of 12 months ended as at 31 December 2022*
Profit before tax		101 014	53 013
Adjustments:		78 851	68 964
Depreciation of PP&E and investment properties		38 411	36 756
Profit (loss) on investing activities		(2 181)	(147)
Exchange difference		972	(4 435)
Shares in associates' profits		(366)	(134)
Interest expenses		23 117	21 712
Other adjustments		(103)	(77)
Movement in inventories	3.20	5 159	8 767
Movement in receivables	3.20	(423)	2 650
Movement in liabilities	3.20	10 943	7 342
Movement in provisions	3.20	3 322	(3 470)
Cash generated by operating activities		179 865	121 977
Income tax paid		(31 671)	(23 808)
Net cash from operating activities		148 194	98 169
Expanses related to acquisition of PP&E and intangible assets		(32 225)	(53 276)
Proceeds from sales of PP&E and intangible assets		2 941	5 814
Expanses related to acquisition of subsidiaries		0	(125)
Proceeds from sale of shares in subsidiaries		158	120
Net cash used in investing activities		(29 126)	(47 467)
Proceeds form loans and borrowings raised		183 334	393 878
Repayment of loans and borrowings		(200 683)	(381 335)
Repayment of liabilities on account of finance leases		(1 157)	(1 205)
Interest		(22 651)	(20 717)
Dividends		(30 051)	(34 391)
Net cash from financing activities		(71 208)	(43 770)
Net increase (decrease) in cash and cash equivalents before exchange differences		47 860	6 932
Exchange differences from translation of foreign operations		(2 111)	(3 206)
Net increase (decrease) in cash and cash equivalents		45 749	3 726
Cash and cash equivalents at the beginning of the period	**3.16**	19 916	16 190
Cash and cash equivalents at the end of the period	**3.16**	65 665	19 916

(in PLN '000)

1.4. Consolidated statement of changes to equity for the year ended as at 31 December 2023

	Note	Share capital	Option to acquire shares in minority ownership	Other supplementary capital	Retained earnings	**Equity (attributable to the shareholders of the parent company)**	Equity of non-controlling interests	**Total equity**
As at 1 January 2023		12 618	(45 267)	(55 700)	381 291	292 942	28 300	321 242
Net profit for the period		0	0	0	77 634	77 634	5 847	83 481
Other net comprehensive income for the period		0	0	(8 418)	(711)	(9 129)	(330)	(9 459)
Comprehensive income for the period		0	0	(8 418)	76 923	68 505	5 517	74 022
Dividend payment	**3.7**	0	0	0	(25 236)	(25 236)	(7 472)	(32 708)
Acquisition of non-controlling interest		0	0	0	0	0	0	0
Put option valuation		0	11 588	0	0	11 588	0	11 588
Change in equity		0	11 588	(8 418)	51 687	54 857	(1 955)	52 902
As at 31 December 2023		12 618	(33 679)	(64 118)	432 978	347 799	26 345	374 144

	Note	Share capital	Option to acquire shares in minority ownership	Other supplementary capital	Retained earnings	**Equity (attributable to the shareholders of the parent company)**	Equity of non-controlling interests	Total equity
As at 1 January 2022		12 618	(42 726)	(40 711)	374 918	304 099	29 864	333 963
Net profit for the period		0	0	0	36 684	36 684	4 588	41 272
Other net comprehensive income for the period		0	0	(14 989)	1 227	(13 762)	(3 075)	(16 837)
Comprehensive income for the period		0	0	(14 989)	37 911	22 922	1 513	24 435
Dividend payment	**3.7**	0	0	0	(31 544)	(31 544)	(2 920)	(34 464)
Acquisition of non-controlling interest		0	0	0	6	6	(157)	(151)
Put option valuation		0	(2 541)	0	0	(2 541)	0	(2 541)
Change in equity		0	(2 541)	(14 989)	6 373	(11 157)	(1 564)	(12 721)
As at 31 December 2022		12 618	(45 267)	(55 700)	381 291	292 942	28 300	321 242

2. General information and accounting principles (policies)

2.1. General information

2.1.1 Information about the Group

Entity's registered seat: ul. Chłodna 51, 00-867 Warsaw

State of registration: Poland

Description of business activities: manufacture of paint, varnish, solvent, mortar and putty products as well as wholesale and retail trade

Entity's seat: Poland ul. Chłodna 51, 00-867 Warsaw

Explanation of name changes: no name changes

Entity's legal form: Joint-stock company

Name of the parent company: FABRYKA FARB I LAKIERÓW ŚNIEŻKA SA

Name of the reporting entity: FABRYKA FARB I LAKIERÓW ŚNIEŻKA SA, the parent company within the Śnieżka Group

Name of the ultimate parent: FABRYKA FARB I LAKIERÓW ŚNIEŻKA SA

Basic area of business activity: Poland

The Śnieżka Group ("the Group") comprises parent company Fabryka Farb i Lakierów Śnieżka SA ("parent company", "Company", "Issuer") and its subsidiaries (see Note 2.1.2). The consolidated financial statements of the Group cover the year ended as at 31 December 2023 and contain comparative data for the year ended as at 31 December 2022.

The parent company was established by virtue of Notarial Deed as of 16 January 1998. The registered office of the Company is Warsaw, ul. Chłodna 51, 00-867 Warsaw.

The Parent Company is entered in the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register, under the number KRS 0000060537. The Company holds a national Business Registry Number (REGON): 690527477.

The Parent Company and other entities comprising the Capital Group have an unlimited period of operation.
The core operation of the Group is the manufacture of paints, varnishes, solvents, mortars, putties etc., wholesale and retail sale of construction materials.

(in PLN '000)

2.1.2 Composition of the Group and consolidation methods

As at 31 December 2023 the Group is composed of Fabryka Farb i Lakierów Śnieżka SA and the following subsidiaries:

Entity	*Headquarters*	*The scope of activity*	*% share of the Group in capital*	
			31 December 2023	*31 December 2022*
Śnieżka Ukraina Sp. z o.o.	Yavoriv Prywokzalna 1A,	manufacture of paints, varnishes, solvents, mortars, putties etc., wholesale and retail sale of construction materials	83.48%	83.48%
Limited liability company (OOO) Śnieżka BelPol	Zhodzino Dorożnaja 3/1,	production of putties	100.00%	100.00%
Śnieżka Trade of Colours Sp. z o.o.	ul. Chłodna 51, 00-867 Warsaw	marketing and sales, trademarks management	100.00%	100.00%
Radomska Fabryka Farb i Lakierów SA	Radom, ul. Czarna 29	manufacture and sale of anti-corrosive products	94.15%	94.15%
Poli-Farbe Vegyipari Korlátolt Felelősségű Társaság	Hungary, Bocsa III, kerület 2	manufacture of paints, varnishes, solvents, mortars, putties etc., wholesale and retail sale of construction materials	80.00%	80.00%

As at 31 December 2023 and 31 December 2022 the share in the total number of votes held by the Group in subsidiaries is equal to the share of the Group in the share capitals of such entities. The exception is Rafil company, where the Issuer as at 31 December 2023 held 93.09% of votes at the general meeting of Radomska Fabryka Farb i Lakierów SA. As at the above date the shares owned by the Issuer corresponded in total to 94.15% of the share capital of Radomska Fabryka Farb i Lakierów SA.

The Parent Company holds 10.07% shares in Plastbud Sp z o.o. company. Due to significant impact on Plastbud Sp z o.o. company, as a result of substantial trade with it, the company is regarded as an affiliate and valued with the equity method in the consolidated financial statements.

Entity	*consolidation method*
Śnieżka Ukraina Sp. z o.o.	full consolidation
Limited liability company (OOO) Śnieżka BelPol	full consolidation
Śnieżka Trade of Colours Sp. z o.o.	full consolidation
Radomska Fabryka Farb i Lakierów SA	full consolidation
Poli-Farbe Vegyipari Korlátolt Felelősségű Társaság	full consolidation
Plastbud Sp. z o.o.	equity method

2.1.3 The composition of the Management Board of the parent company

The Management Board of the Parent Company as at 31 December 2023 was composed of:

- Piotr Mikrut - President of the Management Board,
- Witold Waśko – Vice President of the Management Board, CFO,
- Joanna Wróbel-Lipa– Vice President of the Management Board, Sales Director,
- Zdzisław Czerwiec - Vice President of the Management Board, Supply Chain Management Director

In the period from 31 December 2023 to the approval of the statements the composition of the parent company's Management Board was not subject to change.

2.1.4 Approval of the financial statements

The consolidated financial statements were approved by the Management Board to be published on March 26, 2024.

2.1.5 The basis for preparing the consolidated financial statements

The consolidated financial statements were prepared in accordance with the historical cost principle, except for equity instruments measured at fair value through other comprehensive income (note 2.4.5).
The consolidated financial statements were presented in Polish currency, i.e. PLN, and all values, unless stated otherwise, are provided in PLN' 000.
The consolidated financial statements were prepared assuming that the Group will continue its business activity in the foreseeable future and in accordance with the principles of fair presentation, accrual and materiality.
As at the date of approval of the consolidated financial statements, there is no evidence indicating that the Group will not be able to continue its operations for the period of at least 12 months after the balance sheet date, i.e. 31 December 2023.

2.1.6 Declaration of compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ('IFRS') and approved by the EU. ('IFRS EU'). As at the date of approval of the consolidated financial statements to be published, considering a pending process within the EU on implementation IFRS standards as well as conducted business activity by the Group, in the scope of accounting principles applied by the Company, IFRS differ from IFRS UE.
The IFRS UE comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC")

2.1.7 Functional currency and the currency of financial statements

The consolidated financial statements of the Group were presented in PLN, which is the functional and presentation currency of the parent company.

2.2. Significant values based on professional judgement and estimate

The preparation of consolidated financial statements requires the application of accounting estimates which, by definition, will rarely equal the actual results. The Management is required to use subjective judgment in applying adopted accounting policies.

This note provides an overview of the areas where subjective judgment is used more closely or those more complex, and the items that are more likely to be adjusted due to inaccurate estimates and assumptions.

The Group adopted estimates and assumptions related to the future on the basis of knowledge possessed during the preparation of the financial statements. The occurring estimates and assumptions may be subject to change due to events in the future resulting from market changes or changes being beyond the Group's control. Such changes are reflected in estimates and assumptions when they occur. In 2023 there were no significant changes in the estimates and the methodology of making estimates.

The Management Board of the Parent Company assessed the magnitude of the armed conflict in Ukraine on the future performance of the Group. The Group did not make any significant changes in the estimates.

Within the process of applying the accounting principles (policy) the management's professional judgement was the most significant as regards issues provided below:

2.2.1 Tax settlement asset

In the light of the General Anti Avoidance Rule ("GAAR") in force from 15 July 2016, which is intended to prevent the creation and use of artificial legal structures created to avoid payment of tax in Poland, the Company's Management Board considered the impact of transactions that could potentially be covered by GAAR regulations, for deferred tax, tax value of assets and provisions for tax risk. In the opinion of the Management Board, the analysis did not show necessity to correct the measured current and deferred income tax items, however, in the opinion of the Management Board, in case of GAAR regulations there is inherently uncertainty that the tax authorities will interpret these provisions differently, will change their approach to their interpretation or the regulations themselves will be subject to change, which may affect the possibility of realizing deferred tax assets in future periods and the possible payment of additional tax for past periods.

2.2.2 Depreciation rates

The amount of depreciation rates for property, plant and equipment and intangible assets is determined on the basis of the expected period of economic usability of property, plant and equipment and intangible assets. PP&E, relatively their material and separate components are depreciated according to the straight-line method in their useful lives. Depreciation write-offs are conducted for as long as the closing value of the element does not exceed its carrying amount.
The acquired trademarks in the transaction of purchase of shares in the Hungarian company Poli-Farbe are amortized by the Group for a period of 25 years, while the acquired customer relations are amortized for 5 years. The Group verifies the adopted periods of useful lives on an annual basis, taking into account the current estimates. Sensitivity analysis indicates that assuming an increase in the depreciation rates of PP&E and intangible assets by 1%, the annual depreciation cost would increase, and thus the Group's gross profit would deteriorate by PLN 8,869 thousand in 2023.

2.2.3 Goodwill impairment

Goodwill recognized in the financial statements is the result of the settlement of the acquisition of shares of Poli-Farbe Vegyipari Korlátolt Felelősségű Társaság based in Bócsa, Hungary (Poli-Farbe).

Goodwill as an asset with an indefinite useful life is tested annually (or more frequently if there are indications of impairment) for impairment. The key assumptions on the goodwill impairment test, which required the management's judgment, have been provided below:

Due to the fact that the tested entity is a multi-plant organization applying the effect of interrelationships and benefits, the synergy effect and active market for products is considered together for the entire analysed entity, and thus the Polifarbe entity is treated as a cash-generating unit. The recoverable amount of this cash-generating unit was determined on the basis of value-in-use calculations that required the application of assumptions. The calculations used cash flow projections based on calculation assumptions for the years 2024-2028 approved by the management. Flows exceeding this period are extrapolated using the estimated growth rates below.

The following assumptions were adopted:

- the growth rate of operating activity (on the basis of EBIT) in the analysis period was assumed at the average level of 3.9%,

The growth rate was based, on the one hand, on the past performance of the Hungarian company and the development opportunities of the Hungarian market.

- the average annual EBIT% margin in the five-year forecast period was assumed to be 10.49%, based on the past performance and management's expectations regarding market development,
- the growth rate of free financial flows after the analysis period was set at 1.25% since the market is expected to stabilize in the long term,
- the level of investment was set at the replacement amount (in the depreciation amount), this assumption is consistent with the investment forecasts in the Group for the coming years,
- while the effective tax rate was assumed at 16.8%, based on historical calculations,
- the "annual WACC discount rate" parameter used in the calculation was set at 9.6%. The sensitivity analysis for this parameter, with the simultaneous assumption of no variability of other parameters - indicates that when the WACC increases above 17.1%, an impairment of goodwill is recorded.

The reported growth rates in % were calculated in PLN.

The management board's estimates regarding the optimistic and pessimistic scenario regarding the parameters used in the sensitivity analysis, i.e.: discount rate, growth rate after the analysis period and income tax change rate, as well as the EBIT level take into account the market conditions in which the company operates. The Hungarian market is stable and the Group does not anticipate any major changes than those shown in the analysis below. The table below presents the sensitivity analysis of the recoverable amount of goodwill to changes in the main assumptions adopted in the test:

Change parameters	**scope of changes %**	**Recoverable amount (PLN thousand)**	**% of change**	**test result**
INCREASE by the number of percentage points	**"+"**			
Discount rate	2.0%	120 385	-19.6%	no impairment
FCF growth rate after the analysis period	1.0%	164 916	10.1%	no impairment
Income tax rate	1.0%	147 867	-1.3%	no impairment
INCREASE by the percentage indicated				
EBIT change level	5.0%	157 606	5.2%	no impairment
Changes in currency exchange rates	4.0%	167 307	11.7%	no impairment
DECREASE by the number of percentage points	**"-"**			
Discount rate	-2.0%	197 738	32.0%	no impairment
FCF growth rate after the analysis period	-1.0%	137 834	-8.0%	no impairment
Income tax rate	-1.0%	151 640	1.3%	no impairment

DECREASE by the percentage indicated				
EBIT change level	-5.0%	141 901	-5.2%	no impairment
Changes in currency exchange rates	-4.0%	133 588	-10.8%	no impairment

Following the test, no impairment of goodwill was determined. The recoverable amount converted into PLN as at 31 December 2023 is PLN 78,107 thousand.

2.2.4 Put option for the acquisition of the remaining 20% shares in PoliFarbe

The Management Board's judgment was subject to the Seller's put option as regards shares in Poli-Farbe.

One of the elements of the concluded agreement for the acquisition of 80% shares in PoliFarbe is the put option, under which the seller after 2 years of concluding the agreement in question may oblige FFiL Śnieżka SA to acquire the remaining 20% of shares in Poli-Farbe. It is not accompanied by a symmetrical call option enabling FFiL Śnieżka to acquire the remaining 20% of shares. FFiL Śniezka holds the call option, however this option can only be exercised in strictly defined circumstances, whose occurrence is controlled by the sellers, and therefore it is beyond FFiL Śnieżka's control.

The Management Board assessed the issue of the transfer of ownership of the remaining 20% of shares, as well as the risks and benefits arising from them to FFiL Śnieżka S.A. In the Management Board's opinion, this transfer did not take place due to the fact that the liability for the minority buyout of shares in subsidiaries is variable and calculated based on EBITDA, which means that the price depends on the Poli-Farbe's performance, which is influenced by a minority shareholder, the Founder - Advisor.

The remaining 20% of shares owned by the seller is a non-controlling interest from the consolidated financial statements' standpoint. The capital of non-controlling shareholders is an element of the Group's equity, therefore non-controlling interest is treated as the Group's own equity instrument, and the put option issued constitutes the Group's obligation to purchase its own equity instruments.

Put option liability was reflected in the Group's balance sheet as at the date of acquisition of Poli-Farbe (2019) in the amount of PLN 28,252 thousand, was recognized as a decrease in equity in the "Option item to acquire shares in minority ownership, as no risk and benefits were transferred from the remaining 20% of shares in Poli-Farbe.

The liability measurement corresponds to the current value of the exercise price. The current option exercise price results from the formula included in the acquisition agreement, equal to 8 times the average EBITDA value from the last two years preceding the option exercise date, reduced by net debt.

The value of the option liability as at December 31, 2023 is HUF 2,965 million, which, when converted into PLN is PLN 33,261 thousand and is lower than as at December 31, 2022 by PLN 11,587 thousand. The liability decrease was influenced by the fact that one of the parameters on the basis of which the liability is calculated, i.e. the average EBITDA for two years, declined by 23.8%. As at December 31, 2023, the liability is presented as short-term, as the exercise of the option may occur at any time at the holder's request.

Valued at each balance sheet date after initial recognition, the value of the put option liability adjusts the equity. Details on the accounting policy of the above-mentioned title are described in note 2.4.22.

The table below presents an analysis of the sensitivity of the value of the option liability to changes in the average EBITDA value and changes in net debt:

Change parameters	**scope of changes %**	**Liability value (million HUF)**	**% of change**
INCREASE by the number of percentage points	"+"		
EBITDA for two years	5.0%	3 108	4.8%
EBITDA for two years	10.0%	3 251	9.6%
DECREASE by the number of percentage points	"-"		
EBITDA for two years	-5.0%	2 822	-4.8%
EBITDA for two years	-10.0%	2 679	-9.6%

Change parameters	scope of changes %	Liability value (million HUF)	% of change
INCREASE by the number of percentage points	**"+"**		
Net debt	5.0%	2 970	0.2%
Net debt	10.0%	2 975	0.4%
DECREASE by the number of percentage points	**"-"**		
Net debt	-5.0%	2 959	-0.2%
Net debt	-10.0%	2 954	-0.4%

2.2.5 Revaluation write-offs

Due to the war in Ukraine that has been going on for over 2 years, in order to minimize the risk of loss of receivables by the parent company and subsidiaries operating on the Ukrainian and Belarusian markets, the possibility of granting deferred payment terms to customers located on these markets was limited. Most sales are made on a pre-payment basis and on the condition that the existing debts incurred before the start of the war in Ukraine are repaid. In connection with the above, there were no grounds for a significant increase in the ratios that were adopted to create write-offs for expected credit losses. More information on write-offs on receivables is included in note 3.15.

2.2.6 Impairment write-off on inventory

In order to present the actual value of inventories, in accordance with the accounting policy, the Group creates revaluation write-offs for excessive and non-marketable inventories. Verification of accumulated inventories and their rotation is conducted regularly on a quarterly basis. The details are provided in note 3.14.

