CAPITAL GROUP
Bolix S.A.
Consolidated Financial Statements
as at and for the year ended on
31 December 2022
Compliant with International Financial Reporting Standards endorsed by the European Union (EU IFRS)

Bolix S.A.

Financial Statements as at and for the year ended 31 December 2022

Table of Contents

	Page
Consolidated Statement of Comprehensive Income	**3**
Consolidated Statement of Financial Position	**4**
Consolidated Statement of Cash Flows	**5**
Consolidated Statement of Changes in Equity	**6**
Notes to Financial Statements	**7**

Consolidated Statement of Comprehensive Income for the year ended 31 December 2022

PLN '000	**Note**	**2022**	**2021**
Sales revenue	4A	201,559	194,897
Cost of goods sold	3B	(124,907)	(113,834)
Gross profit on sales		**76,652**	**81,002**
Other operating income	4B	779	632
Selling expenses	3A	(57,342)	(51,277)
Overhead expenses	3A	(12,598)	(10,874)
Other operating expenses	5	(65)	(72)
Profit on operating activity		**7,426**	**19,412**
Financial income	6	75	654
Financial expense	7	(2,763)	(444)
Loss on financing activities		**(2,688)**	**210**
Non-controlling interests		**650**	**37**
Earnings before taxation		**5,388**	**19,659**
Income tax expense	9A	(800)	(5,846)
Net profit for the year		**4,588**	**13,813**
Exchange differences		**(652)**	**(63)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**3.936**	**13,750**

The statement of comprehensive income to be read in conjunction with the supplemental notes which are an integral part of the financial statements.

Consolidated Statement of Financial Position as at 31 December 2022

PLN '000	**Note**	**31.12.2022**	**31.12.2021**
Assets			
Tangible assets (PP&E)	10	46,283	36,942
Goodwill	11	104,431	104,431
Intangible assets	11	869	1,113
Investments using equity method		923	273
Total non-current assets		152,506	142,759
Inventory	12	17,777	16,915
Trade and other receivables	13	31,931	33,067
Income tax receivables		821	-
Other current assets	14	2,953	3,279
Loans granted	15	2,161	-
Cash and cash equivalents	16	1,636	2,499
Total current assets		57,279	55,761
Total assets		**209,785**	**198,519**
Equity			
Share capital	17	10,000	10,000
Statutory reserve	17	101,042	95,849
Exchange differences		(161)	491
Retained earnings		16,446	21,967
Total equity		127,327	128,307
Liabilities			
Borrowings	18	4,105	5,333
Provision for deferred tax liabilities	9B	15,075	15,399
Payroll and other benefits	19	310	410
Leases	10	5,606	3,520
Total long-term liabilities		25,096	24,662
Borrowings	17	20,734	14,063
Trade payables and other liabilities	21A	27,339	21,926
Leases	10	2,477	1,869
Income tax		538	1,436
Payroll and other benefits	21B	4,543	4,778
Provisions for liabilities	20	1,731	1,478
Total short-term liabilities		57,362	45,550
Total liabilities		82,458	70,212
Total equity and liabilities		**209,785**	**198,519**

The statement of financial position to be read in conjunction with the supplemental notes which are an integral part of the financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2022

PLN '000	Note	2022	2021
Cash flows from operating activities			
Earnings before tax		5,388	19,659
Adjustments:			
Depreciation of tangible assets (PP&E)	10	7,011	6,040
Amortisation of intangible assets	11	313	293
Unrealised exchange differences		-	-
Interest expense, net		2,561	318
Gains from sale/recovery of tangible assets (PP&E)	4B	(421)	(321)
		14,851	25,989
Changes in working capital:			
Change in inventory		(862)	(5,719)
Change in trade and other receivables		1,136	(7,992)
Change in other assets		326	(847)
Change in provisions		253	724
Change in liabilities (incl. payroll and other benefits)		8,288	4,802
		9,141	(9,032)
Interest paid		(61)	-
Income tax paid		(4,144)	(4,034)
Net cash flow from operating activities		19,787	12,923
Cash flows from investing activities			
Sale of tangible assets (PP&E)		713	558
Loans granted		(2,161)	-
Acquisition of tangible assets (PP&E)	10	(14,096)	(12,977)
Acquisition of intangible assets	11	(69)	(1,292)
Net cash flow from investing activities		(15,613)	(13,711)
Cash flows from financing activities			
Borrowings		5,443	10,656
Repayments			-
Interest paid on borrowings		(2,099)	(223)
Interest paid on leases		(401)	(95)
Principal repaid on leases		(3,065)	(2,468)
Dividends paid		(4,915)	(6,274)
Net cash flow from financing activities		(5,037)	1,596
Change in cash and cash equivalents, net		(863)	808
Cash and cash equivalents at the start of year		**2,499**	**1,691**
Effect of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at the end of year	16	**1,636**	**2,499**

The statement of cash flows to be read in conjunction with the supplemental notes which are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

PLN '000	Share capital	Statutory reserve	Exchange differences	Retained earnings	Total
1 January 2021	**10,000**	**88,469**	554	**21,808**	**120,831**
Comprehensive income for the year					
Net profit for the year	-	-	-	13,813	13,813
Exchange differences - subsidiaries	-	-	(63)	-	(63)
Comprehensive income for the year	**-**	**-**	**(63)**	**13,813**	**13,750**
Allocation of 2020 profit to statutory reserve	-	13,654	-	(13,654)	-
Dividend	-	(6,274)	-	-	(6,274)
Increase (decrease) in equity	**-**	**7,380**	**-**	**(13,654)**	**(6,274)**
31 December 2021	**10,000**	**95,849**	**491**	**21,967**	**128,307**
Comprehensive income for the year					
Net profit for the year	-			4,587	4,587
Exchange differences - subsidiaries	-	-	(652)	-	(652)
Comprehensive income for the year	**-**	**-**	**(652)**	**4,587**	**3,935**
Allocation of 2021 profit to statutory reserve	-	10,108		(10,108)	- -
Dividend	-	(4,915)	-	-	(4,915)
Increase (decrease) in equity	**-**	**5,193**	**-**	**(10,108)**	**(4,915)**
31 December 2022	**10,000**	**101,042**	**(161)**	**16,446**	**127,327**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

1. Major changes in accounting policies

(a) General

The dominant entity:
Name: Bolix S.A. (Polish joint-stock company)
Registered office: ul. Stolarska 8, 34-300 Żywiec (Poland)
Company number (KRS): 0000230009, District Court in Bielsko-Biała, 8th Commercial Division

Subsidiaries consolidated in Bolix Capital Group financial statements.

Subsidiary	Registered office	Equity interest
BUILD TRADE sp. z o.o.	34-300 Żywiec, ul. Stolarska 8	100%
Bolix UKRAINE (Ltd.)	Ul. Promyslowa, 10 m. Vysneve, Kyievskaia oblast Ukraine 08132	99% BOLIX S.A. 1% BUILD-TRADE Sp. z o.o.
SOLTHERM EXTERNAL INSULATIONS LIMITED	Challenge House Sherwood Drive Bletchley Milton Keynes MK3 6DP, UK	100%
SOLTHERM INSOLATIONS THERMIQUE EXTERIEURE SAS (Ltd.)	14 rue Charles V 75004 Paris 04 France	100%

Bolix S.A. (dominant entity) was established on 13 February 2003. Its registered office is in the town of Żywiec in Poland. The Capital Group started operating in September 2003 when it acquired the business of Bolix Sp. z o.o.

On 7 March 2005, based on the General Meeting resolution of 14 February 2005, the Parent changed the legal form from a Polish limited liability company (Bolix Sp. z o.o.) to a joint-stock company called Bolix S.A. Since 18 August 2008, the sole controlling shareholder has been Lusako Trading Limited, a Cyprus company (HE 195096) which is a member of Berger Paints India Limited group.

Bolix Capital Group ("Group") consists of Bolix S.A. and its subsidiaries. The principal business of Bolix Capital Group is the manufacture and sale of exterior insulation finishing systems (EIFS), including acrylic, silicate and mineral plasters, adhesion materials, roofing and insulation materials, mortars and various types of paint, under *Bolix* brand. The sale operations are carried out in Poland and abroad. Foreign sales include transactions with customers based in the UK, France, Ukraine, Russia, Lithuania, Latvia, Slovakia, Germany, Belgium and many others.

Build-Trade spółka z ograniczoną odpowiedzialnością is a Polish limited liability company established in 2010. On 20.10.2010, it was registered in the National Court Register under company number (KRS) 0000368408. It started its activities in May 2011.
Bolix Ukraina is a Ukrainian limited liability company named
ТОВ «Болікс Україна» (вул. Промислова, буд. 10 м. Вишеневе, Київська обл, Україна 08132). It was established in 2011 and registered in Ukraine under company number 37716684.
Its operations commenced in 2012.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Soltherm External Insulation Limited operates in the UK and was established on 22 January 2016 when it started operating.
Soltherm Insolations Thermiqure Exterieure is based in France and has been operating since 11 July 2016 after a shareholder buyout by Bolix S.A.

Principal activities of Capital Group subsidiaries

Capital Group	Main business objects
Bolix S.A.	**Manufacture and sale of construction materials – PKD 23.64z** **Wholesale of wood, construction and sanitary materials – PKD 46.73z** **Rental of other machinery – PKD 77.39z**
BUILD-TRADE sp. z o.o.	**Agents involved in the sale of wood and construction materials – PKD 46.13z**
Bolix UKRAINE	**Trading activities - wholesale of building materials;** **Manufacture of dry construction mixes**
SOLTHERM EXTERNAL INSULATIONS LIMITED (UK)	**Distribution, marketing, consulting and sales support services**
SOLTHERM INSOLATIONSS THERMIQUE EXTERIEURE (French Ltd.)	**Distribution, marketing, consulting and sales support services**

On 9 January 2018, shares were acquired in Surefire Management Services Ltd. (SMS Ltd.). Bolix owns 75% of Surefire Management Services Ltd. However, it shares control of that company as it holds the right to appoint only 2 out of 4 executives. Surefire Management Services Ltd is reported using the equity method.