2.2.7 Impairment of Group's assets

Due to the war in Ukraine that has been going on for 2 years and the introduction of further legal restrictions in Belarus, external premises occurred indicating the need to conduct impairment tests of fixed assets in subsidiaries located in Ukraine and Belarus in accordance with IAS 36 "Impairment of assets". The impact of the armed conflict in Ukraine on subsidiaries is presented in detail in note 3.30 The results of the impairment tests are presented below.

Below are the key assumptions regarding the conducted impairment test of assets in Ukraine and Belarus, which require the judgment of the management.

<u>Group assets located in Ukraine:</u>

The recoverable amount of the cash-generating units was determined on the basis of value-in-use calculations that required the application of assumptions. The calculations used cash flow projections based on financial budgets for 2024. Whereas, flows for the years 2025-2028 are extrapolated using estimated growth rates.

<u>The following assumptions were adopted:</u>

- weighted average cost of capital (WACC) assumed at 41.3%;
  The sensitivity analysis carried out for this parameter, assuming the lack of variability of other parameters, indicates that when the annual discount rate increases above 72.75%, an impairment of fixed assets is recorded.
- the average growth rate of free flows in the analysis period is 11.3%;
  The growth rate was adopted based on the past performance of the company operating in Ukraine, and the development opportunities of the Ukrainian market were also taken into account.

- the average EBIT% margin (calculated as EBIT/sales revenues) for the entire analysis period is 14.8%, it was adopted based on the past performance and the management's expectations related to the market development;
- the investment level was set at replacement value (depreciation level), which is consistent with the Group's assumptions regarding the investment volume in the following years;
- the effective tax rate was assumed at 18% in accordance with the rate applicable in Ukraine;
- the growth rate of FCF free flows after the analysis period was set at 3%, due to the expected stabilization of the market after the analysis period (at the inflation level);
- the currency rate in the current period was set at 0.1141 with a subsequent change by the inflation rate.

The tested value is the value of the Group's fixed assets located in Ukraine, which as at 31 December 2023 amounts to PLN 17,315 thousand. The recoverable amount converted into PLN as at 31 December 2023 is PLN 35,509 thousand.

The management board's estimates as far as the optimistic and pessimistic scenario is concerned regarding the parameters used in the sensitivity analysis, i.e.: discount rate, FCF growth rate after the analysis period and the income tax change rate, as well as the EBIT level and the exchange rate, consider the market conditions in which the company operates. Due to the armed conflict lasting over two years, the Ukrainian market is less stable, therefore the Group anticipates the possibility of major changes in parameters, as shown in the table below.

The sensitivity analysis of the recoverable amount of the Group's fixed assets located in Ukraine to changes in the main assumptions adopted in the test:

Change parameters	**scope of changes %**	**Recoverable amount (PLN thousand)**	**% of change**	**test result**
INCREASE by the number of percentage points	"+"			
Discount rate	4.0%	30 165	-10.4%	no impairment
FCF growth rate after the analysis period	1.0%	33 967	0.9%	no impairment
Income tax rate	1.0%	33 234	-1.3%	no impairment
INCREASE by the percentage indicated				
EBIT change level	5.0%	35 443	5.3%	no impairment
Changes in currency exchange rates	11.0%	45 742	35.9%	no impairment
DECREASE by the number of percentage points	"-"			
Discount rate	-4.0%	38 023	12.9%	no impairment
FCF growth rate after the analysis period	-1.0%	33 382	-0.8%	no impairment
Income tax rate	-1.0%	34 100	1.3%	no impairment

(in PLN '000)

DECREASE by the percentage indicated				
EBIT change level	-5.0%	31 892	-5.3%	no impairment
Changes in currency exchange rates	-11.0%	24 735	-26.5%	no impairment

Following the test, a result was obtained indicating no impairment of non-current assets.

Group assets located in Belarus:

Due to the introduction of further legal restrictions in Belarus, external premises occurred indicating the need to conduct impairment tests for fixed assets located in Belarus in accordance with IAS 36 "Impairment of assets". Following the test, a result was obtained indicating impairment of non-current assets. Therefore, in the financial statements for 2023, the Group recognized an impairment write-off of these assets.

The recoverable amount of the cash-generating units was determined on the basis of value-in-use calculations that required the application of assumptions. The calculations used cash flow projections based on financial budgets for 2024. Whereas, flows for the years 2025-2028 are extrapolated using estimated growth rates.

The following assumptions were adopted:

- weighted average cost of capital (WACC) assumed at 29.8%;
- the average growth rate of free flows in the analysis period is 40.9% in line with the Group's expectations and the capabilities of the Belarusian market;
- the average EBIT% margin (calculated as EBIT/sales revenues) for the entire analysis period is 4.11%, it was adopted based on the past performance and the management's expectations related to the market development;
- the investment level was set at replacement value (depreciation level), which is consistent with the Group's assumptions regarding the investment volume in the following years;
- the effective tax rate was assumed at 18% based on the current tax rate in Belarus;
- the growth rate of FCF free flows after the analysis period was set at 3%, due to the expected stabilization of the market after the analysis period (at the inflation level);
- the currency rate in the current period was set at 1.3926 with a subsequent change by the inflation rate

The tested value accounts for the value of the Group's fixed assets located in Belarus, which as at December 31, 2023 amounts to PLN 1,626 thousand, while the recoverable value converted into PLN as at December 31, 2023 is PLN 486 thousand. Therefore, in the financial statements for 2023, the Group recognized an impairment write-off of these assets in the amount of PLN 1,140 thousand.

The management board's estimates as far as the optimistic and pessimistic scenario is concerned regarding the parameters used in the sensitivity analysis, i.e.: discount rate, FCF growth rate after the analysis period and the income tax change rate, as well as the EBIT level and the exchange rate, consider the market conditions in which the company operates. The Belarusian market due to the unstable socio-political situation affecting business operations, the Group anticipates the possibility of the following changes in parameters, as presented in the table below.

The sensitivity analysis of the recoverable amount of the Group's fixed assets located in Belarus to changes in the main assumptions adopted in the test:

Change parameters	scope of changes %	Recoverable amount (PLN thousand)	% of change	test result
INCREASE by the number of percentage points	**"+"**			
Discount rate	2.0%	474	-9.0%	impairment in the amount = PLN -1,184 thousand
FCF growth rate after the analysis period	1.0%	534	2.3%	impairment in the amount = PLN -1,124 thousand
Income tax rate	1.0%	515	-1.3%	impairment in the amount = PLN -1,143 thousand
INCREASE by the percentage indicated				
EBIT change level	5.0%	549	5.2%	impairment in the amount = PLN -1,109 thousand
Changes in currency exchange rates	10.0%	701	47.4%	impairment in the amount = PLN -957 thousand
DECREASE by the number of percentage points	**"-"**			
Discount rate	-2.0%	577	10.7%	impairment in the amount = PLN -1,081 thousand
FCF growth rate after the analysis period	-1.0%	511	-2.1%	impairment in the amount = PLN -1,147 thousand
Income tax rate	-1.0%	528	1.3%	impairment in the amount = PLN -1,130 thousand
DECREASE by the percentage indicated				
EBIT change level	-5.0%	494	-5.2%	impairment in the amount = PLN -1,164 thousand
Changes in currency exchange rates	-10.0%	315	-33.7%	impairment in the amount = PLN -1,343 thousand

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2.2.8 Judgment regarding the possible effects of a tax audit

The management board of the parent company assessed the issue concerning the presentation of the results of the customs and tax audit carried out by the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl regarding the reliability of the declared bases and the payment of corporate income tax for 2016. The issues regarding the result of this inspection and the method of recognizing the liability for corporate income tax arrears are described in Note 3.22.2

2.2.9 Foreign currency translation

In 2023, the Group continued the rules introduced in the previous year regarding the translation of financial statements of a company operating in Ukraine, for which the functional currency is the Ukrainian hryvnia (UAH), and for a company operating in Belarus, for which the functional currency is the Belarusian ruble (BYN). The details are provided in note 2.4.6.

2.3. *Amendments to applicable accounting principles*

2.3.1 New standards applied for the first time

The accounting principles (policies) used to prepare these consolidated financial statements are consistent with those used to prepare the consolidated financial statements of the Group for the year ended December 31, 2022, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on January 1, 2023.

New standards and interpretations were applied for the first time to these consolidated financial statements, which entered into force on 1 January 2023:

a) ISFR 17 "Insurance contracts" and amendments to ISFR 17

IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on May 18, 2017 while the amendments to IFRS 17 were announced on June 25, 2020.

IFRS 17 Insurance Contracts was replaced by the previously applicable IFRS 4, which allowed for various practices in the settlement of insurance contracts. The new standard fundamentally changes the accounting of all entities dealing with insurance contracts and investment contracts; however, the scope of the standard is not limited to insurance companies, and contracts concluded by entities other than insurance companies may also contain an element meeting the definition of an insurance contract (as defined in IFRS 17).

b) Amendments to ISFR 17 "Insurance contracts"

The amendment refers to transitional requirements in connection with the first-time application of IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments". The purpose of the amendment is to ensure the usefulness of financial information for investors during the first application of the new standard by introducing certain facilitations in relation to the presentation of comparative data.

It applies only to the application of the new IFRS 17 standard and does not affect any other requirements contained in IFRS 17.

c) Amendments to IAS 1 "Presentation of Financial Statements" and guidelines of the IFRS Board regarding disclosures of accounting policies in practice

The amendment to IAS 1 introduces the requirement to disclose material information regarding accounting principles that are defined in the standard. The amendment clarifies that information about accounting policies is material if, in its absence, users of the financial statements would not be able to understand other material information contained in the financial statements. In addition, the Board's guidance on the application of the concept of materiality in practice has also been amended to provide guidance on the application of the concept of materiality to accounting disclosures.

d) Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors"

In February 2021, the Board published an amendment to IAS 8 "Accounting policies, changes in accounting estimates and errors" regarding the definition of accounting estimates. The amendment to IAS 8 explains how entities should distinguish changes in accounting principles from changes in accounting estimates.

e) Amendments to IAS 12 "Income taxes"

The amendments to the standard published in 2021 define how to settle deferred tax on transactions such as leasing and decommissioning liabilities. Prior to the amendment to the standard, there was uncertainty as to whether the recognition of equal amounts of assets and liabilities for accounting purposes (e.g. initial recognition of a lease) without affecting current tax settlements necessitates the recognition of deferred tax balances or whether the so-called initial recognition exemption, which states that deferred tax balances are not recognized if the recognition of assets or liabilities does not affect the accounting or tax result at the time of recognition. The amended IAS 12 regulates this issue by requiring the recognition of deferred tax in the above scenario by introducing an additional provision that initial recognition exemption does not apply if the entity simultaneously recognizes an asset and an equivalent liability and each of them creates temporary differences.

Amendments were introduced in the presented accounting policies resulting from the amendment to IAS 1 "Presentation of financial statements" and the guidelines of the IFRS Board regarding disclosures regarding accounting policies in practice. The other aforementioned amendments did not have a significant impact on the financial situation or performance of the Group.

2.3.2 New standards or interpretation which have been published, but have not entered into force yet

A number of new accounting standards, amendments to accounting standards and interpretations have been published, which are not mandatory for the reporting periods ending on December 31, 2023 and had not been previously adopted by the Group. In the Management Board's opinion, these standards, amendments and interpretations will not have a significant impact on the Group in the current or future reporting periods:

a) Amendments to IFRS 16 "Leases"
b) Amendments to IAS 1 "Presentation of financial statements"
c) Amendments to IAS 7 "Statement of cash flows" and IFRS 7 "financial instruments: disclosures" - supplier finance arrangement
d) Amendments to IAS 21 "The effects of changes in foreign exchange rates"
e) IFRS 14 "Regulatory deferral accounts"
f) Amendments to IFRS 10 and IAS 28 regarding the sale or transfer of assets between an investor and its affiliates or joint ventures.

2.4. Significant accounting principles

2.4.1 Rules of consolidation

The consolidated financial statements cover the financial statements of Fabryka Farb i Lakierów Śnieżka SA as well as the financial statements of its subsidiaries prepared for the year ended as at December 31, 2023.

The financial statements of subsidiaries are prepared for the same reporting period as the the parent company's applying coherent accounting principles based on uniform accounting principles applied for transactions and economic events of similar nature. In order to eliminate any discrepancies, the applied accounting principles are corrected and adjusted.

Any significant balances and transactions between entities of the Group, including not earned profits resulting from transactions within the Group, were entirely eliminated. Unrealized losses are eliminated unless they are an impairment indicator.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends. The control of the parent company over an entity occurs when it:

- holds authority over a particular entity,
- is exposed to the variable returns or holds rights to variable returns from its involvement with the entity,
- has the ability to affect those returns through its power over the investee.

The company verifies the fact of control over other entities, if there was a situation where one or more the aforementioned conditions occurred as regards the control exercising.

If the company holds minority number of votes in an entity, but the voting rights are sufficient to manage essential operations of this entity, it means the company exercises power over it. When assessing whether voting rights in a given entity are sufficient to exercise power, the Company analyses all relevant circumstances, including:

- the scope of voting rights compared to shares' scope and degree of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights resulting from other contractual arrangements, and

- additional circumstances, which might prove that the Company holds or not possibility to manage essential operations at times of making decisions, including voting patterns observed at previous meetings of shareholders.

2.4.2 Transactions with non-controlling shareholders

Non-controlling shares are recognized as a separate item of equity and represent this part of total revenues and net assets of subsidiaries that are attributable to entities other than the Capital Group companies. The Group allocates the comprehensive income of subsidiaries between the shareholders of the parent company and non-controlling entities based on their share in ownership.

Changes in a parent company's ownership interest in a subsidiary that do not result in a loss of control are recognized as equity transactions. In such cases, in order to reflect the changes in relative interests in a subsidiary, the Group adjusts the carrying amount of controlling interests and non-controlling interests. All differences between amount of non-controlling interest adjustment and fair value of the amount paid or received are recognized in equity attributable to controlling interest, i.e. the owners of the Parent Company.

2.4.3 Investments in affiliates

Affiliates are entities where the Parent Company exerts significant influence directly or indirectly through its subsidiaries, which are not subsidiaries.

Financial year is the same for associates and the Parent Company. Affiliates apply accounting policies as defined in the Accounting Act (Journal of Laws of 2023 item 120, 295, 1598). Before calculating the share in the net assets of the affiliate and joint ventures, appropriate adjustments are made in order to bring the financial data of this entity to compliance with the IFRS applied by the Group.

The Group's investments in affiliates are recognized in the consolidated financial statements using the equity method. Under the equity method, the investment in an affiliate is initially recognized at cost, and then adjusted in order to take into consideration the Group's engagement in the financial result and other comprehensive income of the affiliate. When the Group's share of losses in an affiliate exceeds its interest in this entity, the Group discontinues recognizing its share of further losses. Additional losses are recognized exclusively to the extent stipulated by law or obligations applied by the Group or payments made on behalf of an affiliate.

2.4.4 Description of business segments

The Management Board analyses the Group's operations from a geographical perspective. For management purposes, the Group has been divided into segments based on geographic sales markets due to the fact of monitoring the shares in individual sales markets.

The Group presents the following reporting segments: Poland, Hungary, Ukraine and other.

The management monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Transactional prices are applied for transactions among operating segments and fixed at arm's length basis as in transactions with non-related entities.

Non-allocated costs include all general administrative expenses and that part of selling costs that cannot be directly attributed to individual segments (it results from Śnieżka SA and Śnieżka ToC).

General expenses, other operating income and expenses, interest income and expenses, other financial income and expenses as well as income tax have been allocated to segments according to the geographical location of the company's business.

The purpose of calculating profit in individual segments is to evaluate each separate market, and indicate direction of actions as well as marketing and commercial activities.

Individual items of liabilities and receivables, which have been allocated by the Group to an individual segment by geographical criterion of business operations, are subject to the Management's analysis.

Assets allocated to segments are as follows:

- tangible fixed assets

- goodwill
- intangible assets
- trade and other receivables
- income tax receivables
- investment in other entities
- inventory
- cash and cash equivalents

Liabilities allocated are trade and other liabilities.

Details regarding segments are provided in note 3.1.

2.4.5 Measurement at fair value

The fair value is comprehended as the price which would be obtained from sales of an asset, or paid for the purpose of transferring the liability on the basis of regular sales of an asset between the market participants, at the date of measurement at applicable market conditions.

All assets and liabilities, which are measured at fair value or their fair value is disclosed in the financial statements, are classified in fair value hierarchy in a manner described below on the basis of the lowest level of inputs which is significant for measurement of fair value treated as a whole:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 - Valuation technique for which the lowest level of inputs, which is significant for measurement of fair value as a whole, is directly or indirectly observable,
- Level 3 - Valuation technique for which the lowest level of inputs, which is significant for measurement at fair value as a whole, is unobservable.

As at each balance sheet, in the event of assets and liabilities at particular balance dates in the financial statements, the Group assesses whether transfers between hierarchy levels occurred through classification re-evaluation to particular levels, driven by significance of inputs from the lowest level, which is essential to measure at fair value treated as a whole.

2.4.6 Foreign currency translation

Transactions in a foreign currency are initially recognized by the parent company in the functional currency (PLN), using, as a rule, the closing rate, defined as the spot exchange rate as at the balance sheet date (the parent company assumed that this is the average exchange rate of the National Bank of Poland from the last working day preceding the balance sheet date).

As at the balance sheet date:

- cash items in foreign currency are translated by applying closing quote for a particular currency. The closing rate is the immediate exchange rate as at the balance sheet date (the Group assumes that it is the average NBP exchange rate from the last business day preceding the balance sheet date).
- non-cash items assessed by historical cost determined in foreign currency are translated by applying a spot foreign exchange as of the day of transaction.

Currency differences arise from settlement of cash items or translation the items as at the balance sheet date in different currency rates than those converted at the beginning of recognition. They are recognized over the period in which they arise as financial income or expense.

Currency differences arising from settlement of non-cash items are recognized in the statement of comprehensive income in the period, where the settlement was conducted.

The following currency rates were adopted to the balance sheet valuation:

(in PLN '000)

	29 December 2023	*30 December 2022*
USD	3.935	4.4018
EUR	4.3480	4.6899
UAH	0.1037	0.1205
HUF/100	1.1359	1.1718
BYN	1.2276	1.6113

Owing to the extraordinary situation on the Ukrainian and Belarusian markets triggered by the war, as at December 31, 2023, the Capital Group adopted the closing rates set by:

- The National Bank of Ukraine, at which the Capital Group exchanges UAH into PLN, i.e. 1 UAH = PLN 0.1037
- The National Bank of the Republic of Belarus, at which the Capital Group exchanges BYN into PLN, i.e. 1 BYN = PLN 1.2276.

Financial statements of foreign entities

As at the balance sheet date assets and liabilities of foreign entities are translated from functional currency, which is applicable in principle economic environment where the entity operates, into the Group's statement currency (PLN), at the closing rate. The closing rate is the spot exchange rate at the balance sheet date.

The Group's share in monetary assets and liabilities denominated in a foreign currency in financial statements of subsidiaries, which are located abroad, is translated by applying *the spot exchange rate (defined above).* Capitals are translated at the rate as of the day of taking control.

Statements of comprehensive income of foreign entities are translated from functional currency, which is applicable in principle economic environment where the entity operates, into the Group's reporting currency (PLN) for each reporting period. The conversion rate is the arithmetic average of average exchange rates on the penultimate working day of a given month.

In order to receive a statement of comprehensive income for a particular reporting period, it's necessary to add all costs and revenues translated for each fiscal period.