In 2022, SMS Ltd. generated PLN 92,940 thousand in revenue, yielding a net profit of PLN 866 thousand. The total assets in the balance sheet amount to PLN 23,427 thousand (current assets only).

Duration of Capital Group companies

The members of the Capital Group have been registered for an indefinite period.

Period of consolidated financial statements

The consolidated financial statements of BOLIX Capital Group cover data from the financial year beginning on 1 January 2022 and ending on 31 December 2022. The compared data come from the period of 1 January 2021 to 31 December 2021.
The consolidated financial statements for the financial year ended 31 December 2022 have been prepared in line with International Financial Reporting Standards as endorsed by the European Union (EU IFRS).

(b) Statement of IFRS compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as endorsed by the European Union ("EU IFRS").

According to the Extraordinary General Meeting Resolution of 24 January 2008, which was adopted pursuant to Article 45(1c) of the Accounting Act of 29 September 1994 ("Act"), since 1 January 2007 the Company has been preparing its financial statements by following regulatory requirements of EU IFRS.

The consolidated financial statements were approved by the Management Board on April 18 2023.

(c) Basis of financial statements

The financial statements assume going concern in the foreseeable future. As at the date of their approval there are no circumstances indicating any threat to the going concern of the Capital Group.

In the opinion of the Management Board, the Capital Group make timely repayment of its short-term liabilities, which are chiefly bank loans, thanks to the positive cash proceeds from its operating activities.

The Management Board bases such assessment the outcome of measures which were taken to ensure lease contract financing from different financing institutions as well as credit lines.

The consolidated financial statements were prepared according to the historical cost convention, except for financial assets and financial liabilities that are measured at fair value through profit or loss.

The consolidated financial statements prepared according to IFRS EU require that the Management Board makes judgments, estimations and assumptions impacting the adopted accounting policies and the presentation of the value of assets, liabilities and equity, revenues and expenses which may turn out different than originally estimated.

(d) Significant estimates

Estimations and the related assumptions are subject to ongoing review. Changes in accounting estimates are recognised prospectively from the period in which the estimate becomes changed.

The particularly significant areas of uncertainty in judgements which were made based on the accounting policies and had the most significant impact on the values recognised in the financial statements are described in Notes 8, 9, 10, 12, 19 and 20.B.

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

New and amended standards and interpretations:

The following new standards and amendments to existing standards which has become effective in 2022 were applied for the first time towards these consolidated financial statements:

a) Amendments to IFRS 3 'Business Combinations'
The amendments were published in May 2020 and are intended to update relevant references used in IFRS Conceptual Framework, with no substantive changes concerning the accounting of business combinations.

b) Amendments to IAS 16 'Property, Plant & Equipment'

The amendments to IAS 16 'Property, Plant and Equipment' regulate the cost to produce tangible assets (PP&E) and proceeds from the sale of items manufactured when testing them. The amended standard requires that proceeds from the sale of test output as well as related expenses be recognised in the statement of income, without the option to adjust the value of developed tangible assets (PP&E) by such amounts.

c) Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

The amendments to IAS 37 clarify which expenses need to be included when assessing whether a contract will be loss-making and hence is an onerous one.

d) Annual Improvements to IFRS 2018-2020 Cycle

The annual improvements to IFRS in 2018-2020 introduced changes to the following standards: IFRS 1 'First-time Adoption of International Financial Reporting Standards', IFRS 9 'Financial Instruments', IFRS 9 'Financial Instruments', IAS 41 'Agriculture', and examples that illustrate IFRS 16 'Leases'.
The amendments clarify and provide further detailed guidance on the processes of recognition and measurement.

Those changes did not have a material impact on the current financial statements.

Ignored non-binding standards and interpretations

In these consolidated financial statements, the Capital Group has refrained from applying early the following published standards, interpretations or amendments to existing standards before they become effective:

a) IFRS 17 'Insurance Contracts' and amendments to IFRS 17

IFRS 17 'Insurance Contracts' was published by International Accounting Standards Board on 18 May 2017 and its amendments on 25 June 2020. The new standard applies to annual periods starting on or after 1 January 2023.
IFRS 17 will replace current IFRS 4 which allows various treatment of insurance contract settlements. The new standard will fundamentally change the accounting methods of all entities which deal with insurance contracts and investment contracts. However, the scope of the standard is not limited to insurance providers only as other contracts made by non-insurance companies may also contain certain features that qualify under the insurance contract definition (according to IFRS 17).

b) Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Board Practice Statement

The amendment to IAS 1 introduces the requirement to disclose material information about accounting policies that are defined there. The amendment clarifies that such accounting policy information is material where, in its absence, users of the financial statements would not be able to understand other relevant information contained in the financial statements. In addition, the IFRS Board's Practice Statement was changed, as well, in terms of the practical application of the *materiality* concept, to provide guidance on the application of that concept to accounting policy disclosures. The change has been effective since 1 January 2023.

c) Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Error Correction'

In 2021, the Board published the amendment to IAS 8 which concerns the definition of estimated figures. The amendment clarifies how entities should distinguish between changes in accounting policies and changes in accounting estimates. The change has been effective since 1 January 2023.

d) Amendments to IAS 12 'Income Taxes'

The amendments to IAS 12 clarify how to account deferred tax on such transactions as leases and liabilities for retired assets. Prior to the amendment, there was some ambiguity as to whether the recognition of an asset and a liability at the same amount for accounting purposes (for example, the initial recognition of a lease), with no impact on current tax settlements, necessitates posting deferred tax items or rather the 'initial recognition exemption' applies, according to which that such deferred tax items balances do not need to be posted insofar as such posting of an asset or a liability has no impact on the book result or tax result as at the time of posting such item. The revised IAS 12 addresses this issue by requiring deferred tax to be posted in the situation described above, namely it introduces such clause that the 'initial recognition exemption' does not apply where an entity simultaneously recognises an asset and a corresponding liability and each of them creates temporary differences.

This change is mandatory for financial statements covering periods that start on or after 1 January 2023.

At this point it is not possible to estimate the impact of the change on future financial statements.

e) Amendments to IFRS 17 'Insurance Contracts'

The amendment concerns the transitional requirements applicable to the first-time adoption of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. The amendment aims at ensuring useful financial information for investors during the initial adoption of the new standard, and to that end introduced certain simplifications on how to present comparative data.

The amendment applies only to the use of new IFRS 17 standard, without affecting any other requirements contained in IFRS 17.

f) Amendments to IFRS 16 'Leases'

In September 2022, the Board amended IFRS 16 'Leases' by supplementing the requirements applicable to subsequent measurements of lease liabilities in the event of sale and leaseback transactions where the IFRS 15 criteria have been met and the transaction needs to be recognised as *sale*.

The amendment requires the seller (lessee) to subsequently measure the lease liabilities under the sale/leaseback so that no gain or loss on retained right-of-use is recognised. The new requirement is particularly relevant where such sale/leaseback transactions include variable lease fees that do not depend on any index or rate as such fees are excluded from 'lease payments' under IFRS 16. The revised standard includes a new example illustrating the application of this new requirement. The change has been effective since 1 January 2024. As at the date of these financial statements, the amendments have not been endorsed yet by the EU.

At this point it is not possible to estimate the impact of the change on future financial statements.

g) Amendments to IAS 1 'Presentation of Financial Statements'

In 2020, the Board published amendments to IAS 1 that clarify the presentation of liabilities as either long- or short-term ones. In October 2022, the Board issued further improvements to IAS 1 which address the classification of liabilities as long-term and short-term, with the entity being required to meet certain contractual requirements known as *covenants*. The revised IAS 1 standard states that liabilities are classified as either short-term or long-term depending on rights existing at the end of the reporting period. Neither the entity's expectations nor events after the balance sheet date (such as waiver or breach of covenant) will affect the classification.

This change is mandatory for financial statements covering periods that start on or after 1 January 2024.
As at the date of these financial statements, the amendments have not been endorsed yet by the EU.

h) IFRS 14 'Regulatory Deferral Accounts'

This standard permits an entity which is a first-time adopter of IFRS (as of 1 January 2016) to continue accounting items resulting from activities with fixed regulatory prices in accordance with its previous accounting policies. In order to improve the comparison with earlier IFRS adopters who do not recognise such items, such amounts of fixed regulatory prices in accordance with published IFRS 14 need to be presented separately in the statement of financial position as well as in the income statement and other comprehensive income statement.
The EU has decided to refrain from endorsing IFRS 14.

i) Amendments to IFRS 10 and IAS 28 on sales or contributions of assets between an investor and its affiliate or joint venture

The amendments solve the issue of incoherence between IFRS 10 and IAS 28. The method of accounting depends on whether non-monetary assets sold or contributed to an affiliate/joint venture are *business.*
If such non-monetary assets are a business, then the investor will recognise full profit or loss on the transaction. However, if the assets do not satisfy the *business* definition, the investor will recognise profit or loss only on the portion which is attributed to interests of other investors.
The amendments were published on 11 September 2014. As at the date of these financial statements, the EU has refrained from endorsing the changes.

In the opinion of the Management Board, those changes will not have a material impact on the current or future financial statements.

(e) Foreign currency transactions

Functional and presentation currency

The consolidated financial statements are presented in Polish 'złoty' (PLN), rounded to the nearest thousand.

The Capital Group performs the financial reporting in the currency that corresponds to the events and circumstances that are relevant to its operations ("functional currency"). The functional currency of the Capital Group is Polish 'złoty' (PLN).

Transactions in foreign currencies

Transactions that are denominated in foreign currencies are converted based on the exchange rate as at the date of a given transaction. Monetary assets and liabilities that are denominated in foreign currencies as at the balance sheet date have already been converted into PLN using the exchange rate of that date. Exchange differences arising from the conversion of foreign currency transactions into PLN are recognised as profit or loss for the current period. Non-monetary assets and liabilities denominated in foreign currencies, which are carried at historical cost, are measured based on the exchange rate as at the date of a given transaction.

(f) Tangible assets (PP&E)

Owned tangible assets (PP&E)

Tangible assets (PP&E) are recognised based on their acquisition price or production cost less depreciation charges (see below) and (if any) impairments (see item (m) in accounting policies below).

The acquisition price includes the purchase price of an asset and expenses directly related to the purchase as well as its adaptation to be fit to use, including transport, loading, unloading and storage, and directly-related payroll (if the tangible (PP&E) asset is manufactured using internal resources). Discounts, rebates and similar decreases and recoveries will reduce the acquisition price of the asset. The cost of production of tangible assets (PP&E) and work-in-progress assets includes comprehensive expenses incurred during the construction, assembly, adaptation and improvement of a given asset until the day when such asset is taken for use (or until the reporting date, if the asset has not been provided for yet). The cost also includes (if required) a preliminary estimate of the cost of dismantling and removal of tangible assets (PP&E) as well as the restoration of their original condition. The acquisition price may also be adjusted for gains or losses (transferred from equity positions) on qualified cash flow hedges of tangible asset (PP&E) acquisitions made in foreign currencies, previously shown as items in the statement of comprehensive income. Purchased software that is necessary for the proper operation of a device or machinery is capitalised as part of that device.

The cost of external borrowing associated with the acquisition or manufacturing of specific assets will increase the cost of those assets.

Where a specific tangible asset (PP&E) consists of separate and significant components of different lifecycle, such components are treated as separate items under assets.

Gain and loss from the disposal of tangible assets is determined by comparing proceeds with the carrying amount of the assets disposed of and recognised as net profit or loss in the current period in other operating income / expense, respectively.

Tangible assets (PP&E) under lease

Leases are recognised as right-of-use assets and related liabilities on the date when the leased assets become available for the Capital Group's use.
At the start date of the lease, lease liabilities are measured at an amount equal to the present value of the following lease payments for the right to use the underlying asset over the lease term:

- fixed payments (including 'essentially fixed'), less any lease incentives receivable;
- variable payments dependent on an index or rate;
- the amounts expected to be paid by the lessee as the guaranteed residual value;
- the call option price where there is reasonable certainty that the lessee is going to exercise such option;
- fines for early termination of the lease where the contract entitled the lessee to exercise such option.

Lease payments are discounted using the lease interest rate (if readily determinable) or the marginal interest rate on the lessee's debt.
Every lease payment is allocated between a liability and a finance expense. After the initial recognition, lease liabilities are measured using the effective interest rate. The carrying amounts of liabilities are updated to reflect the change in the estimated lease term, the call option, the change in lease payments and the guaranteed residual value, and any change in the lease contract.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

The lease term is 'non-voidable' and any periods under the renewal and early termination options will be included in the lease term as long as it is reasonably certain that the lease is going to be renewed or terminated early.

Right-of-use assets are initially measured at cost including:
● the value of the lease liability at initial measurement;
● any lease fees paid on or before the start date, less any lease incentives received;
● any initial direct costs incurred by the lessee;
● estimated cost of dismantling, removal of the underlying asset and the restoration of its original condition.
After the initial recognition, right-of-use assets are measured at cost less accumulated depreciation, accumulated impairment losses, and adjusted for the re-measurement of the lease liability in the event of review or change of the lease.
Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term, using the straight-line method. The depreciation periods for right-of-use assets are as follows:
● the right to use retail sales premises: 3 years
● the right to use warehouse facilities: 3-10 years
● the right to use motor and other vehicles: 3-5 years
Fees under all short-term leases and certain low-value assets leased are recognised as an expense in profit or loss on a straight-line basis. For low-value assets, the Capital Group makes the decision on contract-by-contract basis, namely the Capital Group has assumed that the right-of-use asset is recognised with a corresponding lease liability where such asset is sub-leased, while for all other low-value assets the related lease fees are recognised as an expense on a straight-line basis over the lease term.
Short-term leases have a term of 12 months or less.
Low-value assets include computers, tablets, mobile phones and minor office furniture.

The Capital Group chose to use the following simplifications for practical reasons:
● one discount rate applied to each portfolio of leases that have broadly similar features;
● the new lease accounting model was not applied to leases with the lease term ending within 12 months of the initial adoption of this standard. Instead, the Capital Group recognised such leases as short-term.

Expenditures in later periods

Subsequent costs of parts replaced in tangible assets (PP&E) that can be reliably estimated and that are likely to generate for the Capital Group economic benefits associated with such replacement are capitalised. The carrying amount of the removed part of a tangible asset (PP&E) is derecognised. The cost incurred in connection with the ongoing maintenance of tangible assets (PP&E) is recognised as gain or loss in the current period when incurred.