Foreign exchange differences arising from translation of assets, liabilities and statement of comprehensive income of foreign entities are accumulated under separate item of equity. - "Other reserve capitals. In the statement of comprehensive income in item „Other comprehensive income" there are foreign exchange differences of foreign entities referring to a particular reporting period.

At the time of disposal of a foreign entity, deferred exchange differences are accumulated under equity, regarding the foreign entity, are recognized in the statement of comprehensive income.

(in PLN '000)

Arithmetic average of exchange rates on the penultimate working day of a given month for specific reporting periods were as follows:

Weighted average exchange rates

	29 December 2023	*30 December 2022*
UAH	0.1141	0.1376
HUF/100	1.1904	1.1961
BYN	1.3926	1.7101

2.4.7 Tangible fixed assets

Tangible fixed assets, including fixed assets under construction, are recognized based on:

- acquisition price, or
- adopted manufacturing cost, or
- initial measurement to fair value as at the date of acquisition of the subsidiaries,

decreased by cumulated depreciation write-offs and permanent asset impairment.

The manufacturing cost includes external financing costs, which are the costs of credit and loans that can be directly related to the purchase or production of a given qualifying fixed asset. The Group applies a capitalization rate of 6% to 7% assuming that all capital expenditure is financed with loans and borrowings. The capitalization rate is the average annual interest rate of loans and borrowings taken in a given period, based on the monthly WIBOR and BUBOR rates, increased by the average bank margin.

Fixed assets account is conducted in terms of quantities and values included in assets by category.

Items of property, plant and equipment are depreciated using the straight-line method over their economic useful lives. Depreciation write-offs are commenced when a particular fixed asset is complete and fit for use. Depreciation write-offs are conducted for as long as the closing value of the element does not exceed its carrying amount. Lands are not subject to deprecation.

Useful time periods of tangible fixed assets for particular asset categories:

Type group	Type of tangible fixed assets	Useful time
0	The right of perpetual usufruct to lands	to 70 years
1-2	Buildings and structures	20-50 years
3-6	Machinery, equipment	5-20 years
7	Means of transport	3-20 years
8	Tools, devices, movables and equipment	3-15 years

The Group verifies utilization periods as well as residual value of tangible fixed assets on an annual basis.

2.4.8 Intangible assets

Expenditures incurred on intangible assets that were acquired in a separate transaction are valued at the initial recognition at purchase price less impairment write-off. These expenditures are recognized as intangible assets under construction until their completion and recognition as intangible assets. The main reason of performing write-offs is a probability that the created intangible asset will not generate gains in the long run. Intangible assets under construction are not subject to depreciation.

The Group determines whether the useful time for the intangibles is limited or undefined. An intangible asset with a definite useful time is amortised throughout its useful time and subject to impairment tests whenever there are grounds for assuming impairment. The period and method of amortisation of intangible assets with a definite useful life are verified at least as at the end of each reporting period.

Depreciation rates for individual intangible assets in the Group:

- Patents and licenses - from 2 to 10 years, unless the contract provides otherwise
- Trademarks - from 10 to 30 years
- Customer relations - 5 years (short period as a derivative of hardly predictable customer behaviours)

2.4.9 Business combinations and goodwill identification

All business combinations are accounted for using the purchase method.

With limited exceptions, identifiable assets acquired and liabilities assumed in business combinations are initially recognized at their fair values at the acquisition date. The Group recognizes non-controlling interests in the acquired entity each time after their acquisition at fair value or in the amount of the corresponding share of these non-controlling interests in the identifiable net assets of the acquired entity. Acquisition-related costs are recognized when incurred. Surplus:

transferred payment,

• the amount of any non-controlling interest in the acquiree; and

• the fair value of previously held equity instruments of the acquiree belonging to the acquirer

over the fair value of the identifiable net assets acquired is recognized as goodwill. If these amounts are lower than the fair value of the identifiable net assets of the acquiree, the difference is recognized directly in profit or loss as a bargain purchase gain.

Goodwill on the acquisition of subsidiaries is recognized in intangible assets. Goodwill is not amortized, but is tested annually for impairment (or more frequently if there are any indications of possible impairment) and is recognized at the initial value less impairment write-off. In order to perform the impairment test, goodwill is allocated to cash-generating units. The allocation is made for those units or groups of cash-generating units that are expected to benefit from the combination through which this goodwill was established. Goodwill is monitored at the operating segment level.

2.4.10 Leasing

The Group as a lessee

The Group leases land, office space and means of transport. Agreements are usually concluded for a definite period of 3 to 5 years, in the case of land, up to 70 years.

Lease assets and liabilities are initially recognized at their current value.

Lease payments for the lease extension option, when the exercise of that option is sufficiently certain, are also included in the liability measurement. Lease payments are discounted using the leasing interest rate. If the rate cannot be readily determined - as is the case of most of the Group's leases - the lessee's incremental borrowing rate is applied.

The right-of-use assets are amortized on a straight-line basis over the useful life of the assets, not longer than the lease term. If the Group is reasonably certain that it will exercise the call option, the right-of-use asset is amortized over the useful life of the asset.

In 2023, the Parent Company concluded leaseback agreements for the equipment of the logistics centre (agreements concluded in 2022).

The Group classifies machinery and equipment leased back as property, plant and equipment due to the fact that the concluded leaseback agreements meet the criteria of a repurchase agreement in line with IFRS 15. Under the concluded agreements, the Company is to repurchase machinery and equipment at an amount equal to the original sale price, due to the fact that they are the key assets of the unit generating profits. The Company did not intend to sell the equipment and machinery, it is to use them after the term of the leaseback agreement. Leaseback liabilities are presented as financial liabilities in the item "Loans and advances" as the concluded agreement is a financing agreement.

The Group as a lessor

Lease agreements are classified as a financial or operating lease agreement depending on the terms of the concluded agreement. In 2022, the Parent Company concluded operating lease agreements for the sublease of some warehouse properties, but did not reclassify them as investment properties, as they cannot be sold separately (or leased separately).

The Parent Company transferred the property in Biała Podlaska to financial leasing. The property consists of the right of perpetual usufruct to lands and a production-warehouse hall. Pursuant to the provisions of the agreement, the Company guarantees the user the right to acquire the leased asset after the agreement termination. The above-mentioned receivables are presented in the balance sheet in the long-term section as "Long-term receivables", while in the short-term section in item "Trade and other receivables".

2.4.11 Impairment of non-financial non-current assets

As at each balance sheet date the Group estimates whether there are any indications for occurrence of impairment of any assets. In the event of determination that such indications exist or a necessity of conducting an annual impairment test, the Group estimates the recoverable amount for a given asset or a cash-generating unit the asset is allocated to.

Details on how to conduct the impairment test for goodwill and non-current assets are included in notes no. 2.2.3 and 2.2.7.

2.4.12 Financial assets

Financial assets are classified in the following categories:

- Financial assets measured at amortized cost - the Group classifies "Trade and other receivables" and "Cash and cash equivalents" into this category.
- Financial assets at fair value through other comprehensive income. In this category, the Group includes "Shares and stocks in other entities" not subject to consolidation.
- Financial assets measured at fair value through profit or loss. As at the balance sheet date, no financial assets included in this category were identified.

Financial assets and financial liabilities held by the Group as at 31 December 2023 are presented in note 3.12.

2.4.13 Impairment of financial assets

Impairment of financial assets at amortized cost the Group assesses expected credit losses ("ECL") related to debt instruments measured at amortized cost and at fair value through other comprehensive income, irrespective of whether there is any indication of impairment.

In the case of short-term trade receivables which do not have a significant element of financing, the Group applies the simplified approach required in IFRS 9 and measures impairment write-off in the amount of loan losses expected over the entire period of the receivables from the moment of its initial recognition. The Group applies a write-off matrix in which write-offs are calculated for trade receivables classified to different age ranges or overdue periods.

In order to determine expected credit loss ratios for trade receivables, an analysis of defaults for the last 3 years is performed (receivables were analysed as one homogeneous customer portfolio), for which the financial statements are prepared. The expected credit loss ratios for trade receivables are calculated for the following ranges: (1) to 30 days; (2) from 30 to 60 days; (3) from 60 to 90 days; and (4) over 90 days. In order to determine the failure ratio for a given aging range, the balance of written receivables is compared to the balance of unpaid receivables. The impact of future factors on the amount of credit losses was also considered.

An impairment write-off is calculated considering failure ratios adjusted for future factors and the amount of unpaid balances as at the balance sheet date for each age analysis interval.

Trade receivables are included in 2 or 3 degree:

- Degree 2 - includes trade receivables to which the simplified approach has been applied to measure expected credit losses over the entire period of the receivables, except for some trade receivables included in 3 degree;

- Degree 3 - includes overdue trade receivables over 180 days or identified individually as non-performing.

The Group applies a three-degree impairment model for financial assets other than trade receivables:

- Degree 1 - balances for which the credit risk has not increased significantly since the initial recognition. The expected credit losses are based on the probability of failure to fulfil obligation within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur over the next 12 months);
- Degree 2 - includes balances for which there has been a significant increase in credit risk since the initial recognition, but there is no objective evidence of impairment; expected credit losses are determined on the basis of the probability of failure to fulfil obligation for the entire contractual life of the asset;
- Degree 3 - includes balances with objective evidence of impairment;

To the extent that, in accordance with the above-mentioned model, it is necessary to assess whether there has been a significant increase in credit risk, the Group takes into account the following premises when making this assessment:

- the loan is overdue by at least 30 days;
- there have occurred legislative, technological or macroeconomic changes that have a significant negative impact on the debtor;
- information about significant adverse circumstances regarding a loan or other loan of the same debtor from another lender appeared, e.g. termination of the loan agreement, breach of its terms or renegotiation of conditions due to financial difficulties, etc.
- the debtor lost a significant customer or supplier or experienced other adverse changes in his market.

2.4.14 Hedge accounting

In hedge accounting, the Group classifies cash flow hedges resulting from the currency risk of a probable future liability.

2.4.14.1 Cash flow hedge

The Group uses forward transactions as hedge for EUR purchase transactions for the purchase of raw materials. Profits or losses relating to the effective part of the change in the value of the current (spot) element of the forward contract are recognized in the reserve capital for cash flow hedging, which is part of equity.

Profits or losses generated in result of changes in fair value of derivatives that do not meet the criteria allowing application of special hedge accounting principles, are recognised directly in the net profit for the current period.

Details of the hedging instruments applied are described in note 3.25.2.

2.4.14.2 Hedges of net investments in foreign entities

The Group hedged shares in net assets in a foreign entity - Poli-Farbe in 2019. In 2022, the hedge expired due to the repayment of loans raised for the purchase of the entity. Upon the hedge termination, the amount of profit previously recognized in other comprehensive income was reclassified from equity to profit or loss as a reclassification adjustment.

2.4.15 Inventory

Inventories are measured at purchase prices or manufacturing costs not higher than their net selling price as at the balance sheet date. The achievable net sales price is the assessed sales price made in the course of business activity, reduced by the cost of finishing and estimated costs necessary for performing the sale.

Inventory value is based on the following:

- Materials, goods - purchase price, and the outflow is measured using the weighted average method,
- Finished goods, Semi-finished goods – the fixed price set at the level of the planned production cost of the product, adjusted for deviations in the cumulative system, leading to the actual production cost not higher than the net selling price, with the outflow being measured using the weighted average method.

The production cost includes the direct costs of materials, labour and an appropriate fraction of variable and fixed indirect production costs, which are systematically attributed under the assumption of using a regular production capacity.

Write-offs are created for excessive or non-tradable inventories. Verification of accumulated inventories and their rotation is conducted regularly on a quarterly basis.

Advances on deliveries in 'the Statement of financial position' are recognized by the Group in item 'Inventory'.

2.4.16 Trade and other receivables

Trade receivables include amounts due from customers for goods sold or services rendered in the ordinary course of business. Their payment terms range from 30 to 75 days and are therefore classified as short-term. Trade receivables are initially recognized in the amount of unconditionally due remuneration. The Group maintains trade receivables in order to receive contractual cash flows and, therefore, measures them after initial recognition at amortized cost using the effective interest method, less an impairment write-off. The description of the principles for recognizing an impairment write-off is described in note 3.15.

2.4.17 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held with financial institutions payable on demand, other highly liquid short-term investments with an original maturity of up to three months that can be converted into cash on demand and for which the risk of changes in value is negligible, as well as overdraft facilities. Overdrafts are presented in the balance sheet under short-term liabilities as a component of loans and borrowings.

2.4.18 Interest-bearing loans, borrowings and debt securities

At the initial recognition, all the bank loans, borrowings and debt securities are initially recognized at their fair value, reduced by costs related to obtaining the credit or loan.

After the initial recognition, bank loans, borrowings and debt securities are measured at amortised cost on an effective interest rate basis. While setting the depreciated cost the costs connected with obtaining the loan or borrowing and any discount or premium related to raising the funds. Financing liabilities are classified as short-term liabilities, unless the Group has the unconditional right to defer the settlement of the liability for a period not shorter than 12 months from the balance sheet date.

The revenues and costs are recognised in profit or loss when the liability is removed from the balance sheet and also as a result of accounting using the effective interest rate.

2.4.19 Trade and other liabilities

These amounts represent unpaid liabilities for goods and services that the Group received before the end of the financial year. These amounts are not hedged and are typically repaid within 83 days of the recognition. Trade and other liabilities are recognized in short-term liabilities, unless their maturity is longer than 12 months from the balance sheet date. They are initially recognized at fair value and then measured at amortized cost using the effective interest rate method.

2.4.20 Provisions

Provision is recognized in the case when the Group has a legal or customary obligation resulting from past events and it is probable that the fulfilment of this obligation will be associated with the outflow of economic benefits from the Group. Material provisions are determined by discounting expected future cash flows basing on the pre-tax rate which reflects present market estimates of changes in money in time and, where applicable, the risk associated with a particular liability.

The provision for contracts under which the company is obliged to pay liabilities, is recognized when the expected benefits possible to be obtained by the Group as a result of the contract are lower than the costs of fulfilling the contractual liability that cannot be avoided. The Group applies division into long and short-term provisions.

2.4.21 Employee benefits

In accordance with the corporate remuneration regulation, all the Group's employees are eligible to retirement, disability and severance payments, death benefit and jubilee awards, as well as allowance in lieu of leave. Jubilee bonuses are payable to those employees who served a specified number of years, the amount of the bonuses depends mainly on employee's years of experience and their basic salary level. Retirement severance pay is payable on a one-off basis, when an employee retires. Retirement severance pay is an equivalent of one-month remuneration.

The current value of those liabilities is calculated by a licensed actuary. Accrued liabilities equal to discounted payments which are to be made, including employee turnover and refer to the period of the balance sheet date. Gains and losses from actuarial calculations are recognized in other comprehensive incomes and are not subject to subsequent reclassification to profit or loss.

2.4.22 Liabilities under option to acquire shares in minority ownership

<u>Put option - sales of shares by a non-controlling shareholder (a non-controlling shareholder's request).</u>

The put options issued, giving the right to non-controlling shareholders to dispose of their shares in favour of the Group, constitute the Group's obligation to acquire its own equity instruments.

If the liability for the purchase of minority shares in subsidiaries is a variable price, calculated based on the EBITDA (calculated as the company's operating result plus depreciation) of that company, it is considered that the risks and benefits have not been transferred to the parent company as at the date of the option occurrence. Such liability is initially recognized at fair value representing the current value of the redemption amount. The liability is initially recognized in correspondence with the equity attributable to the shareholders of the parent company (as "Liability under the option to purchase shares held by minorities "). At the same time, the non-controlling shareholders' capital is recognized in equity.
After initial recognition, the liability is measured at amortized cost. Changes in the amount of the liability resulting from the change in the estimate of the amounts payable are recognized in equity under "Option to purchase minority interest".
Pursuant to IAS 32 item 23 a contract imposing an obligation on an entity to acquire own equity instruments (put option) in exchange for cash gives rise to a financial liability equal to the current value of the exercise price. This liability was reflected in the Group's balance sheet at the time of the Poli-Frabe acquisition. For each subsequent reporting period, the liability is measured in accordance with the terms and conditions contained in the contract. Details are described in note 2.2.4.

Changes in the value of the liability are recognized in equity under "Option to purchase minority interest".

If the option is exercised, the liability is derecognised, and the capital included in the Option to purchase minority interest is accounted for in correspondence with retained earnings and non-controlling capital.

2.4.23 Revenues

The Group manufactures and sells primarily decorative products, construction chemicals and industrial products. Also, it sells purchased goods and materials as well as services. Revenues from the sale of products, goods and materials are recognized by the Group when control over them is transferred in favour of the customer. The transfer of control occurs in accordance with the INCOTERMS conditions, most of which are INCOTERMS DAP, i.e. the transfer of control occurs at the time of delivery of products, materials and goods to the contractually indicated location. Revenues from the sale of services are recognized in the period in which the services were rendered.

The Group's products and goods are often sold at retrospective discounts that depend on the volume of purchases over a 12-month period. Sales revenues are recognized based on the prices specified in the sales contracts, less estimated quantitative discounts. When estimating discounts, the Group bases on the past experience. Estimates are made using the expected value method, and revenues are recognized only when it is highly likely that no significant reversal will take place. Liabilities on account of remuneration return (presented in trade liabilities) are recognized in relation to the anticipated quantity discounts in favour of customers on the sales by the end of the reporting period.

The Group's customers are not granted the right to return purchased goods, except for complaints and planned marketing campaigns, and in these cases an obligation to return is recognized. A significant element of financing is not identified due to the fact that the sale is made with a payment term of 30 to 90 days, which is in line with market practice.

Receivables are recognized when the goods are delivered since at this point the payment becomes unconditionally due and only a certain period of time is required to receive it.

2.4.24 Taxes

2.4.24.1 Current tax

FFiL Śnieżka SA and two of its subsidiaries in Poland have applied the provisions on tax consolidation since January 1, 2023, which means that they have concluded a Tax Capital Group (TCG) agreement. This agreement was concluded for a period of 3 years and, in accordance with its provisions, all obligations related to the settlement of corporate income tax (CIT) will be performed at the level of TCG as a CIT payer by FFiL Śnieżka SA - as the company representing TCG. Income tax liabilities and receivables determined for a TCG are settled among the participants forming the TCG in accordance with the share of the taxable income of these companies in the total income of theTCG.

The concluded TCG agreement does not affect the presentation of the tax in the consolidated financial statements.

2.4.24.2 Deferred tax

The concluded TCG agreement does not affect the method of recognizing deferred tax in the consolidated financial statements and in the companies forming the TCG. Each company calculates deferred tax as if it were a separate taxpayer.

Deferred tax is calculated using the balance sheet method, taking into consideration temporary differences between the value of assets and liabilities determined for booking purposes and the value determined for tax purposes. The recognized deferred tax amount is based on expected method of the realization of the balance sheet value of assets and liabilities, with the application of tax rates binding or adopted as at the balance sheet date.

Deferred tax assets and liabilities are subject to compensation when a company has an enforceable title to carry out compensation of deferred tax assets and liabilities and when they relate to income tax imposed by the same tax authority.

Deferred tax assets are recognized only when it is probable that future tax income will be available against which the asset can be realized. Deferred tax assets are reduced if it may be stated that it is not likely that the economic benefits represented by them will be realized.

Current and deferred tax is recognized in the income statement, except for taxes resulting from transactions or events, which are recognized in other comprehensive income or directly in equity (deferred tax is then recognized in other comprehensive income or directly in equity).