Depreciation

Tangible assets (PP&E), including their significant components, are depreciated using the straight-line method over their expected useful life and taking into account the net selling price of the residual portion of the asset (its residual value) expected at the time of recovery. Own land is not depreciated.

The expected economic useful life of the assets are as follows:

buildings: 19-40 years, machinery and equipment: 2-10 years, vehicles: 4-8 years.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

The Company reviews the adequacy of the assumed useful lives, depreciation methods and residual values (where insignificant) of the assets on an annual basis.

(g) Intangible assets

Goodwill

Goodwill arises from acquisitions from prior to 1 January 2010. Goodwill comprises the excess of the cost of a business combination over the Capital Group's interest in the fair market value of identifiable assets, liabilities and contingent liabilities of the acquired entity. If this difference is negative, the gain on the acquisition is immediately recognised in profit or loss.

Transaction costs other than related to the incurred indebtedness or issued debt securities, which are paid in connection with a business combination are added to the cost of business combination.

Goodwill is part of intangible assets and as such is disclosed based on the acquisition price less any impairment losses. Goodwill is allocated to groups of cash-generating assets and subject to annual tests for impairment (see item (m) in accounting policies below). Goodwill is not amortised.

Other intangible assets

Intangible assets are recognised based on their acquisition price or production cost less amortisation charges (see below) and (if any) impairments (see item (m) in accounting policies below).
Expenditures in later periods for existing intangible assets will be capitalised only when they increase future economic gains related to a given asset. Other expenditures, including for internally generated trademarks, goodwill and brand are recognised as expense in the current period at the time of incurring them.

Amortisation

Intangible assets are amortised on a straight-line basis over their expected useful life (unless indefinite). Goodwill and other intangible assets which have an indefinite useful life are tested annually for impairment (see item (m) in accounting policies below) without any amortisation charges applied. Intangible assets that are subject to amortisation are charged starting on the day when they are made available for use. The expected economic useful life is between 5 and 7 years.

The useful life, amortisation method and residual value of intangible assets are reviews on every reporting date and, where justified, adjusted.

(h) Long-term investments

Long-term investments are interests in subsidiaries that are measured based on the acquisition price less adjustments for impairment.

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets that are not quoted in active markets and have fixed or determinable payments. They are initially recognised at fair market value and then at amortised cost less allowances.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

(j) Inventory

Inventories are measured at acquisition price or production cost, up to their net selling price that can be realised. Inventory outflows are measured using the FIFO method. The acquisition price includes the cost directly related to purchasing the item, delivering it to its current location and its preparation for re-sale. In the case of products and work-in-progress, the cost includes a share of indirect costs that is determined based on the usual production capacity. The net selling price realisable is the estimated sale price in the ordinary course of business less the cost associated with preparing the inventory item for sale and closing the transaction.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in bank that is readily available on demand.

(l) Asset impairment adjustments

Impairment of financial assets measured at amortised cost

The Capital Group assesses expected credit losses (ECL) associated with debt instruments measured at amortised cost and at fair market value through other comprehensive income, regardless of whether there has been indicators of impairment.
For short-term trade receivables that do not have a significant financing component, the Capital Group applies the simplified approach as required under IFRS 9 and measures impairment losses at the amount of ECL over the entire lifecycle of the receivable starting from its initial recognition. The Capital Group uses a dedicated matrix where allowances are calculated for trade receivables depending on different due dates or overdue periods.
For the purpose of determining expected credit losses, trade receivables were grouped based on similar credit risk features. In order to determine the overall default rate, an analysis of defaults is carried out covering the last 3 years. Default rates are calculated for the following ranges: (1) up to 30 days; (2) from 31 to 90 days; (3) from 91 to 180 days; (4) from 181 to 360 days, and (5) over 360 days.

In order to determine the default rate for a given range, total receivables written down are compared to total receivables past due. The impact of future factors on credit losses was also taken into account.
The impairment loss is calculated taking into account the default rates, adjusted for the effect of future factors, and the balance of overdue receivables as at the balance sheet date for each range.

The Capital Group uses a three-level impairment model in the case of financial assets that are not trade receivables:
- Level 1 - items with credit risk that has not increased significantly since their initial recognition. ECL is determined based on the probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur in the next 12 months);
- Level 2 - items with a significant increase in credit risk since their initial recognition but lacking objective evidence of impairment. ECL is determined based on the probability of default over the contractual lifecycle of the asset;
- Level 3 - items where there is an objective indicator of their impairment.

Trade receivables are classified into Level 1, 2 or 3:
- Level 1 - items with credit risk that has not increased significantly since their initial recognition. ECL is determined based on the probability of default within 12 months (i.e. the total expected credit loss);

Notes to Financial Statements
(PLN'000 unless otherwise specified)

- Level 2 - trade receivables to which the simplified ECL measurement approach has been applied over the lifecycle, except for certain trade receivables that are classified into Level 3;
- Level 3 - trade receivables that are over 90 days past due or otherwise identified as bad on case-by-case basis.

The Capital Group takes into account the following indicators where it is necessary to assess (according to the above model) whether there has been a significant increase in credit risk:
- a loan is at least 30 days past due;
- there are regulatory, technological or macroeconomic changes that have a significant adverse impact on the debtor;
- a significant adverse event has became known that concerns the loan or another loan of the same debtor but from a different lender, such as early termination of the facility, breach or renegotiated terms and conditions of the facility due to financial hardship, etc.
- the debtor has lost a significant client or supplier or otherwise experiences adverse market changes.

Financial assets are written down entirely or partly when the Capital Group has exhausted virtually all collection measures and their recovery cannot be reasonably expected any more. This usually occurs when an asset is at least 120 days past due.

Non-financial assets

The carrying amount of non-financial assets that are not inventory and deferred tax assets is measured as at the end of every reporting period in order to verify whether there are indicators of impairment. If the indicators of impairment have occurred, the Capital Group will estimate the recoverable value of the respective assets. The recoverable value of goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use is estimated each year on the same date. An impairment of the value will be recognised where the book value of an asset or related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable value of assets or CGUs is the greater of: their net value recoverable from their sale or their value in use. When estimating the value in use, future cash flows are discounted using an interest rate before taxes that reflects the current market assessment of the value of money over time and the risk factors specific for a given asset or CGU For the purpose of impairment testing, assets are grouped into the smallest identifiable groups of assets generating cash proceeds largely independently of other assets and groups of assets ('cash-generating unit' or 'CGU').

The Capital Group measures goodwill impairment by grouping CGUs so that the level of the organisation (not higher than an identified operating segment) at which the measurement is performed reflects the lowest level of the organisation at which the Capital Group monitors goodwill for internal purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to those CGUs for which synergies from the combination are expected to arise.

The common (corporate) assets of the Capital Group do not generate separate cash proceeds and are used by a single CGU.

An impairment loss is recognised at the time when the carrying amount of a given asset exceeds its recoverable value. Impairment losses are recognised through profit or loss in the current period. Impairment of a cash-generating unit is recognised first as a reduction in the goodwill (namely of its value allocated to that CGU or group of CGUs) and subsequently as a reduction in the carrying amount of the other assets of that CGU (or group of CGUs) on a pro rata basis.

Goodwill impairment written down is not reversible. For other assets, impairment losses recognised in previous periods are assessed as at the end of every reporting period to verify whether there are indicators of impairment or full reversal of the impairment. An impairment loss written down is reversible when estimations have changed that were originally used to measure its recoverable value. An impairment will be reversible only up to such carrying amount of the asset (less depreciation/amortisation adjustments) that would be posted, if the impairment loss has not been recognised.

(m) Provisions

Provisions for liabilities are recognised when the Company has a legal or constructive obligation as a result of a past event that can be reliably measured and where resources (embodying economic benefits) will need to be disbursed in order to settle the obligation. The value of such provision is determined as the expected amount of future cash flows discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to a given liability. The discounting is accounted in finance income.

Provisions for liabilities due to restructuring are created when the Capital Group has a detailed formalised restructuring plan and such restructuring has commenced or been publicly announced. Provisions for deferred operating costs are not created.

Warranties

Provisions for contractual warranties are established in respect of products or services sold. Provisions are created based on historical data on warranty claims and the expected outcome of warranty procedures, taking into account the likelihood of their occurrence.

(n) Payroll and other benefits

Long-term payroll benefits

The Capital Group's liabilities under employment seniority benefits represent the amount of future benefits vested in employees in the course of their employment over the current and past financial periods. According to the internal labour policies, employees are entitled to a fixed value of old-age pension benefits. The provision reflects the Capital Group's estimate of future benefits vested in employees over the current and previous periods, discounted at a risk-free interest rate of 6.70 per cent in 2022.

Other payroll benefits

With the exception of the pension expenses described above, the Capital Group does not have an internal pension scheme. The Capital Group contributes to the state social security system by transferring the required portion of gross wages to ZUS institution. This cost is recognised as an expense at the time when incurred. The Capital Group has no related obligation to pay benefits to the staff.

(o) Liabilities for borrowings

Liabilities for borrowed loans and credit facilities are initially measured at fair market value less any transaction costs incurred. In subsequent periods, interest-bearing loans are recognised at cost including any accrued interest. The difference between the cost and the actual buyout price is recognised as a gain or loss over the loan period using the effective interest rate method.

When a loan is repaid earlier than the end date originally granted, any difference between the fair market value and the current value will be recognised as a gain or loss in the current period when occurred.

(p) Trade payables and other liabilities

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

(q) Revenues

Revenue is presented net of value added tax.
There is generally one performance under one contract to be made, whether for goods or for services or both. In the case of such single-performance contracts, there is no need to allocate the compensation for the Company.

a) Revenue from sales of products (construction chemicals for insulation systems; paint)
The Capital Group manufactures and sells construction chemicals and paint. The products are not tailored specifically to any particular customer preferences but are a product that can be used to meet orders of different customers without an extra expense.
Revenue from product sales is recognised on a non-recurring basis when control of products is transferred, namely when the Capital Group delivers the product to the customer and the customer accepts its delivery. Revenue is presented net of value added tax.
The sale transactions usually feature due dates up to 30 days, which is in line with market practice and does not qualify as financing. The right to return sold finished goods to the Company does not exist upon their receipt. The Capital Group therefore does not recognise liabilities for future refunds.
The Capital Group also transports finished goods to customers, the transport does not constitute a separate performance as it is carried out prior to the transfer of control over the product to the customer.