2.4.24.3 Goods and services tax

Revenues, expenses, assets and liabilities are recognized after deducting the tax on goods and services, except for:

- when tax on goods and services incurred on purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- liabilities and receivables, which are recognized with the tax on goods and services.

The net amount of the goods and services tax payable to fiscal authorities, is recognized in the balance sheet as part of receivables or liabilities.

2.4.25 Net earnings per share

Net earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average of shares in that period.

Basic earnings per share are calculated by dividing the net profit / (loss) for the reporting period attributable to ordinary shareholders of the Parent Company, by the weighted average number of ordinary shares in a given reporting period. Diluted earnings per share are calculated by dividing the net profit / (loss) for the reporting period attributable to ordinary shareholders (after deducting interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of ordinary shares in a given reporting period (adjusted for impact dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

Diluted earnings per share are equal to basic earnings per share, since dilutive instruments in the Group do not occur.

2.4.26 Equity

The Issuer's share capital is recognized at nominal value.

2.4.27 Dividends

The Group has a liability for the amount of declared dividend that has been duly approved and is no longer dependant on the entity's discretion at or before the end of the reporting period, but has not been paid at the end of the reporting period.

2.4.28 Method of preparing the cash flows statement

Cash flow statements are prepared using the indirect method.

2.4.29 Definition of a related entity

Definition of a related entity covers the following persons and entities:

a) A person (or a close family member of that person) is related to the reporting entity if that person:
    - has control or joint control of the reporting entity
    - has a significant impact on the reporting entity, or
    - is a member of the key management personnel of the reporting entity or its parent entity.

b) A reporting entity (A) is related to another entity (B) if A and B are members of the same group (meaning that all entities in the group are related).

(in PLN '000)

3. Explanatory notes

3.1. Segments

The tables below present revenues and costs as well as assets and liabilities by segments:

	Continued operations					*Total operations*
the period of 12 months ended as at 31 December 2023	***Poland***	***Hungary***	***Ukraine***	***Other***	***Total***	
Segment revenues after exclusions	**591 090**	**128 153**	**88 439**	**50 091**	**857 773**	**857 773**
Revenues from sale of products	*555 051*	*125 848*	*80 236*	*43 812*	*804 947*	*804 947*
Revenues from sale of goods	*24 143*	*1 647*	*7 704*	*5 339*	*38 833*	*38 833*
Revenues from sale of materials	*5 531*	*430*	*-*	*371*	*6 332*	*6 332*
Sales revenues from sale of services	*6 365*	*228*	*499*	*569*	*7 661*	*7 661*
Sales to external customers	591 090	128 153	88 439	50 091	857 773	857 773
Sales between segments (exclusions)	*570 721*	*8 036*	*22 449*	*200*	*601 406*	*(601 406)*
Total segment revenues without exclusions	*1 161 811*	*136 189*	*110 888*	*50 291*	*1 459 179*	*1 459 179*
Segment revenues after exclusions	**384 539**	**100 336**	**61 657**	**40 732**	**587 264**	**587 264**
Profits after exclusions	**206 551**	**27 817**	**26 782**	**9 359**	**270 509**	**270 509**
Non-allocated selling costs				-		37 730
General expenses	91 352	12 831	7 678	850	112 711	112 711
Other revenues and operating costs	(1 444)	456	1 329	595	936	936
Profit from operating activities	**113 755**	**15 442**	**20 433**	**9 104**	**158 734**	**121 004**
Interest revenue	530	1 787	1 897	-	4 214	4 214
Interest expenses	24 029	879	-	-	24 908	24 908
Other financial income and expenses	44	335	190	(231)	338	338
Share in the net profit of subsidiaries under the equity method	366			-	366	366
Profit before tax	**90 666**	**16 685**	**22 520**	**8 873**	**138 744**	**101 014**
Income tax	10 882	3 334	3 308	9	17 533	17 533
Net profit, attributable to:	**79 784**	**13 351**	**19 212**	**8 864**	**121 211**	**83 481**
- shareholders of the parent company						77 634
- minority shareholders						5 847

The Group did not discontinue operations in the reporting period

	Continued operations					*Total operations*
the period of 12 months ended as at *31 December 2022*	***Poland***	***Hungary***	***Ukraine***	***Other***	***Total***	
Segment revenues after exclusions	**537 220**	**136 779**	**68 245**	**49 442**	**791 686**	**791 686**

(in PLN '000)

Revenues from sale of products	*499 892*	*133 582*	*62 251*	*44 135*	*739 860*	*739 860*
Revenues from sale of goods	*25 925*	*2 920*	*5 359*	*4 858*	*39 062*	*39 062*
Revenues from sale of materials	*6 603*	*55*	*-*	*219*	*6 877*	*6 877*
Sales revenues from sale of services	*4 800*	*222*	*635*	*230*	*5 887*	*5 887*
Sales to external customers	537 220	136 779	68 245	49 442	791 686	791 686
Sales between segments (exclusions)	*512 700*	*6 019*	*14 199*	*5 827*	*538 745*	*(538 745)*
Total segment revenues without exclusions	*1 049 920*	*142 798*	*82 444*	*55 269*	*1 330 431*	*1 330 431*
Segment revenues after exclusions	**402 141**	**117 016**	**45 922**	**35 654**	**600 733**	**600 733**
Profits after exclusions	**135 079**	**19 763**	**22 323**	**13 788**	**190 953**	**190 953**
Non-allocated selling costs						29 325
General expenses	74 467	10 831	6 079	1 459	92 836	92 836
Other revenues and operating costs	(640)	1 758	(411)	(78)	629	629
Profit from operating activities	**59 972**	**10 690**	**15 833**	**12 251**	**98 746**	**69 421**
Interest revenue	98	124	929	2	1 153	1 153
Interest expenses	20 621	1 284	-	2	21 907	21 907
Other financial income and expenses	4 279	(422)	(9)	364	4 212	4 212
Share in the net profit of subsidiaries under the equity method	134	-	-	-	134	134
Profit before tax	**43 862**	**9 108**	**16 753**	**12 615**	**82 338**	**53 013**
Income tax	6423	2617	2502	199	11 741	11 741
Net profit, attributable to:	**37 439**	**6 491**	**14 251**	**12 416**	**70 597**	**41 272**
- shareholders of the parent company						36 684
- minority shareholders						4 588

The Group did not discontinue operations in the reporting period

(in PLN '000)

Other information regarding geographical segments as at 31 December 2023

Breakdown	Poland	Hungary	Ukraine	Other	Total
Total consolidated assets	**620 628**	**124 704**	**53 537**	**1 908**	**818 786**
Tangible fixed assets	439 463	34 512	17 709	488	492 172
Goodwill	-	4 080	-	-	4 080
Intangible assets	33 013	29 436	60	-	62 509
Trade and other receivables	28 757	9 786	3 400	750	42 693
Income tax receivables	14 018	86	-	-	14 104
Investment in other entities	3 385	-	-	-	3 385
Inventory	89 179	17 865	8 634	491	116 169
Cash and cash equivalents	12 813	28 939	23 734	179	65 665
Non-allocated Group's assets	-	-	-	-	18 009
Total consolidated liabilities	**50 632**	**9 714**	**540**	**8 456**	**818 786**
Trade and other liabilities	50 632	9 714	540	8 456	69 342
Non-allocated Group's liabilities	-	-	-	-	749 444

Other information regarding geographical segments as at 31 December 2022

Breakdown	Poland	Hungary	Ukraine	Other	Total
Total consolidated assets	**626 845**	**116 049**	**34 811**	**4 265**	**794 015**
Tangible fixed assets	442 845	35 148	15 837	2 301	496 131
Goodwill	-	4 209	-	-	4 209
Intangible assets	34 571	33 546	54	-	68 171
Trade and other receivables	39 956	10 627	3 979	399	54 961
Income tax receivables	10 693	244	201	-	11 138
Investment in other entities	2 891	-	-	-	2 891
Inventory	87 012	25 704	10 344	1 493	124 553
Cash and cash equivalents	8 877	6 571	4 396	72	19 916
Non-allocated Group's assets	-	-	-	-	12 045
Total consolidated liabilities	**51 962**	**14 765**	**190**	**14 782**	**794 015**
Trade and other liabilities	51 962	14 765	190	14 782	81 699
Non-allocated Group's liabilities	-	-	-	-	712 316

(in PLN '000)

3.2. Revenues and expenses

3.2.1 Sales revenues

The Group generates sales revenues, which include its own manufactured products, purchased goods and materials, as well as rendered services.

	for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Revenues from sale of products	804 947	739 860
Revenues from sale of goods	38 833	39 062
Revenues from sale of materials	6 332	6 877
Sales revenues from sale of services	7 661	5 887
Total sales revenues	**857 773**	**791 686**

Capital Group revenues by product segments

	for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Decorative products	694 659	623 543
Construction chemicals	102 803	106 497
Industrial products	7 485	9 820
Goods	38 833	39 062
Other revenues	7 661	5 887
Materials	6 332	6 877
Total sales	**857 773**	**791 686**

3.2.2 Other revenues and operating costs

	year ended	
	31 December 2023	*31 December 2022*
Operating revenues	**5 785**	**6 256**
Gain on disposal of non-financial fixed assets	**2 252**	**2 292**
Subsidies	**2**	**5**
Other operating revenues:	**3 531**	**3 959**
Compensations	2 068	2 831
Release of receivables write-off	497	-
Reversal of the environmental provision	212	106
Other	754	1 022
Operating expenses	**4 849**	**5 627**
Revaluation of non-financial assets	**1 140**	**3 009**
- Impairment write-off on fixed assets	1 140	1 768
- Impairment write-off on receivables	-	1 241
Other operating expenses:	**3 709**	**2 618**
Donations	1 219	992
Compensations, fines, penalties	482	353
Costs related to removal of fortuitous events	1 002	105
Costs of conscripted workers	-	321
Other	1 006	847
Net operating revenues (costs)	**936**	**629**

(in PLN '000)

3.2.3 Financial income and expenses

	year ended 31 December 2023	31 December 2022
Financial revenues	**4 551**	**5 368**
Interest	4 214	1 153
Exchange difference	337	4 215
Financial expenses	**24 907**	**21 910**
Interest	24 907	21 910
Net financial revenues (costs)	**(20 356)**	**(16 542)**

3.2.4 Expenses by type

	Note	*year ended* 31 December 2023	31 December 2022
Depreciation	3.2.5.	**38 411**	**36 756**
- including depreciation of PP&E		29 619	27 953
- including depreciation of intangible fixed assets		8 792	8 803
Consumption of materials and energy		438 453	439 740
Third party services		96 861	87 347
Taxes and charges		4 802	4 790
Costs of employee benefits	3.2.6.	132 940	114 240
Other costs		4 586	4 272
Value of goods and materials sold		27 806	28 454
Total expenses by type, including:		**716 053**	**687 145**
Items recognized in cost of sales		445 763	458 999
Items recognized in selling costs		151 425	142 605
Items recognized in general administrative costs		112 711	92 836
Change in products		8 892	(8 096)
Cost of manufacturing products for own purposes of the entity		(2 738)	801
		716 053	**687 145**

3.2.5 Depreciation costs

	year ended 31 December 2023	31 December 2022
Depreciation of fixed assets recognized:	**29 619**	**27 953**
in cost of sales	10 356	11 249
in selling costs	12 724	10 679
in general costs	6 539	6 025
Depreciation of intangible fixed assets recognized:	**8 792**	**8 803**
in cost of sales	112	122
in selling costs	5 486	5 892
in general costs	3 194	2 789
	38 411	**36 756**

(in PLN '000)

3.2.6 Costs of employee benefits

	year ended	
	31 December 2023	*31 December 2022*
Remuneration	108 385	91 100
Social insurance costs	18 172	15 663
Other costs of employee benefits	6 383	7 477
Total costs of employee benefits, including:	**132 940**	**114 240**
Items recognized in cost of sales	28 544	26 718
Items recognized in selling costs	39 715	34 857
Items recognized in general administrative costs	64 681	52 665

3.3. Other comprehensive income

Components of other comprehensive income include foreign exchange differences on translating foreign entity's statements, actuarial gains or losses, foreign exchange differences arising from hedging of a net investment in a foreign entity, and the measurement of equity instruments. As at December 31, 2023, the foreign exchange differences from the translation of foreign entities compared to the end of the previous period were subject to change by PLN 8,693 thousand, which is mainly related to the large fluctuations in the exchange rate of the Ukrainian hryvnia and Hungarian forint compared to the previous year. The currency rates at which the reports of foreign entities were translated are described in item 2.4.6. The items of other comprehensive income are as follows:

	year ended	
	31 December 2023	*31 December 2022*
Exchange differences from translation of foreign operations	(8 726)	(17 419)
Cash flow hedge	(262)	12
Net investment hedge in a foreign entity	-	(907)
Change in fair value of financial instruments measured at fair value through other comprehensive income	240	250
Actuarial gains (losses) after considering deferred income tax	(711)	1 227
	(9 459)	**(16 837)**

(in PLN '000)

3.4. Income tax

3.4.1 Tax burden

Major items of tax burden for the year ended as at 31 December 2023 and 31 December 2022 are as follows:

	the year ended as at 31 December 2023	*the year ended as at 31 December 2022*
Current income tax	**17 170**	**12 363**
Current income tax liability	17 438	10 115
Adjustments regarding current income tax from previous years	(268)	2 248
Deferred income tax	**363**	**(622)**
Related to certain and reversal of transitional differences	363	(622)
Tax liability recognized in the statement of comprehensive income	**17 533**	**11 741**

3.4.2 Reconciliation of effective tax rate

Reconciliation of income tax on profit before tax at the statutory tax rate with income tax computed at the effective tax rate of the Group for the year ended as at 31 December 2023 and 31 December 2022 is as follows:

	the year ended as at 31 December 2023	*the year ended as at 31 December 2022*
Gross profit (loss) before tax from continued operations	101 014	53 013
Other comprehensive income	(973)	1 239
Gross profit before tax	**100 041**	**54 252**
Statutory income tax rate of 19% applicable in Poland, (2022: 19%)	19 008	10 308
Non-deductible costs including:	**733**	**1 079**
Representations costs	355	213
Donations	180	147
Budget interest	41	169
Other	157	550
Revenues not subject to taxation, including:	**-**	**(80)**
Other	-	(80)
Donations (art. 18)	**(134)**	**-**
Unrecognized tax losses	**(862)**	**(381)**
The effect of higher / lower tax rates of foreign entities	**(632)**	**(928)**
Tax relieves	**(450)**	**(304)**
Other	**138**	**(201)**
Income tax	**17 801**	**9 493**
Tax adjustment from previous years	1 043	-
Release of provisions for tax risk described in note 3.22.2	(1 311)	2 248
Total income tax recognized in the statement of comprehensive income	17 533	11 741
Tax according to effective tax rate of 17.53 % (2022: 21.64%)	**17 533**	**11 741**

(in PLN '000)

3.4.3 Deferred income tax

The temporary differences based on which the asset and the deferred tax reserve were created will be performed within 12 months, except for:

- temporary difference between the tax and balance sheet value of fixed assets and intangible assets in the part exceeding the annual depreciation, long-term part PLN 179,938 thousand,
- provisions for retirement, jubilee awards and disability benefits, long-term part PLN 1 075 thousand.

Each Group company offsets deferred tax assets and liabilities at the level of the separate financial statements and recognizes this item in the report after offsetting. The table below shows the reconciliation of net deferred income tax to the consolidated statement of financial position.

	Consolidated statement of financial position	
	31 December 2023	*31 December 2022*
Net deferred income tax, including:	**9 576**	**9 213**
Deferred tax assets	1 766	762
Provision for deferred income tax	11 342	9 975

Deferred income tax results from the following items:

	Consolidated statement of financial position		*Consolidated statement of comprehensive income for the year ended*	
	31 December 2023	*31 December 2022*	*31 December 2023*	*31 December 2022*
Deferred tax provisions				
temporary difference between the tax base and the carrying amount of fixed assets and intangible assets	14 467	12 114	(2 353)	(2 135)
provision recognized from the allocation of the purchase price resulting from the temporary difference between the carrying amount and tax value of intangible assets	2 560	3 786	1 226	1 711
accrued, unpaid interest on loans granted	254	951	697	(366)
capitalised costs of external financing	1 436	1 488	52	(410)
value of leased fixed assets	2 353	2 550	197	(1 914)
other	142	231	89	95
Deferred tax provisions	**21 212**	**21 120**	**(92)**	**(3 019)**

(in PLN '000)

Deferred tax assets				
impairment write-off on inventory	629	781	(152)	(254)
lease liabilities	2 349	2 735	(386)	2 097
provisions for retirement, jubilee awards, disability benefits, bonuses	1 529	1 147	382	(246)
fixed assets under lease	398	412	(14)	(15)
interest on loans, borrowings and liabilities	525	1 119	(594)	938
accrued, unpaid bonuses for customers	333	524	(191)	(733)
unrealized margin on inventories	490	302	188	(98)
provision for losses	862	112	750	112
provision for marketing costs	955	1 108	(153)	90
debt financing cost limit	2 704	2 704	-	2 704
other	801	963	(162)	(354)
fair value of hedging instruments	61	-	61	-
Deferred tax assets	**11 636**	**11 907**	**(271)**	**4 241**
the amount offset by the provision against the deferred tax asset	(9 870)	(11 145)	-	-
Provision for deferred tax after offsetting	**11 342**	**9 975**	**-**	**-**
Deferred tax assets after offsetting	**1 766**	**762**	**-**	**-**
Impact on net profit	**-**	**-**	**(363)**	**622**
Impact on other net comprehensive income	**-**	**-**	**-**	**600**

3.5. Goodwill and information on business combination and acquisition of non-controlling interests

At the end of 2023, the goodwill increased as a result of the final settlement of the transaction for the acquisition of shares in Poli-Farbe was tested for impairment, details in note 2.2.3.

3.6. Earnings per share

Basic earnings per share are calculated by dividing net profit for the financial period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the financial period.

Diluted earnings per share are calculated by dividing net profit for the financial period attributable to ordinary shareholders by the weighed average number of ordinary shares outstanding during the financial period, adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all dilutive equity instruments into ordinary shares.

In the current and comparative period no transactions that diluted the number of ordinary shares occurred.

(in PLN '000)

The data on share gains have been presented below, which stipulated a basis to calculate basic and diluted earnings per share:

	the year ended as at 31 December 2023	*the year ended as at 31 December 2022*
Net profit from continued activities	77 634	36 684
Net profit	77 634	36 684
Net profit attributable to ordinary shareholders	**77 634**	**36 684**
A weighted average number of ordinary shares applied to calculate basic earnings per share	12 617 778	12 617 778
Earnings per share attributable to shareholders of the Parent Company in PLN	6.15	2.91

In the period between the balance sheet date and the date of preparing the consolidated financial statements no transactions were reported which would be related to ordinary shares or potential ordinary shares.

3.7. Dividends paid and proposed

In the parent company, the ordinary share dividend for 2022, paid on May 31, 2023, amounted to PLN 25,236 thousand (for 2021, paid on August 1, 2022: PLN 31,544 thousand). The value of dividend per ordinary share paid in 2022 amounted to PLN 2.00 (for 2021: PLN 2.50). The Issuer did not pay dividend advances for 2023.

The dividend paid to minority shareholders amounted to PLN 7,472 thousand.

The difference between the value of the dividend paid in the statement of cash flows (PLN 30,051 thousand) and the value recognized in the statement of changes in equity (PLN 32,708 thousand) results from the change in dividend payments.

	2023	**2022**
Dividends recognized as distributions to owners per share	2.00	2.50
Dividends proposed or enacted up to the date of approval of the financial statements for issue, but not recognized as distributed to holders of shares, per share	0	0
Dividends proposed or enacted up to the date of approval of the financial statements for issue, but not recognized as distributed to holders of shares	0	0

(in PLN '000)

3.8. Tangible fixed assets

As at 31 December 2023 and as at 31 December 2022 tangible fixed assets were as follows:

	As at	
TANGIBLE FIXED ASSETS	*31 December 2023*	*31 December 2022*
a) fixed assets, including:	483 009	492 460
- lands (including the right of perpetual usufruct)	23 339	23 582
- buildings, premises and civil engineering structures	305 531	311 705
- technical devices and machinery	116 669	118 207
- means of transport	19 947	17 430
- other fixed assets	17 523	21 536
b) fixed assets under construction	9 163	3 632
c) advances for fixed assets under construction	-	39
Total tangible fixed assets	**492 172**	**496 131**

The table below presents fixed asset movement in 2023 and 2022:

	Lands, buildings and structures	*Machinery and equipment*	*Means of transport*	*The right to use*	*Other fixed assets*	*Total*
Net value as at 1 January 2023	**332 109**	**118 207**	**17 430**	**3 178**	**21 536**	**492 460**
Increase due to acquisition	5 243	12 129	4 261	-	773	22 406
Decrease due to disposal or liquidation	(160)	(179)	(178)	-	(4)	(521)
Increase due to lease	-	-	604	-	-	604
Increase over the year due to IFRS 16	-	-	-	321	-	321
Impairment write-off	(818)	(320)	1 768	-	-	630
Depreciation	(8 676)	(12 374)	(3 574)	(228)	(4 767)	(29 619)
Other adjustments	-	-	-	-	134	134
Exchange difference	(2 099)	(794)	(364)	-	(149)	(3 406)
Net value as at 31 December 2023	**325 599**	**116 669**	**19 947**	**3 271**	**17 523**	**483 009**
Net value as at 1 January 2022	**146 446**	**84 443**	**19 850**	**3 406**	**18 568**	**272 713**
Increase due to acquisition	198 999	47 677	4 433	-	8 267	259 376
Decrease due to disposal or liquidation	(2 213)	(660)	(1 117)	-	(97)	(4 087)
Increase due to lease	-	-	192	-	-	192
Intra-group transfer	10	(10)	-	-	-	-
Impairment write-offs	-	-	(1 768)	-	-	(1 768)
Depreciation	(7 754)	(11 037)	(3 719)	(228)	(5 215)	(27 953)
Other adjustments	-	-	-	-	134	134
Exchange difference	(3 379)	(2 206)	(441)	-	(121)	(6 147)
Net value as at 31 December 2022	**332 109**	**118 207**	**17 430**	**3 178**	**21 536**	**492 460**

The table below presents the gross carrying amounts, depreciation and net carrying amounts of tangible fixed assets in the years 2023 and 2022:

(in PLN '000)

	Lands, buildings and structures	*Machinery and equipment*	*Means of transport*	*The right to use*	*Other fixed assets*	*Total*
As at 1 January 2023						
Gross carrying amount	406 598	263 119	40 888	3 785	69 146	783 536
Total accumulated depreciation and impairment write-off less the liquidated and sold non-current assets	(74 489)	(144 912)	(23 458)	(607)	(47 610)	(291 076)
Net carrying amount	**332 109**	**118 207**	**17 430**	**3 178**	**21 536**	**492 460**
	-	-	-	-	-	-
As at 31 December 2023						
Gross carrying amount	409 718	270 548	42 188	4 106	69 570	796 130
Total accumulated depreciation and impairment write-off less the liquidated and sold non-current assets	(84 119)	(153 879)	(22 241)	(835)	(52 047)	(313 121)
Net carrying amount	**325 599**	**116 669**	**19 947**	**3 271**	**17 523**	**483 009**

	Lands, buildings and structures	*Machinery and equipment*	*Means of transport*	*The right to use*	*Other fixed assets*	*Total*
As at 1 January 2022						
Gross carrying amount	215 081	225 030	38 121	3 785	62 036	544 053
Total accumulated depreciation and impairment write-off less the liquidated and sold non-current assets	(68 635)	(140 587)	(18 271)	(379)	(43 468)	(271 340)
Net carrying amount	**146 446**	**84 443**	**19 850**	**3 406**	**18 568**	**272 713**
	-	-	-	-	-	-
As at 31 December 2022						
Gross carrying amount	406 598	263 119	40 888	3 785	69 146	783 536
Total accumulated depreciation and impairment write-off less the liquidated and sold non-current assets	(74 489)	(144 912)	(23 458)	(607)	(47 610)	(291 076)
Net carrying amount	**332 109**	**118 207**	**17 430**	**3 178**	**21 536**	**492 460**

Movements in fixed assets under construction	**2023**	**2022**
As at the beginning	**3 632**	**216 721**
Expenditure increase	29 986	47 669
Expenditure decrease - transfer to tangible fixed assets	(23 472)	(259 485)
Exchange difference	(983)	(1 273)
As at the end	**9 163**	**3 632**

The value of capitalized costs of external financing in the year ended as at 31 December 2023 amounted to PLN 296 thousand (the year ended as at 31 December 2022 - PLN 2,358 thousand).

As as at 31 December 2023 the Group had tangible fixed assets used under lease agreements. As at 31 December 2023, these assets constituted rights to perpetual usufruct of land and de-farming of land with a total value of PLN 3,271 thousand and a car fleet worth PLN 2,451 thousand (as at 31 December 2022, these were rights to perpetual usufruct of land and de-agriculture worth PLN 3,178 thousand and a car fleet worth PLN 2,748 thousand). The Group also had fixed assets used under leaseback agreements. The subject of these agreements are storage racks and automatic pallet transport and wrapping lines with robots with a net value of PLN 9,940 thousand.

As at 31 December 2023, the pledges on property, plant and equipment as a collateral for bank loan liabilities amounted to PLN 51,962 thousand whereas collateral mortgages on properties of the Group as at 31 December 2023 amounted in total to PLN 383,734 thousand. The details are provided in note 3.18.

Expenditure on intangible fixed assets under construction in 2023 amounted to PLN 29,986 thousand (whereas in 2022 - PLN 47,669 thousand). Capital expenditure was financed by the Group from working capital and loans.

3.9. Leasing

3.9.1 Lease liabilities

As at 31 December 2023 the Group had lease liabilities in the amount of PLN 5,321 thousand. The value of these liabilities includes liabilities under the right of perpetual usufruct of land, as well as land de-farming and liabilities under lease and long-term rental agreements relating to means of transport (cars). The value of liabilities under the right of perpetual usufruct to lands and land use conversion as at December 31, 2023 was PLN 2,767 thousand, while lease and long-term rental agreements liabilities amounted to PLN 2,554 thousand. Short-term lease liabilities amounted to PLN 2,186 thousand, while long-term ones accounted for PLN 3,135 thousand.

Lease liabilities as at 31 December 2023, including:	**5 321**
short-term	2 186
long-term	3 135
Lease liabilities as at 31 December 2022, including:	**5 613**
short-term	1 078
long-term	4 535

	The value of leasing payments in PLN '000
As at 1 January 2023	**5 613**
Repayment of other lease liabilities	(1 216)
Increase due to lease	926
Accrued interest	360
Paid interest	(360)
Exchange difference	(2)
As at 31 December 2023	**5 321**

(in PLN '000)

3.9.2 Receivables under financial lease and lease agreements with a purchase option

	31 December 2023		*31 December 2022*	
	Min. payments	*Current amount of payments*	*Min. payments*	*Current amount of payments*
Up to 1 year	630	549	630	541
Between 1 and 5 years	105	92	736	642
Over 5 years	-	-	-	-
Value of lease payments, including:	**735**	**641**	**1 366**	**1 183**
short-term	630	549	630	541
long-term	105	92	736	642

As at 31 December 2023 the Group held receivables under finance lease in the amount of PLN 641 thousand (including short-term part: PLN 549 thousand and the long-term part: PLN 92 thousand), and the value of unrealized future financial revenues under finance lease agreements amounted to PLN 94 thousand. The object of lease is real estate located in Biała Podlaska. The property in Biała Podlaska was transferred into finance lease on 28 February 2017. The property consists of the right of perpetual usufruct to lands and a production-warehouse hall. The value of the leased asset pursuant to the agreement concluded amounted to PLN 4,180 thousand. The agreement was concluded for 8 years. Pursuant to the provisions of the agreement, the Group guarantees the user with the right to acquire the leased asset after the agreement termination. The above-mentioned receivables are presented in the balance sheet in the long-term section as "Long-term receivables", while in the short-term section in item "Trade and other receivables".

3.10. Intangible assets

As at 31 December 2023 and as at 31 December 2022 intangible assets were as follows:

	As at	
	31 December 2023	*31 December 2022*
INTANGIBLE ASSETS		
a) research and development costs	80	159
b) acquired concessions, patents, licences and similar assets, including:	32 731	32 174
- computer software	32 731	32 174
c) trademarks	28 536	30 887
d) customer relationships	479	1 973
e) intangible assets under construction	683	2 978
Total intangible assets	**62 509**	**68 171**

(in PLN '000)

The table below presents the intangible asset movement for 2023 and 2022:

	Patents and licences	*Development costs*	*Trademarks*	*Customer relationships*	*Total*
Net value as at 1 January 2023	**32 174**	**159**	**30 887**	**1 973**	**65 193**
Decrease due to disposal or liquidation	-	-	-	-	-
Increase due to acquisition	6 201	-	-	-	6 201
Depreciation	(5 738)	(79)	(1 471)	(1 504)	(8 792)
Exchange difference	94	-	(880)	10	(776)
Net value as at 31 December 2023	**32 731**	**80**	**28 536**	**479**	**61 826**
Net value as at 1 January 2022	**34 459**	**250**	**36 894**	**4 083**	**75 686**
Decrease due to disposal or liquidation	-	-	-	-	-
Increase due to acquisition	3 447	-	-	-	3 447
Depreciation	(5 748)	(66)	(1 479)	(1 510)	(8 803)
Exchange difference	16	(25)	(4 528)	(600)	(5 137)
Net value as at 31 December 2022	**32 174**	**159**	**30 887**	**1 973**	**65 193**

The table below presents the gross carrying amounts, depreciation and net carrying amounts of intangible assets in the years 2023 and 2022:

	Patents and licences	*Development costs*	*Trademarks*	*Customer relationships*	*Total*
As at 1 January 2023					
Gross carrying amount	51 354	435	41 124	8 411	101 324
Total accumulated depreciation and impairment write-off	(19 180)	(276)	(10 237)	(6 438)	(36 131)
Net carrying amount	**32 174**	**159**	**30 887**	**1 973**	**65 193**
As at 31 December 2023					
Gross carrying amount	57 555	435	41 124	8 411	107 525
Total accumulated depreciation and impairment write-off	(24 824)	(355)	(12 588)	(7 932)	(45 699)
Net carrying amount	**32 731**	**80**	**28 536**	**479**	**61 826**
As at 1 January 2022					
Gross carrying amount	47 927	435	41 124	8 411	97 897
Total accumulated depreciation and impairment write-off	(13 468)	(185)	(4 230)	(4 328)	(22 211)
Net carrying amount	**34 459**	**250**	**36 894**	**4 083**	**75 686**
As at 31 December 2022					
Gross carrying amount	51 354	435	41 124	8 411	101 324
Total accumulated depreciation and impairment write-off	(19 180)	(276)	(10 237)	(6 438)	(36 131)
Net carrying amount	**32 174**	**159**	**30 887**	**1 973**	**65 193**

Movements in intangible assets under construction are presented in the table below:

(in PLN '000)

	Year 2023	Year 2022
As at 1 January	**2 978**	**2 840**
Capital expenditure	3 861	3 675
Acceptance for use - intangible assets	(6 201)	(3 531)
Exchange difference	45	(6)
As at 31 December	**683**	**2 978**

As at 31 December 2023 the intangible assets were not subject to liability pledges. Expenditure on intangible assets in 2023 amounted to PLN 3,861 thousand (whereas in 2022 - PLN 3,675 thousand).

3.11. Investments in affiliates measured at the equity method and involvement in a joint venture.

The Group holds 10,07% of shares in Plastbud Sp. z o.o. with its registered office in Pustków, whose core scope of operation is manufacture of paint pigments. Due to significant impact on Plastbud Sp z o.o. company, as a result of substantial trade with it, the company is regarded as an affiliate and valued with the equity method in the consolidated financial statements.

The table below presents abbreviated information regarding investments (10.07%) in Plastbud Sp. z o.o.:

	As at		*As at*	
Share in affiliate's balance:	*31 December 2023*	*31 December 2023*	*31 December 2022*	*31 December 2022*
	affiliate data:	*% share*	*affiliate data:*	*% share*
Current assets (short-term)	20 331	2 047	21 516	2 167
Non-current assets (long-term)	5 918	596	5 868	591
Short-term liabilities	4 679	471	8 005	806
Long-term liabilities	1 338	135	1 674	169
Share in net assets	-	**2 037**	-	**1 783**

	Year ended	
	31 December 2023	*31 December 2022*
Revenues	49 639	43 265
Profit	3 639	1 332
Share in affiliate's profit:	**366**	**134**

As at 31 December 2023 and 31 December 2022 the Group did not participate in any joint ventures.

(in PLN '000)

3.12. Financial assets and liabilities

The carrying amount of classes and categories of financial instruments as at 31 December 2023 as well as 31 December 2022 are presented in the table below.

	As at	
Financial assets	***31 December 2023***	***31 December 2022***
Financial assets at amortized cost		
Trade and other receivables	58 760	65 339
Cash and cash equivalents	65 665	19 916
Financial assets at fair value through other comprehensive income		
Shares and interests in other entities	1 348	1 108
Financial assets measured in accordance with IFRS 16		
Lease receivables	641	1 183
Financial liabilities		
Liabilities at amortized cost		
Interest-bearing loans and borrowings	280 829	296 790
Liabilities under option to acquire shares in minority ownership	33 261	44 848
Trade and other liabilities	101 448	103 216
Liabilities measured in accordance with IFRS 16		
Lease liabilities	5 321	5 613

All assets and liabilities, which are measured at fair value or their fair value is disclosed in the financial statements, are classified in fair value hierarchy in a manner described in note 2.4.13.

	As at	
	31 December 2023	*31 December 2022*
Other financial assets	**1 348**	**1 108**
Other long-term financial assets	**1 348**	**1 108**
- investments in non-consolidated entities	1 307	1 067
- other financial assets	41	41
Other short-term financial assets	**-**	**-**

The Parent Company holds shares in:

- Polskie Składy Budowlane Handel SA Group, the fair value of these shares after valuation as at December 31, 2023 is PLN 790 thousand,
- shares in Polifarb Łódź Sp. z o.o., the fair value of these shares as at December 31, 2023 is PLN 517 thousand,

As at December 31, 2023, Radomska Fabryka Farb i Lakierów SA holds shares in:

- Polifarb Gliwice Sp. z o. o. in the amount of PLN 20,000,
- Huta Stalowa Wola in the amount of PLN 21,000.

(in PLN '000)

3.13. Employee benefits

In accordance with the corporate remuneration regulation, all the Group's employees are eligible to retirement, disability and severance payments, death benefit and jubilee awards, as well as allowance in lieu of leave. Therefore, the Group forms provisions for current amount of liabilities to due to retirement bonuses, by virtue of the estimation executed by professional actuary company.

The table below summarizes the amounts of the provision and movements in the benefit liability over the period:

Core assumptions adopted by actuaries	***31 December 2023***	***31 December 2022***
Return on investment (%) for domestic entities	5.2%	6.9%
Return on investment (%) for foreign entities	5.2%	6.9%
Employee turnover ratio for domestic entities - depended on age %	1-13%	1-13%
Employee turnover ratio for foreign entities - depended on age %	1-16%	1-21%
Anticipated remuneration growth rate (%)	3.7%	3.5%

	Retirement and disability benefits	**Death benefits**	**Jubilee awards**	**Unused holiday leaves**	**Bonus provisions**	**Total**
Opening balance as at 1 January 2023	**1 146**	**1 139**	**2 200**	**2 388**	**1 317**	**8 190**
Current employment expenses	96	79	178	2 638	2 487	5 478
Actuarial gains, losses - after termination of the employment relationship	508	203	-	-	-	711
Actuarial gains, losses - during the employment relationship	-	-	884	-	-	884
Benefits paid	(40)	(47)	(302)	(2 388)	(1 317)	(4 094)
Post-employment expenses	-	-	49	-	-	49
Interest expenses	72	70	118	-	-	260
Closing balance as at 31 December 2023	**1 782**	**1 444**	**3 127**	**2 638**	**2 487**	**11 478**
Short-term provisions	220	135	339	2 638	2 487	5 819
Long-term provisions	1 562	1 309	2 788	-	-	5 659

	Retirement and disability benefits	Death benefits	Jubilee awards	Unused holiday leaves	Bonus provisions	Total
Opening balance as at 1 January 2022	**1 485**	**1 343**	**2 727**	**2 592**	**3 748**	**11 895**
Current employment expenses	107	88	209	2 388	1 317	4 109
Actuarial gains, losses - after termination of the employment relationship	(418)	(344)	-	-	-	(762)
Actuarial gains, losses - during the employment relationship	-	-	(465)	-	-	(465)
Benefits paid	(82)	-	(374)	(2 592)	(3 748)	(6 796)
Interest expenses	54	52	103	-	-	209
Closing balance as at 31 December 2022	**1 146**	**1 139**	**2 200**	**2 388**	**1 317**	**8 190**
Short-term provisions	159	123	263	2 388	1 317	4 250
Long-term provisions	987	1 016	1 937	-	-	3 940

Change of adopted return on investment by up to one percentage point:	**Increase (in PLN '000)**	**Decrease (in PLN '000)**
for the period ended / as at 31 December 2023	**(651)**	**748**
Impact on total current employment and interest expenses	4	(3)
Impact on defined benefits	(655)	751
for the period ended / as at 31 December 2022	**(396)**	**657**
Impact on total current employment and interest expenses	3	(5)
Impact on defined benefits	(399)	662

Change of remuneration increase rate by up to one percentage point:	**Increase (in PLN '000)**	**Decrease (in PLN '000)**
for the period ended / as at 31 December 2023	**801**	**(711)**
Impact on total current employment and interest expenses	46	(41)
Impact on defined benefits	755	(670)
for the period ended / as at 31 December 2022	**723**	**(452)**
Impact on total current employment and interest expenses	50	(35)
Impact on defined benefits	673	(417)

(in PLN '000)

3.14. Inventory

	As at	
	31 December 2023	*31 December 2022*
Materials	52 540	64 023
Production in progress	1 692	1 530
Finished products	50 903	46 943
Goods	10 818	11 224
Advances for deliveries	216	833
Total inventory	**116 169**	**124 553**

In the year ended December 31, 2023, the Group reversed or used the write-down on inventories in the amount of PLN 951 thousand (in 2022, an inventory write-down was created in the amount of PLN 694 thousand).

Loan collateral was established on the Group's inventories, which in the year ended December 31, 2023 had a value of PLN 15,000 thousand, and in the year ended December 31, 2022 it amounted to PLN 15,000 thousand.

3.15. Trade and other receivables

	As at	
	31 December 2023	*31 December 2022*
Trade and other receivables:	**42 693**	**55 367**
including from related entities	-	406
including from other entities	42 693	54 961
- of which receivables transferred to the factor - recourse factoring	-	14 154
Impairment write-offs on trade receivables	(1 983)	(2 259)
Current income tax receivables	14 104	11 138
Other receivables from other entities	**10 908**	**6 544**
- taxes, customs, insurance and other	9 369	4 488
- other	1 539	2 056
- accruals	5 419	3 512
Total receivables, including	**73 124**	**76 561**
- long-term part	176	84
- short-term part	72 948	76 477

The currency structure of receivables is presented in the table below:

	As at	
	31 December 2023	*31 December 2022*
Trade and other receivables:	**42 693**	**55 367**
Receivables in PLN	28 214	40 275
Receivables in EUR	1 141	1 263
Receivables in USD	366	96
Receivables in UAH	3 395	3 979
Receivables in RON	384	504
Receivables in HUF	9 193	9 250

(in PLN '000)

The Group in the item "Accruals" recognized the following items of accrued costs:

	As at	
	31 December 2023	*31 December 2022*
Insurances	1 408	1 279
Right to return goods	856	-
IT services (licences, subscriptions)	1 375	575
Other services	536	263
Other	709	1 235
Total	**5 419**	**3 512**
- short-term	5 419	3 512
- long-term	-	-

In 2023, the Group did not use recourse factoring. In 2022, the Group used recourse factoring (the details of the agreement are provided in note 3.18). On the basis of the agreement with the factor, the parent company transferred some receivables to the factor in exchange for a cash payment, therefore it cannot sell or pledge them.

As for recourse factoring, the Group continues to recognize the transferred assets in full in its balance sheet. The amounts recoverable under the recourse factoring agreement are presented as a loan liability (note 3.18). The Group believes that the model according to which these receivables are held to obtain cash flows is appropriate and therefore they are still measured at amortized cost (note 3.12).

	As at	
Total trade and other receivables with remaining maturities from the balance sheet date	*31 December 2023*	*31 December 2022*
To 1 month	19 816	18 833
More than 1 month up to 3 months	15 075	28 005
More than 3 months up to 6 months	420	-
More than 6 months up to 12 months	-	-
More than 12 months	-	-
Overdue	9 365	10 788
Total gross trade and other receivables:	**44 676**	**57 626**
Impairment write-off	(1 983)	(2 259)
Total net trade and other receivables:	**42 693**	**55 367**
Receivables with a repayment period of up to 12 months	42 633	54 604
Receivables with a repayment period over 12 months	60	763

The terms of transactions with related entities are presented in note 3.23.2.

The vast majority of outstanding receivables as at 31 December 2023 were repaid after the balance sheet date.

The Group has implemented a relevant policy based on selling its goods to reliable customers only. Consequently, according to the management's opinion, there is no additional credit risk that would exceed the doubtful debts allowance recognized for trade receivables of the Group.

In order to determine the expected credit losses in relation to trade receivables, the Group applies the simplified approach provided for in IFRS 9, which consists in creating write-offs for expected credit losses throughout its life in relation to all trade receivables, hence the Group classified trade receivables to 2 and 3 level. For trade receivables, a simplified matrix of write-offs was applied in individual age ranges. The analyses were performed separately for customer receivables belonging to the specified groups based on the assumed probability of credit losses, adjusted for actual credit losses based on historical data from 3 last years.

(in PLN '000)

Changes to receivables of impairment write-off were the following:

Impairment write-offs on trade and other receivables	*Period / Year ended*	
	31 December 2023	*31 December 2022*
Impairment write-offs on receivables at the beginning of the period	**2 259**	**935**
- increase	21	1 330
- write-off used	297	6
Impairment write-offs on receivables at the end of the period	**1 983**	**2 259**

The calculation of impairment write-off on receivables in accordance with IFRS 9 is presented in the table below:

			2nd degree receivables				**3rd degree receivables**	
	Total	**Current** *(without write-off)*	**Current**	**1-30 days**	**31-90 days**	**90-180 days**	**> 180 days**	**disputed and doubtful**
Gross value of receivables as at 31 December	44 676		35 980	4 588	2 539	383	106	1 080
Expected credit loss ratio			1.29%	0.85%	5.40%	42.04%	96.23%	100.00%
Expected credit loss	1 983		464	39	137	161	102	1 080
Net value of receivables as at 31 December 2023	**42 693**							
Gross value of receivables as at 31 December 2022	57 626	6 112	40 348	7 057	2 620	254	138	1 097
Expected credit loss ratio			1.00%	2.72%	12.90%	35.43%	100.00%	100.00%
Expected credit loss	2 259	-	404	192	338	90	138	1 097
Net value of receivables as at December 31, 2022	55 367							

3.16. Cash and cash equivalents

Fair value of cash and cash equivalents as at 31 December 2023 amounted to PLN 65,665 thousand (whereas as at 31 December 2022: PLN 19,916 thousand). The balance sheet of cash and cash equivalents recognized in the statement of cash flows comprised the following items:

(in PLN '000)

	31 December 2023	*31 December 2022*
Cash at bank and in hand	65 665	19 916
- including cash in VAT accounts	784	1 031
- including restricted cash - cash in Ukraine	23 734	4 396
Total	**65 665**	**19 916**

The currency structure is presented in the table below:

Cash currency	*31 December 2023*	*31 December 2022*
	PLN value	PLN value
PLN	4 862	2 183
EUR	2 056	6 866
USD	6 547	2 008
UAH	23 734	2 492
HUF	28 107	5 764
RON	180	531
BYN	179	72
Total cash	**65 665**	**19 916**

The subsidiary in Ukraine may freely dispose of cash to settle payments resulting from its operating activities. The restriction applies to the payment of dividends to the parent company. As at 31 December 2023, the Group analysed the possible impairment of cash. The cash value as at 31 December 2023 amounted to PLN 23,734 thousand. Part of it was accumulated in KredoBank, with an A2 rating (PLN 22,589 thousand), and the remaining part - PLN 1,142 thousand was at JSC State Savings Bank of Ukraine with a CCC- rating.

The Group did not write down cash in a bank with a low rating, since after the balance sheet date the cash was deposited in KredoBank.

3.17. Equity and other capitals

3.17.1 Equity

As at 31 December 2023, the Issuer's equity amounted to 12 617 778 shares of nominal value of PLN 1.00 each. In 2023 the equity was not subject to change.

Equity capital	*31 December 2023*	*31 December 2022*
Registered preference shares of A series holding the nominal value of PLN 1.00 each	100 000	100 000
Registered preference shares of B series holding the nominal value of PLN 1.00 each	400 000	400 000
Ordinary shares of C,D,E,F series holding the nominal value of PLN 1.00 each	12 117 778	12 117 778
	12 617 778	**12 617 778**

3.17.1.1 Nominal value per share

All the issued shares have the nominal value of PLN 1.00 per share and have been fully paid.

(in PLN '000)

3.17.1.2 Shareholders' rights

Registered shares of A and B series are preferential for vote so that one share corresponds to 5 votes. Shares of C, D, E and F series are entitled to one vote per each share. Shares of all series are equally preferred as to dividends and return on equity.

In accordance with the Issuer's Articles of Association, shares of 'A' series entitle their holder to indicate a member of the Supervisory Board in such a way, that each 25 000 of shares bear the right to indicate one such member.

3.17.1.3 Majority shareholders

Shareholders holding over 5% of total number of votes, as at 31 December 2023:

Shareholder	Number of shares held	Share in the share capital (%)	Number of votes	Share in the total number of votes at GMS (%)
Jerzy Pater *	2 541 667 including directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.7
Stanisław Cymbor **	2 541 667 including directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.7
Piotr Mikrut	1 270 833	10.07	1 870 833	12.8
Rafał Mikrut	1 270 833	10.07	1 337 497	9.15
Powszechne Towarzystwo Emerytalne Allianz Polska SA	1 816 307	14.39	1 816 307	12.43
Nationale-Nederlanden Open Pension Fund	1 185 323	9.39	1 185 323	8.11

*Jerzy Pater holds the Issuer's shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares of the Issuer, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

** Stanisław Cymbor holds the Issuer's shares indirectly by PPHU Iwona i Stanisław Cymbor Sp. z o.o. (PPETU Iwona i Stanisław Cymbor Sp. z o.o. holds 2,375,000 shares of the Issuer, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

(in PLN '000)

Shareholders holding over 5% of total number of votes, as at 31 December 2022:

Shareholder	Number of shares held	Share in the share capital (%)	Number of votes	Share in the total number of votes at GMS (%)
Jerzy Pater *	2 541 667 including directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.7
Stanisław Cymbor **	2 541 667 including directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.7
Piotr Mikrut	1 270 833	10.07	1 870 833	12.8
Rafał Mikrut	1 270 833	10.07	1 337 497	9.15
Powszechne Towarzystwo Emerytalne Allianz Polska SA	1 816 307	14.39	1 816 307	12.43
Nationale-Nederlanden Open Pension Fund	1 185 323	9.39	1 185 323	8.11

*Jerzy Pater holds the Issuer's shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares of the Issuer, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

** Stanisław Cymbor holds the Issuer's shares indirectly by PPHU Iwona i Stanisław Cymbor Sp. z o.o. (PPETU Iwona i Stanisław Cymbor Sp. z o.o. holds 2,375,000 shares of the Issuer, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

3.17.2 Option to purchase minority interest

The put option liability (sale of shares by a non-controlling shareholder) is recognized in correspondence with the equity attributable to the shareholders of the parent company under "Option to purchase minority interest". The details are described in note 2.2.4.

3.17.3 Other reserve capital

Other reserve capital movement in the period 2023 and 2022 are presented in the table below:

	Exchange differences from translation of foreign operations	Capital from the measurement of financial instruments at fair value through other comprehensive income	Other reserve capital
As at 1 January 2023	**(55 859)**	**159**	**(55 700)**
Other net comprehensive income for the period	(8 395)	(23)	(8 418)
As at 31 December 2023	**(64 254)**	**136**	**(64 118)**
As at 1 January 2022	**(40 608)**	**(103)**	**(40 711)**
Other net comprehensive income for the period	(15 251)	262	(14 989)
As at 31 December 2022	**(55 859)**	**159**	**(55 700)**

Other reserve capitals are not subject to distribution and include the following items described below.

(in PLN '000)

3.17.3.1 Exchange differences from translation of foreign operations

Foreign exchange differences arising from translation of assets, liabilities and statement of comprehensive income of foreign entities are accumulated under separate item of equity. - "Other reserve capitals. The details are described in note 2.4.6.

3.17.3.2 Capital from the measurement of financial instruments at fair value through other comprehensive income

The revaluation reserve mainly results from the valuation of non-consolidated shares made in 2023 in accordance with IFRS 9.

3.17.4 Retained earnings

Retained earnings include reserve capital, other reserve capitals, profit from previous years, profit for the current year. Retained profit movement is presented in the table:

	Supplementary capital	**Other reserve capital**	**Profit from previous years**	**Net profit**	**Retained earnings**
As at 1 January 2023	**223 005**	**323**	**120 052**	**37 911**	**381 291**
Net profit for the period	-	-	-	77 634	77 634
Other net comprehensive income for the period	-	-	-	(711)	(711)
Comprehensive income for the period	**-**	**-**	**-**	**76 923**	**76 923**
Change in supplementary capital resulting from the profit distribution	(540)	-	540	-	-
Acquisition of shares in a subsidiary	-	-	-	-	-
Dividend	-	-	(25 236)	-	(25 236)
As at 31 December 2023	**222 466**	**323**	**95 355**	**114 834**	**432 978**
As at 1 January 2022	**193 541**	**337**	**181 040**	**-**	**374 918**
Net profit for the period	-	-	-	36 684	36 684
Other net comprehensive income for the period	-	-	-	1 227	1 227
Comprehensive income for the period	**-**	**-**	**-**	**37 911**	**37 911**
Change in supplementary capital resulting from the profit distribution	29 464	-	(29 464)	-	-
Acquisition of shares in a subsidiary	-	(14)	20	-	6
Dividend	-	-	(31 544)	-	(31 544)
As at 31 December 2022	**223 005**	**323**	**120 052**	**37 911**	**381 291**

3.17.4.1 Supplementary capital

The Parent Company established the supplementary capital, resulting from an obligation for joint stock companies, to one third of its share capital, transferring 8% of net profit for a given financial year. In addition, the Parent Company transfers optionally a specified part of its net profit for a financial year to increase the supplementary capital in a given year.

In 2023, the supplementary capital was reduced by PLN 1,627 thousand, allocating this amount for the dividend payment in the Parent Company exceeding the value of net profit for 2022, and increased by the amount of PLN 1,087 thousand from the profit distribution in Radomska Fabryka Farb i Lakierów SA.

(in PLN '000)

3.17.4.2 Retained profit (loss) and dividend restrictions

In the parent company, the dividend per ordinary shares for 2022, paid on May 31, 2023, amounted to PLN 25,236 thousand (for 2021, paid on August 1, 2022: PLN 31,544 thousand). The value of dividend per ordinary share paid in 2022 amounted to PLN 2.00 (for 2021: PLN 2.50). The Issuer did not pay dividend advances for 2023.

3.17.5 Non-controlling interest

The table presenting changes in non-controlling capital in 2023:

Equity change of non-controlling interests	**2023**	**2022**
As at the beginning	**28 300**	**29 864**
Minority earnings	5 847	4 588
Other comprehensive income - foreign exchange differences from the translation of foreign entities	(330)	(3 075)
Decrease due to the acquisition by the parent company of non-controlling interest:	-	-
- non-controlling interests Rafil 2022 -2.04%	-	(158)
Dividend payment to minority shareholders	(7 472)	(2 919)
As at the end	**26 345**	**28 300**

3.18. Interest-bearing loans and borrowings

As at 31 December 2023 and as at 31 December 2022 the balance of interest-bearing loans and borrowings is presented in the table below:

Loans	***Liability amount as at 31 December 2023***	***Interest rate***	***Liability amount as at 31 December 2022***
Loan in Bank PEKAO S.A. Dębica branch	62 571	1M WIBOR / 1M EURIBOR / 1M LIBOR + margin	75 428
Loan in PKO BP SA Rzeszów branch	4 100	1M WIBOR /1M EURIBOR / 1M LIBOR / 1M BUBOR + margin	10 710
Loan in CITI Bank Handlowy SA in Warsaw	9 756	3M WIBOR / 3M LIBOR / 3M EURIBOR / 3M BUBOR + margin	20 777
Loan in BNP Paribas Bank Polska S.A.	66 721	1M WIBOR /1M LIBOR / 1M EURIBOR / 1M BUBOR + margin	104 812
Loan in ING Bank Śląski S.A. Katowice branch	106 360	1M WIBOR /1M EURIBOR / 3M BUBOR + margin	60 873
Factoring agreement	-	1M WIBOR + margin	14 154
ING Leasing - leaseback	8 410	1M WIBOR + margin	10 036
Loan in CIB Bank	8 144	fixed interest rate	-
Loan in Raiffeisen Bank Zrt	14 767	fixed interest rate	-
Total loans	**280 829**	-	**296 790**

The structure of loans and borrowings as at 31 December 2023 is as follows:

Loan and borrowing liabilities	**Loan amount by agreement**		**Outstanding amount of loan/borrowing in the currency of utilised loan**		**Outstanding amount of loan/borrowing in PLN**	**Outstanding amount of loan/borrowing in PLN**		
Name (company) along with legal form	**in '000**	**currency**	**in '000**	**currency**	**in '000**	**long-term part**	**short-term part**	**Repayment date**
Bank PEKAO S.A. Dębica branch	50 000	PLN	-	-	20 071	19 832	239	18.12.2027
	50 000	PLN	-	-	42 500	30 000	12 500	18.12.2027*
Bank PKO BP SA Rzeszów branch	15 000	PLN	-	-	1 389	-	1 389	24.04.2024*
	30 000	PLN	-	-	2 711	2 703	8	14.06.2028
ING Bank Śląski S.A. Katowice branch	50 000	PLN	-	-	7 360	6 585	775	31.12.2027
	110 000	PLN	-	-	99 000	66 000	33 000	31.12.2027***
BNP Paribas Bank Polska S.A. Warsaw	60 000	PLN	-	-	12 721	12 373	348	22.12.2027
	54 000	PLN	-	-	54 000	36 000	18 000	22.12.2027****
Bank Handlowy Warsaw branch	30 000	PLN	-	-	9 756	-	9 756	27.02.2024
ING LEASING - Leaseback agreement	11 226	PLN	-	-	8 410	6 650	1 760	31.07.2027
CIB Bank	1 300 000	HUF	-	-	-	-	-	indefinitely
	717 000	HUF	717 000	HUF	8 144	8 144	-	03.04.2025
Raiffeisen Bank Zrt	1 300 000	HUF	1 300 000	HUF	14 767	14 767	-	28.03.2025
Total loans and borrowings			**-**	**-**	**280 829**	**203 054**	**77 775**	

* amount PLN 12,500 thousand repayment in 2024 (1 instalment for Q4 of 2023, 4 instalments at the end of each quarter of 2024 of PLN 2,500 thousand), amount of PLN 30,000 thousand repaid over the next 3 years 2025 - 2027 in instalments of PLN 2,500,000 at the end of each quarter

** amount PLN 1,389 thousand payable in fixed monthly instalments until April 24, 2024

*** amount PLN 33,000 thousand payable by December 31, 2024 (one instalment of PLN 11,000 thousand for Q4 of 2023, two instalments of PLN 11,000 thousand at the end of Q3 and Q4 of 2024), in the next 3 years (2025 - 2027) repayments at the end of Q3 and Q4 of PLN 11,000 thousand each (i.e. PLN 22,000 thousand per year) after the next tranche of PLN 80,000 thousand is released in January 2023.

**** amount PLN 18,000 thousand repayment in 2024 (one instalment for Q4 of 2023, 2 instalments at the end of Q3 and Q4 of 2024 of PLN 6,000 thousand each), amount of PLN 36,000 thousand repaid over the next 3 years 2025 - 2027 in instalments of PLN 6,000 thousand at the end of Q3 and Q4 of each year

(in PLN ‘000)

Loans and borrowings by currency are presented in the table below:

LOANS AND BORROWINGS BY CURRENCY

	As at		*As at*	
	31 December 2023	*31 December 2022*	*31 December 2023*	*31 December 2022*
	currency value	*currency value*	*PLN value*	*PLN value*
PLN	257 918	296 790	257 918	296 790
HUF	2 017 000	13	22 911	-
Total loans and borrowings			**280 829**	**296 790**

Changes to the balance of interest-bearing loans and borrowings as at 31 December 2023 are presented in the table below:

	2023	2022
At the beginning of the period	**296 790**	**286 658**
proceeds form borrowings	183 334	383 202
repayment	(200 683)	(380 695)
proceeds from sale-leaseback	-	10 676
repayment of the leaseback liability	(1 157)	(640)
interest calculated	24 907	21 370
interest paid	(22 651)	(19 623)
Realized exchange rate differences	-	(3 280)
Foreign currency differences	-	1 687
activated external financing costs	(296)	(2 358)
other	585	(207)
At the end of the period	**280 829**	**296 790**

(in PLN '000)

Loans and borrowings by collateral as at 31 December 2023:

as at 31 December 2023:

Name (company) along with legal form	Collateral	Other
Bank PEKAO S.A. Dębica branch	Contractual joint mortgage in the amount of PLN 30,000,000.00 on real estate located in Pustków along with the assignment of rights under the insurance policy and power of attorney to the Company's accounts in Bank Polska Kasa Opieki S.A. Registered pledge on fixed assets for PLN 32,200,000.00 with assignment of rights under the insurance policy.	Loan for financing current activity PLN 50 million and investment loan PLN 50 million for refinancing of capital expenditures
Bank PKO BP S.A. Rzeszów branch	Registered pledge on fixed assets for PLN 19,761,885.35 with assignment of rights under the insurance policy, promissory note declaration.	Working capital on current account 30 mln for financing current activity, and investment loan PLN 15 million for refinancing of capital expenditures
ING Bank Śląski S.A. Katowice branch	Contractual joint mortgage up to PLN 195,000,000.00 on real estate (Warehouse and Logistics Centre) located in Zawada and blank promissory note.	A credit line with a part of an investment loan in the amount of PLN 110 million (a loan for the purchase of shares in Polifabe Kft) and a part of an overdraft facility up to the amount of PN 50 million with the possibility of using the following currencies: PLN, EUR, and credit sublimits for the following companies: ToC (PLN 10 million), Rafil SA (PLN 3.5 million).
BNP Paribas Bank Polska S.A. Warsaw	Contractual joint mortgage in the amount of PLN 30,000,000.00 on real estate located in Lubzina, PLN 90,000,000.00 on real estate located in Brzeźnica. Registered pledge on finished products located in the finished goods warehouse at Logistic and Warehouse Centre in Zawada up to the amount of PLN 15,000,000.00.	Financing of the Borrower's current activity in the amount of PLN 60 million, investment loan of PLN 54 million to refinance the capital expenditures incurred.
Loan in CITI Bank Handlowy SA in Warsaw	Contractual joint mortgage on real estate of Rafil SA located in Radom in the amount of PLN 37,500,000.00 blank promissory note	Financing of the Borrower's current activity.
ING Leasing - leaseback	blank promissory note	Financing of the Borrower's current activity.
Loan in CIB Bank, Hungary	Collateral on real estate, fixed assets and assignment of receivables up to HUF 1,800,000,000	Financing current activities
Loan in Raiffeisen Bank Zrt	Collateral on real estate and assignment of receivables up to HUF 1,610,000,000	Financing current activities

(in PLN '000)

Loans and borrowings by collateral as at 31 December 2022:

as at 31 December 2022:

Name (company) along with legal form	Collateral	Other
Bank PEKAO S.A. Dębica branch	Contractual joint mortgage in the amount of PLN 30,000,000.00 on real estate located in Pustków along with the assignment of rights under the insurance policy and power of attorney to the Company's accounts in Bank Polska Kasa Opieki S.A. Registered pledge on fixed assets for PLN 32,200,000.00 with assignment of rights under the insurance policy.	Loan for financing current activity PLN 50 million and investment loan PLN 50 million for refinancing of capital expenditures
Bank PKO BP S.A. Rzeszów branch	A joint contractual mortgage in the amount of PLN 120,000,000.00 on the property located in Brzeźnica and a blank promissory note. Registered pledge on fixed assets for PLN 19,761,885.35 with assignment of rights under the insurance policy.	Working capital on current account 80 million to finance current needs - use in PLN, USD, EUR and HUF (up to 40% of the loan, i.e. PLN 13 million, can be used in HUF), investment loan 15 million to refinance capital expenditures.
ING Bank Śląski S.A. Katowice branch	Contractual joint mortgage up to PLN 195,000,000.00 on real estate (Warehouse and Logistics Centre) located in Zawada and blank promissory note.	A credit line with a part of an investment loan in the amount of PLN 110 million (a loan for the purchase of shares in Polifabe Kft) and a part of an overdraft facility up to the amount of PN 50 million with the possibility of using the following currencies: PLN, EUR, HUF, and credit sublimits for companies: ToC (PLN 10 million), Rafil SA (PLN 3.5 million).
BNP Paribas Bank Polska S.A. Warsaw	Contractual joint mortgage in the amount of PLN 30,000,000.00 on real estate located in Lubzina, PLN 90,000,000.00 on real estate located in Brzeźnica. Registered pledge on finished products located in the finished goods warehouse at Logistic and Warehouse Centre in Zawada up to the amount of PLN 15,000,000.00.	Financing of the Borrower's current activity in the amount of PLN 60 million, investment loan of PLN 60 million to refinance the capital expenditures incurred.
Loan in CITI Bank Handlowy SA in Warsaw	Contractual joint mortgage on real estate of Rafil SA located in Radom in the amount of PLN 37,500,000.00 blank promissory note	Financing of the Borrower's current activity.
ING Leasing - leaseback	blank promissory note	Financing of the Borrower's current activity.
ING COMMERCIAL FINANCE POLSKA S.A. in Warsaw (recourse factoring agreement)	A blank promissory note with a promissory note declaration and a power of attorney to administer the funds in the bank accounts of ING Bank Śląski S.A.	Financing the company's on-going operations (non-recourse factoring).
Loan in CIB Bank, Hungary	Collateral on real estate, fixed assets and assignment of receivables up to HUF 1,800,000,000	Financing current activities
Loan in Raiffeisen Bank Zrt	Collateral on real estate and assignment of receivables up to HUF 1,610,000,000	Financing current activities

(in PLN '000)

3.19. Trade and other liabilities as well as accruals

3.19.1 Trade and other liabilities

As at 31 December 2023 trade and other liabilities were the following:

	As at 31 December 2023	*31 December 2022*
Trade and other liabilities	**69 342**	**81 699**
including toward related entities	-	4 273
including toward other entities	69 342	77 426
- incl. remuneration refund liability (granted discounts and returns)	**10 925**	**10 313**
Other liabilities toward other entities	**26 310**	**15 529**
- taxes, customs, insurance and other	11 866	8 277
- remuneration	11 551	5 265
- advances received for supplies	2 057	1 467
- other	836	520
Current income tax liabilities	**392**	**3 356**
Passive accruals	**5 794**	**5 988**
Total liabilities, including	**101 838**	**106 572**
- short-term	101 838	106 572
- long-term	-	-

The currency structure of trade and other liabilities is presented in the table below:

	As at 31 December 2023	*31 December 2022*
Trade liabilities in PLN	48 808	57 693
Trade liabilities in EUR	12 892	21 331
Trade liabilities in HUF	6 998	2 414
Trade liabilities in RON	74	77
Trade liabilities in UAH	539	176
Trade liabilities in BYN	24	8
Trade liabilities in USD	7	-
Trade and other liabilities	**69 342**	**81 699**

(in PLN '000)

In the item: "Passive accruals", the Group presents the following items:

	As at	
	31 December 2023	*31 December 2022*
Consulting services, audits	959	331
Other services	180	217
Other settlements	658	-
Marketing services, bonuses	3 959	5 410
Deferred revenue	38	30
Total passive accruals	**5 794**	**5 988**
- short-term	5 794	5 988
- long-term	-	-

The terms of transactions with related entities are presented in note 3.23.2.

All trade and other liabilities are settled on an on-going basis, within the statutory payment periods.

3.19.2 Liabilities arising from options to purchase minority shares

As at December 31, 2023, the short-term liabilities related to the option to purchase shares held by minorities were recognized in the consolidated financial statements. The measurement manner of the option in question has been described in item 2.4.23.

The total liability as at 31 December 2023 amounted to PLN 33,261 thousand.

The table of movements in the value of the option liability from the acquisition date to the balance sheet date is presented in the table below:

As at 1 January 2023	44 848
liability decrease - as at the balance sheet date	(11 587)
As at 31 December 2023	**33 261**
As at 1 January 2022	42 308
liability decrease - as at the balance sheet date	2 540
As at 31 December 2022	44 848

(in PLN '000)

3.20. Causes of differences between changes in certain items as shown by the statement of financial position and as shown by the statement of cash flows as well as other information on the statement of cash flows

	for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Inventory movement	(8 384)	(11 452)
Inventory movement in the cash flow statement	5 159	8 767
Difference	**(3 225)**	**(2 685)**
exchange differences from translation of financial statements	3 225	2 685
Total difference	**-**	**-**

	for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Balance sheet change in short-term trade and other receivables	(6 579)	2 129
Change in receivables in the cash flow statement	(423)	2 650
difference	**(7 002)**	**4 779**
exchange differences from translation of financial statements	6 813	4 040
acquisition of shares	-	544
tax liability receivables (including compensation)	-	(8 415)
receivables from disposal of shares	158	120
dividend receivables	405	(405)
long-term receivables	(549)	(541)
other adjustments	175	(122)
Total difference	**-**	**-**

	for the period of 12 months ended as at 31 December 2023	*for the period of 12 months ended as at 31 December 2022*
Balance sheet change in liabilities (trade and other liabilities, taxes)	(1 768)	15
Change in liabilities in the cash flow statement	10 943	7 342
Difference	**(12 711)**	**(7 327)**
exchange differences from translation of financial statements	3 576	4 987
lease liabilities	-	(40)
investment liabilities	(603)	1 938
compensation of public liability claims	10 057	509
other adjustments	(319)	(67)
Total difference	**-**	**-**

	for the period of 12 months ended as at 31 December 2023	***for the period of 12 months ended as at 31 December 2022***
Balance sheet change in short- and long-term provisions	3 074	(3 861)
Change in provisions in the cash flow statement	3 322	(3 470)
Difference	**(248)**	**(391)**
exchange differences from translation of financial statements	874	(903)
change recognition in other comprehensive income	-	1 227
other adjustments	85	67
other comprehensive income	(711)	-
Total difference	**-**	**-**

	for the period of 12 months ended as at 31 December 2023	***for the period of 12 months ended as at 31 December 2022***
Increase/decrease in cash and cash equivalents	**47 860**	**6 932**
Cash and cash equivalents at the beginning of the period	19 916	16 190
Impact of exchange rate changes on the balance of cash and cash equivalents	(2 111)	(3 206)
Cash and cash equivalents at the end of the period	**65 665**	**19 916**

3.21. Investment liabilities

As at December 31, 2023, the Group agreed to incur expenditure on property, plant and equipment in the amount of PLN 10,707 thousand. The amounts are to be earmarked to cover expenses connected with development, modernization and acquisition of fixed assets. As at December 31, 2022 the Group's obligation to incur expenditure on property, plant and equipment amounted to PLN 9,817 thousand.

3.22. Contingent liability

As at 31 December 2023 and 31 December 2022 the Group did not have any liabilities under guarantees and sureties granted to other entities.

3.22.1 Legal affairs

There are no proceedings pending which would constitute at least 10% of the Issuer and subsidiaries' share capital.

3.22.2 Tax settlements

Corporate income tax liability for 2016

By decision of December 9, 2022, the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl deemed that in the audited period the parent company overstated its tax-deductible costs by PLN 13.8 million in connection with the expenses incurred to acquire the rights to use intangible assets and indicated a tax arrears of PLN 2.62 million. The parent company paid the tax liability determined by the decision in the amount of PLN 2.62 million along with interest in the amount of PLN 0.88 million in September 2022.

At the same time, the Management Board of the parent company did not agree with the results of the fiscal control and filed an appeal to the Head of the Sub-Carpathian Customs and Tax Office. On December 23, 2022, the parent company was served with the final decision of the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl, upholding the findings of the control. On January 23, 2023, a complaint against the Tax Office's decision was submitted to the Provincial Administrative Court in Rzeszów. In its judgment of April 25, 2023, the Provincial Administrative Court overturned the Tax Office's decision. The Customs and Tax Office in Przemyśl filed a cassation appeal against this judgment to the Supreme Administrative Court. The parent company responded to the cassation appeal, emphasizing the correctness of the decision of the Provincial Administrative Court in Rzeszów. The judgment is not final.

Corporate income tax liability for 2017

In November 2022 a customs and fiscal control was initiated against the parent company regarding the accuracy of the declared tax bases and payment of corporate income tax for 2017.

On June 28, 2023, the representative of the parent company obtained the findings of the Tax Office of June 14, 2023, regarding the reliability of the declared tax bases and the accuracy of calculating and settling corporate income tax for 2017. The findings obtained indicate that the customs and fiscal control against the parent company has been completed. In the aforementioned document, tax office deemed that in the audited period the parent company overstated its tax-deductible costs by nearly PLN 12 million in connection with the expenses incurred to acquire the rights to use intangible assets and indicated a tax arrears of PLN 2.27 million. The Customs and Tax Office's view is consistent with the one expressed regarding the tax liability for 2016.

The parent company's management board, after obtaining recommendations from its representatives, decided not to submit a correction of the CIT return for the period subject to control pursuant to Art. 82 section 3 of the Act of November 16, 2016 on the National Tax Administration, deeming that the settlement of corporate income tax for the period covered by the control was correct.

On October 16, 2023, the representative of the parent company received the Tax Office's decision of October 2, 2023 issued in the first instance. The content of the decision coincides with the content of the control findings. Tax Office determined the parent company's corporate income tax liability for 2017 in the amount of PLN 11.6 million, which is PLN 2.27 million higher than the parent company declared in its CIT tax return. In accordance with the recommendation of the parent company's representatives, an appeal was filed against the decision for 2017, in line with the provisions of law. In order to prevent further default interest from being charged, the Management Board of the parent company decided to pay the tax liability together with interest on the non-final abovementioned decision.

By decision of January 29, 2024, the Head of the Tax Administration Chamber in Rzeszów - acting as an appeal body - overturned the decision of October 16, 2023 and discontinued the proceedings due to its groundlessness. In February 2024, the parent company received a refund of the tax paid for 2017 together with interest.

Summary

In the consolidated annual statement of comprehensive income for 2022, the Management Board of the parent company assessed the risk and recognized the amount of tax arrears paid (PLN 2.62 million) as an increase in the burden in the "Income tax" item, and the cost of interest on tax arrears (PLN 0.88 million) in the "Financial costs" item. In the opinion of the Management Board of the parent company, this estimate reflected the risk associated with an unfavourable outcome for the parent company of the results of both fiscal controls for 2016 and 2017.

The parent company's management board maintains its assessment of the resolution of the CIT tax settlement for 2016 and maintained a provision in the amount of PLN 1.75 million.

Due to the discontinuation of the CIT settlement control for 2017, the provision in the amount of PLN 1.75 million was reversed so that the amount of PLN 1.75 million was recognized in the consolidated statement of financial position as at December 31, 2023 as a tax office receivable, while the consolidated annual statement of comprehensive income for 2023 included a reduction in the tax burden in the "Income tax" item in the amount of PLN 1.31 million and in the "Financial income" item in the amount of PLN 0.44 million.

(in PLN '000)

3.23. Information on subsidiaries and associated entities

The table below presents total amounts of transactions entered into with subsidiaries (not subject to consolidation, except for Plastbud, consolidated by the equity method) during the current and previous fiscal year:

Transactions with affiliates	***for the period ended 31 December 2023 / as at 31 December 2023***	*for the period ended 31 December 2022 / as at 31 December 2022*
Sales	793	686
Purchase	22 857	19 460
Trade and other receivables	-	405
Trade and other liabilities	1 586	3 379

Transactions with personally related entities	***for the period ended 31 December 2023 / as at 31 December 2023***	*for the period ended 31 December 2022 / as at 31 December 2022*
Sales	32	34
Purchase	12 338	11 521
Trade and other receivables	6	6
Trade and other liabilities	304	894

3.23.1 Affiliate

As at 31 December 2023 the Group holds 10.07% of shares in Plastbud Sp z o.o. company (31 December 2022: 10.07%).

3.23.2 Transaction conditions with related entities

Plastbud Sp. z o.o. in Pustkow manufactures paint pigments, which are sold under the Śnieżka brand. Mutual transactions between the companies regard trade of raw materials, products and goods. Transactions between the aforementioned company and the Parent Company are made on equivalent terms to those that prevail in arm's length transactions.

3.23.3 Loan granted to a Member of the Management Board

As at 31 December 2023 and 31 December 2022 the Group did not hold any receivables under loans granted to the members of the Management Board.

3.23.4 Other transactions with participation of members of the Management Board

The Group did not conclude any transactions with the members of the Management Board in the reporting and comparative period.

(in PLN '000)

3.23.5 Remuneration of Issuer's senior executives

Remuneration in the Parent Company:

Remuneration of the Management and Supervisory Boards (without charges):	*Year ended* *31 December 2023*	*31 December 2022*
Management Board	**5 506**	**2 267**
Short-term employee benefits	5 506	2 267
Supervisory Board	**1 681**	**1 435**
Short-term employee benefits	1 681	1 435
Total	**7 187**	**3 702**

Remuneration of senior executives (directors)	*Year ended* *31 December 2023*	*31 December 2022*
Short-term employee benefits (without charges)	5 027	4 488
Total amount of remuneration paid to management and executive personnel	**5 027**	**4 488**

Remuneration in subsidiaries	*Year ended* *31 December 2023*	*31 December 2022*
Management Board	235	241
Senior executives	-	-
Total	**235**	**241**

3.24. Information on remuneration of the key certified auditor or the entitled entity to carry out the audit of financial statements

The table below presents the net remuneration, net of additional costs, of the entity authorized to audit financial statements, for the audit of standalone and consolidated statements, paid or payable for the year ended December 31, 2023 and December 31, 2022, broken down by type of services:

Types of services	*Year ended* *31 December 2023*	*31 December 2022*
Obligatory audit of the financial statements	330	245
Other attestation services*	154	33
Audit of the interim financial statements	86	40
Total	**570**	**318**

* Report on the compliance of the format of the consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF") and Evaluation of the remuneration report for 2023 and the attestation service of selected non-financial ESG indicators.

The table below presents the net remuneration without additional costs of the entity authorized to audit financial statements for the audit in the capital group.

Types of services	*Year ended* *31 December 2023*	*31 December 2022*

Statutory audit within the meaning of Art. 2 item 1 of the Act on statutory auditors	416	326
Total	**416**	**326**

3.25. Objectives and principles of financial risk management

The main financial instruments used by the Group are bank loans, bonds, leasing contracts, cash and short-term deposits. The main objective of these financial instruments is to raise funds for the Group's operations. The Group holds also other financial instruments such as trade receivables and payables which arise directly in the course of its business. The details are provided in note 3.12.

The main types of risk resulting from the Group's financial instruments include interest, currency, liquidity and credit risk. The Management Board verifies and agrees on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Group also monitors the risk of market prices applicable to all financial instruments managed by it.

3.25.1 Interest rate risk

Exposing the Group to risk resulting from changes in interest rates refers mainly to short-term and long-term financial liabilities.

Currently, the Śnieżka Group takes advantage of variable interest rates, does not conclude additional contracts to alter the interest rates (interest rate swaps). Poli-Farbe uses a preferential loan based on a fixed interest rate.

The table below presents the sensitivity of the gross financial result to potential changes in interest rates, assuming that other factors remain unchanged (in connection with liabilities with a variable interest rate). Determining the potential change in interest rates was calculated based on its recent volatility, i.e. from the previous two years, calculated on the basis of historical volatility using the standard deviation method. In 2022, the standard deviation was 1.67%, while in 2023 - 0.45%. These results were subject to the professional judgment of the Management Board in terms of their stability and the expectations of the economic environment in which the Issuer operates. The volatility in 2023 differed from the one in 2022 by 1.21%, so the Management Board considered the potential change to be stable and adopted 1% for the sensitivity analysis. The analysis was limited to debt in PLN, since debt in HUF was based on a fixed interest rate. The impact on the Group's equity and comprehensive income has not been presented.

Loans	In PLN '000	Currency (in '000)	Increase/decrease of interest rate	Impact on gross profit/loss in PLN '000
Year ended as at 31 December 2023				
PLN	257 918	257 918	+1%	(2 579)
HUF	22 911	2 017 000	+0%	-
EUR	-	-	+1%	-
PLN	257 918	257 918	-1%	2 579
HUF	22 911	2 017 000	-0%	-
EUR	-	-	-1%	-
Year ended as at 31 December 2022				
PLN	296 790	296 790	+1%	(2 968)
HUF	-	13	+1%	-
EUR	-	-	+1%	-
PLN	296 790	296 790	-1%	2 968
HUF	-	13	-1%	-
EUR	-	-	-1%	-

(in PLN '000)

The table below presents the carrying amount of Group's financial instruments exposed to interest rate risk, by age categories.

31 December 2023						
Variable interest rate	**< 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Total**
Overdraft facility	11 126	-	-	38 790	2 703	52 619
Interest-bearing loans	66 649	68 817	46 064	46 680	-	228 210

31 December 2022						
Variable interest rate	**< 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**1-5 years**	**Total**
Overdraft facility	20 808	-	-	-	123 724	144 532
Interest-bearing loans	48 959	30 649	23 907	24 064	24 679	152 258

Interest rates on financial instruments with variable interest is updated in periods up to one year. Interest on financial instruments with fixed interest rate are fixed for the whole period until maturity date. Other financial instruments of the Group, which have not been presented in the above tables, are not subject to interest and as a result are not subject to interest rate risk.

In 2023, interest rate fluctuations stabilized, which led to their reduction compared to 2022. The reference WIBOR1M interest rate decreased from 6.93% as of December 29, 2022 to 5.80% as of December 29, 2023.

3.25.2 Currency risk

The Śnieżka Group is exposed to currency risk due to concluded transactions. The said risk results from sales or purchases carried out by the Group in currencies other than its reporting currency.

In 2023, the Group realized forwards, which were acquired between June and October of 2023. These instruments constituted cash flows hedges resulting from purchases of raw materials in Euro. The total value of hedging instruments realized in 2023 related to raw materials used in production amounted to PLN 208 thousand. In 2022 the Group acquired forwards, which served as collateral for cash flows resulting from purchases of raw materials in Euro. The total value of hedging instruments realized in 2022 related to raw materials used in production amounted to PLN 38 thousand. As at December 31, 2023, the Group had unrealized hedging instruments related to the purchase of raw materials. The valuation amount of unrealized hedging instruments related to the purchase of currency transferred to the revaluation capital is PLN 323 thousand adjusted for deferred tax assets in the amount of PLN 61 thousand, which accounts for a total amount of PLN 262 thousand.

The table below presents open positions (all transactions are FX Forward):

Amount [EUR]	**Maturity date**
2 500 000	15.01.2024
2 500 000	15.02.2024
2 500 000	15.03.2024
2 500 000	15.04.2024

The rule applied by the Group now and throughout the reporting period is not to engage in instruments trading.

The main types of risk resulting from the Group's financial instruments include interest, currency, liquidity and credit risk. The Management Board verifies and agrees on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Group also monitors the risk of market prices applicable to all financial instruments managed by it.

(in PLN '000)

The Group's accounting principles related to derivative instruments have been summarized in note 2.4.14.

As at the balance sheet date, the Group had loans in the following foreign currencies: PLN, HUF, while the value of trade receivables amounted to (rounded to PLN 1 million) PLN 59 million, and the value of trade liabilities was PLN 101 million (rounded to PLN 1 million). The value of receivables in EUR amounted to PLN 1.9 million, while the value of liabilities was PLN 10.9 million. The difference is therefore an amount of EUR 9.05 million expressed in EUR. Taking into account the average EUR/PLN exchange rate at the end of the year, this accounts for PLN 39.4 million. The standard deviation of the 2023 average rates was 0.1290. Which translates into an exchange rate volatility of 2.84%. Comparing the volatility from 2023 to the net exposure (liabilities - receivables) at risk, it accounts for PLN 1.1 million. This value is irrelevant from the point of view of the scale of the Group's business.

3.25.3 Credit risk

The Śnieżka Group concludes transactions with reputable companies which have a good credit rating. All customers willing to take advantage of trade credit, are subject to procedures of initial verification. In addition, owing to current monitoring balances of receivables, the Group's exposure to the risk of non-collectible debts is insignificant. The calculation of expected credit losses in relation to trade receivables is presented in note 3.15.

With regard to other financial assets of the Group, such as cash and cash equivalents, and certain derivatives, credit risk arises for the Group if the other party to an agreement fails to pay, and the maximum exposure to this risk is equal to the carrying amount of those instruments.

Cash and short-term deposits as at December 31, 2023 in the amount of PLN 65,665 thousand are accumulated in the following banks, which have adequate equity and an established market position.

	Bank RATING	**PLN value**
Bank Pekao S.A. **	BBB+	469
PKO BP SA ***	A2	650
City Handlowy in Warsaw S.A **	A-	365
ING Bank Śląski SA **	A+	8 840
BNP Paribas Bank Polska SA **	A+	2 486
MTBank	none	178
CIB Bank **	BBB	4 554
Raifeissen Bank ***	A3	24 385
JSC State Savings Bank of Ukraine (Oszczabank) **	CCC-	1 142
KredoBank *	A2	22 589
Other cash	-	7
Total:		**65 665**

* FitchRating, ** Moody's

(in PLN '000)

As at 31 December 2022 cash and short-term deposits were accumulated in the following banks:

	Bank RATING	**PLN value**
Bank Pekao SA *	BBB	570
PKO BP SA **	A2	3 574
City Handlowy in Warsaw SA *	A-	248
ING Bank Śląski S.A. *	A+	2 597
BNP Paribas Bank Polska SA *	A+	1 886
PRIOBank	none	10
MTBank	none	62
CIB Bank *	BBB	2 222
Raifeissen Bank **	A3	4 349
JSC State Savings Bank of Ukraine (Oszczabank) *	CCC-	1 499
KredoBank *	A2	2 893
Other cash	-	6
Total:		**19 916**

* Standard Rating Agency, ** Fitch, *** Moody's

Given the short-term nature of the investment and the well-established position of banks, it is considered that the credit risk for cash and bank deposits is low. No particular concentration of credit risk occurs within the Śnieżka Group.

3.25.4 Liquidity risk

Liquidity risk is related to the company's ability to repay current liabilities and the ability to obtain funds to finance its operations, both from the banking system and trade credit.

The Śnieżka Group monitors liquidity risk of funds shortage using the tool for periodic planning of liquidity. This tool takes into account due dates/maturities of both investments and financial assets (e.g. receivable accounts, other financial assets and projected cash flows from operating activities. The Group's objective is to maintain a liquidity buffer by using various sources of financing, such as overdrafts, bank loans, financial leases agreements and lease agreements with a purchase option.

The table below presents the available credit limits and financial liabilities of the Śnieżka Group as at December 31, 2023 by maturity date based on contractual undiscounted payments at nominal value. The Group has derivative and non-derivative financial liabilities. The details are presented in the table below:

	Maturity within the period of			
	up to 3 months	**from 3 to 12 months**	**from 1 to 5 years**	**over 5 years**
Non-derivative financial liabilities	138 762	74 886	226 417	454
Derivative financial liabilities	269	54	-	-
Available limits during the maturity period *	454 567	420 597	356 948	454
Liquidity buffer	**315 536**	**345 657**	**130 531**	**-**

*cumulative value in a given range

The Group actively manages liquidity risk by:

- limiting and monitoring trade credit to individual clients depending on their financial condition and development dynamics,
- applying financial instruments (e.g. factoring).

In this process, the Group takes advantage of modern tools and procedures as well as cooperation with business intelligence agencies. The policy of establishing trade credit limits and payment terms and conditions is closely related to bonuses granted to customers for timely payments, which additionally protects the Group's interests. Trade credit limits and other risks related to sales development are secured by:

(in PLN '000)

- real estate mortgages;
- statements on submission to enforcement,
- bill of exchange;
- bank guarantees.

As at December 31, 2023, the Group settled its liabilities in a timely manner.

To summarize the liquidity management method, it should be noted that:

- The Group monitors the maturity dates of both assets and liabilities on an on-going basis,
- The Group monitors forecast cash flows from operating activities on an on-going basis,
- the basic sources of financing are bank loans and leasing,
- the goal is to maintain a safe liquidity buffer in each maturity period.

Liquidity risk management is one of the key elements of financial risk management for the Group, thus the Group gave a lot of attention to this aspect in the consolidated financial statements for 2023 - note 2.4.13 Financial assets, last point, and note 2.4.18 Cash and cash equivalents. In the report on activities - item 7.5. Financial ratios in the Group's liquidity and debt ratios section, item 8.2.5. Financial risk in the Liquidity risk section.

	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
31 December 2023					
Interest-bearing loans and borrowings	37 090	39 662	223 737	-	300 489
Lease liabilities	224	1 963	2 680	454	5 321
Trade and other liabilities	101 448	-	-	-	101 448
Liabilities under option in minority ownership	-	33 261	-	-	33 261
Total	**138 762**	**74 886**	**226 417**	**454**	**440 519**

	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
31 December 2022					
Interest-bearing loans and borrowings	5 629	69 021	242 915	-	317 565
Lease liabilities	197	881	3 712	823	5 613
Trade and other liabilities	103 216	-	-	-	103 216
Liabilities under option in minority ownership	-	44 848	-	-	44 848
Total	**109 042**	**114 750**	**246 627**	**823**	**471 242**

(in PLN '000)

3.26. Hedges

In 2023, the Issuer did not hedge the risk of change in the value of net assets as part of the net investment in the Poli-Farbe Company in connection with the change in the HUF exchange rate against PLN, since this hedge expired in 2022. The hedged item were net assets in Poli-Farbe, the hedging instrument was a loan in HUF concluded for a period of 2 to 5 years by the parent company. As at 31 December 2022, the HUF loans were repaid and the hedge ceased.

3.27. Capital management

The main objective of the Group's capital management is to maintain favourable credit rating and safe level of equity ratios that would support the Group's operating activities and increase the value for its shareholders.

The Group manages its capital structure and adjusts it, in response to changing economic conditions. In order to maintain or adjust its capital structure, the Group may change dividends payments to shareholders, return capital to shareholders or issue new shares. In the year ended as at 31 December 2023 and 31 December 2022, no major changes were implemented to objectives, principles and processes applicable within this area. The Śnieżka Group monitors its debt applying the net debt/EBITDA ratio. Net debt include interest-bearing loans, borrowings and lease liabilities less cash and cash equivalents. At the end of 2023, the net debt/EBITDA ratio was at 1.37 level. The Group's strategic goal is indebtedness at the level of one EBITDA, yet during the period of larger investments the Group allows for safe indebtedness at the level of 3 x EBITDA.

EBITDA is an alternative measure of the bottom line calculated in the case of the Group as operating profit increased by depreciation. The level of this profit reflects the ability of the Group to generate cash in recurring conditions, yet it is not a measure of liquidity or cash. The EBITDA level is not defined by the EU IFRS and may be calculated differently by other entities.

	2023	***2022***
Interest-bearing loans and borrowings	280 829	296 790
Leasing	5 321	5 613
Cash and cash equivalents	(65 665)	(19 916)
Net debt	**220 485**	**282 487**
Profit from operating activities	121 004	69 421
Depreciation	38 411	36 756
EBITDA	**159 415**	**106 177**
Net debt / EBITDA	**1.38**	**2.66**

3.28. Employment structure

An average employment rate within the Group for the year ended as at 31 December 2023 and 31 December 2022 was the following:

	Year ended	
	31 December 2023	*31 December 2022*
White-collar workers	895	882
Blue-collar workers	245	268
Total	**1 140**	**1 150**

3.29. Climate risk

Environmental and climatic aspects are monitored on a regular basis and managed in a responsible manner in the Śnieżka Group. Due diligence in this area is maintained, inter alia: by implementing its own good practices related to environmental protection and limiting the impact of its activities on the climate.

The Group treats environmental risk in a multidimensional manner and strives to identify the full range of potential negative effects of its activities on the environment. The analyses are used to plan and take actions to mitigate risks and minimize negative impacts, and the entire process is part of the sustainable management of the Group companies.

All operations related to the core business of the Śnieżka Group, i.e. collection and processing of raw materials, production, storage and transport of products, may have a negative impact on the environment.

Some activities in the Group's value chain feature high carbon intensity. This applies, for example, to the production of packaging from petroleum products or the acquisition of some raw materials.

Therefore, the Group identifies the risk of impact on the business model and the results of future European Union regulations - they may limit the permissible emission and energy consumption of production plants in the EU.

In order to prevent the materialization of this risk, the Group has adopted the obligations described in the Śnieżka Group's 2023+ Sustainable Development Strategy, the Śnieżka Group's climate policy, and the Śnieżka Group's quality, environment and health and safety policy.

Following the risk analysis conducted in 2023, the Group identified risks that could affect its financial situation and performance. At the same time, the Management Board of the parent company, supported by area directors, makes every effort to constantly monitor and mitigate key risks that could generate potential financial consequences or affect the Group's business model. The identified risks did not significantly affect the Group's financial situation and performance in 2023.

This issue is described in more detail in the Report on the Management Board's activities for 2023 in item 8.3.1 and 8.3.2.

3.30. The impact of the armed conflict in Ukraine on the Group

The situation in Ukraine

In 2023, Ukraine's economy slowly recovered from the initial shock related to the pending war, which contributed to extensive damage to the national economy.

According to the Group's data, 2023 was a relatively positive year for paint and varnish producers, despite the on-going war in Ukraine. Companies in the industry operated more stably than in 2022. Most of them have resumed production activities in regions where it is possible.

Given the situation in Ukraine, the performance of the Group on this market in 2023 turned out to be higher than anticipated. There was an increase in demand for decorative paints and construction chemicals compared to the level recorded immediately after the outbreak of the war and throughout 2022. This is primarily the effect of a moderately better situation in the western and central regions of Ukraine, where renovation works have been partially recommenced.

According to the Company's knowledge at the time of the publication of this report, the property of Śnieżka-Ukraina is not endangered (its production plant is located in Yavoriv, Lviv region).

The note 3.1 of this report presents the Group's revenues on the Ukrainian market and the Group's assets located in Ukraine.

The exposure to risk of assets held in Ukraine as at December 31, 2023 is as follows:

Data in PLN '000	31 December 2023
Tangible fixed assets	17 315
Inventory	8 634
Short-term receivables	4 299
Cash	23 734
Other assets	403
Total assets	**54 385**
Equity	**49 039**

At the moment, there are no premises that would indicate the loss of the ability to continue business operations in Ukraine.

The company's receivables in Ukraine are not at risk, the sale is partly subject to prepayment terms. No reasons occur to create increased write-offs for receivables.

The on-going armed conflict in Ukraine may have a significant impact on the performance of Śnieżka-Ukraina in 2024, consequently, of the entire Capital Group. Due to external factors and the current market situation, the Company's Management Board is currently unable to estimate the impact of this situation on the future performance. Having analysed the situation of 2023, however, it should be noted that the final sales performance of the Ukrainian company in this period turned out to be better than expected.

The Management Board of the Company indicates, however, that the circumstances on the Ukrainian market remain uncertain and demanding. It constantly monitors the situation related to the war in Ukraine and its regional and global consequences, adapting actions and plans to the current circumstances.

The markets in which the Group companies operate and the Group's operations are and/or may be influenced by the following factors:

- a decrease in the real purchasing power of society on the Group's main sales markets as a result of inflation and economic slowdown or recession, and consequently, reduced demand for the Group's products;
- the Group's property insurance contracts contain standard clauses excluding the insurer's liability in the event of war;
- disturbances in the supply chains of imported raw materials, components and fuels, as well as temporarily constricted access to some of them;
- downgrading of ratings for selected countries from the conflict region and a general further increase in the risk of conducting business activities in those countries, which may ultimately translate into higher costs for selected Group companies operating on these markets;
- new hardships in the operation of the Śnieżka-Ukraina plant, resulting from, for example, lack of access to qualified employees or conscription of current employees for military service;
- extension of communication routes to selected countries and the resulting increase in transport costs;
- decline in consumer sentiment in the Group's key markets and the resulting possible drop in demand in the Group's main markets.

The Śnieżka Group also continues to monitor its core markets, constantly verifying, inter alia, the impact of the armed conflict in Ukraine on the condition of economies, the sentiment and financial condition of consumers or their purchasing plans.

In 2023, the Capital Group continues the principles of converting financial statements of foreign companies introduced last year, which is described in more detail in item 2.2.9. of this report.

In accordance with IAS 36 "Impairment of assets" in connection with the on-going war in Ukraine, the Capital Group analysed the key assets located in Ukraine. The analysis provided indications of a significant risk of asset impairment and their impact on future estimated cash flows. The Group performed an asset impairment test. The test result did not indicate the need to make impairment write-off on assets in the consolidated statements prepared as at December 31, 2023. The details are described in note 2.2.7.

The situation in Belarus

The armed conflict in Ukraine, sanctions imposed on Belarus and constant legal changes in Belarus contribute to the fact that conducting business activities on the Belarusian market is connected with a number of risks, however, the management board of the parent company constantly identifies risks that may affect the activities of the Company and the Group on the Belarusian market.

The main risk is the unstable socio-political situation in Belarus, particularly the activities carried out by the Belarusian government, which result in difficulties in trade with European Union countries, including Poland. The policy pursued by the Belarusian authorities may end up in further sanctions imposed on this country, which will result in a reduction in exports, a reduction in Belarusian GDP and an increase in currency risk (devaluation of the Belarusian ruble).

The Parent Company's Management Board also monitors the dynamically changing conditions on the Belarusian market on an on-going basis and adapts its activities and plans to the current circumstances. The company conducts operational activities in Belarus and at the moment there are no indications to discontinue its operations in the future. The sales process is not interrupted. The demand for the company's products in Belarus in 2023 was lower than in 2022. The receivables are not at risk, the sale is partly subject to prepayment terms. No reasons occur to create increased write-offs for receivables.

Due to external factors and the current market situation, the Parent Company's Management Board is currently unable to estimate the impact of the war on the Group's future performance on the said market.

Due to the introduction of further legal restrictions in Belarus, external premises occurred indicating the need to conduct impairment tests for fixed assets located in Belarus in accordance with IAS 36 "Impairment of assets". Following the test, a result was obtained indicating impairment of non-current assets. Therefore, in the financial statements for 2023, the Group recognized an impairment write-off of these assets. The assumptions adopted by the Group regarding the test are detailed in note 2.2.7.

In 2023, the Capital Group continues the principles of converting financial statements of foreign companies introduced last year, which is described in more detail in item 2.2.9. of this report.

The exposure to risk of assets held in Belarus as at December 31, 2023 is as follows:

Data in PLN '000	**31 December 2023**
Tangible fixed assets	1 658
Impairment write-off	(1 140)
Inventory	491
Short-term receivables	20
Cash	179
Other assets	1
Total assets	**1 209**
Equity	**1 636**

3.31. Risks

The changing economic, social and political environment - in Poland and on other foreign markets where the individual Group companies operate (mainly Hungary and Ukraine) - may adversely affect the Group's operations and its business and performance.

Risk associated with macroeconomic situation for the Śnieżka Group is mainly connected with:

- consequences of the war in Ukraine,
- lowering the purchasing power of society as a result of economic slowdown or recession,
- deterioration of the construction industry's condition,
- monetary and housing policy,
- the condition and credit policy of banks.

The factors and phenomena indicated above may in the future affect the Group's performance on individual markets. At the same time, the Management Board, supported by area directors, makes every effort to constantly monitor and mitigate key risks that could generate potential financial consequences or affect the Group's business model.

Macroeconomic risk has been extensively described in the Report on the activities of the Capital Group in item 8.2.1 Risk related to the macroeconomic situation.

3.32. Events after the balance sheet date

In January 2024 the Parent Company received a decision of 29 January 2023 from the Head of the Tax Administration Chamber in Rzeszów - which acting as an appeal body - overturned the decision of 2 October 2023 in the corporate income tax for 2017 and discontinued the proceedings due to its groundlessness. Further information regarding this subject is presented in item 3.22.2.