The Capital Group grants discounts to customers depending on their turnover realised in the calendar year. Such discounts are a variable element of the compensation for the Company and recognised as deductible against revenue. Liabilities for Company's compensation to be returned to customers are recognised in the case of anticipated discount which will be granted to customers for sales realised up to the end of the reporting period – this item is presented in *Trade and other receivables* (note 13). At the end of the financial year, there is no need to estimate the amount of the discount as its actual amount is known (it is based on the turnover in the calendar year).

For manufactured products, the Capital Group grants a warranty as required under law (i.e. a 12-month warranty) as well as an extended one up to 10 years. A provision is made for such guarantees according to item (m) of accounting policy. The extended guarantee is a separate obligation to make a performance, but the amount of compensation for the Company is allocated to such separate performance obligation is immaterial.

b) Revenue from sale of services
The Capital Group re-sells transport services. Revenue from the sale of services is recognised in the period in which they have been supplied and the price agreed. Transport services are short-term (average lead time is 2 days). The Capital Group does not perform services that would be long-term in nature. Revenue from the transport services is accounted using the straight-line method over the period of the transport.
The sale transactions usually feature due dates up to 14 days, which is in line with market practice and does not qualify as financing.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

c) Revenue from sales of goods and materials
The Capital Group recognises revenue from the sale of goods and materials when control of such inventory items transfers to a customer, namely upon its receipt by the customer. The Capital Group sells goods and materials related to external wall insulation systems, including polystyrene foam, meshes, grits and other construction chemicals to complement the offer.
The sale transactions usually feature due dates up to 30 days, which is in line with market practice and does not qualify as financing.

According to the law, a customer benefits from a warranty of 2 years covering factory defects. The liability for warranted defects transfers onto the seller of the goods/materials and the Capital Group does not create a provision for such liabilities or has any regulatory or constructive obligation to repair such defects. No extended warranty is granted.

There is no right of return vested in respect of sold goods and materials.

(r) Expenses

Financial expense and income

Financial income includes interest receivable on cash invested by the Capital Group, gains on available-for-sale financial instruments that has been disposed of, gains on changes in the fair market value of financial instruments measured through profit or loss, foreign exchange gains, and gains on hedging instruments which are recognised as profit or loss in the current period. Interest income is recognised as profit or loss in the current period based on the accrual method using the effective interest rate approach.

Financial expense include interest payable on debt, discounts on provisions reversed, losses on exchange differences, losses on changes in the fair market value of financial instruments recognised through profit or loss, impairment losses on financial assets, and gains or losses on hedging instruments which are recognised as profit or loss in the current period. All interest expenses are determined based on the effective interest rate.
The cost of external borrowing which cannot be directly attributed to the acquisition, construction or production of specific assets is recognised in profit or loss of the current period using the effective interest method.
Foreign exchange gains and losses are reported net as either financial income or financial expense, depending on their total position net.

(s) Income tax

Income tax includes current and deferred items.
The current and deferred income tax is recognised through profit or loss in the current period, except when concerning a business combination or items recognised directly in equity or other comprehensive income.

Current tax is tax calculated based on the taxable income for the year, using income tax rates in force as at the balance sheet date and adjustments to the income tax liability related to previous years.

The value of deferred income tax is determined using the balance sheet method, based on temporary differences between the value of assets and liabilities with equity according to books and their value determined for tax purposes. The following temporary differences are not included in the determination of deferred income tax: goodwill that is not deductible for income tax purposes, transactions in which the initial recognition of the value of assets and liabilities with equity in the books has no effect on the Capital

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Group's profit or loss. The value of deferred tax disclosed takes into account the planned method of recovery or settlement of the carrying amount of assets and liabilities, respectively. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates adopted in tax regulations legally or actually applicable until the reporting date.

Deferred tax assets are determined at the amount expected to be deducted from income tax in the future due to deductible temporary differences that will reduce the tax base (determined taking into account the prudence approach), namely the carrying amount of deferred income tax assets is decreased insofar as it is unlikely that taxable income will be generated in an amount sufficient to recover (entirely or partly) the asset.

(t) Financial instruments

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

The classification depends on the financial asset management model adopted and the contractual terms underlying cash flows. The Capital Group reclassifies investments in debt instruments only if and when the related asset management model changes.

Recognition and de-recognition.

A financial asset is recognised when the Capital Group becomes a party to the underlying contractual instrument. Financial assets are derecognised when the rights to receive cash flow from the financial assets expire or become transferred and the Capital Group has transferred substantially all the risks and benefits of their ownership.

Value at initial recognition.

At the initial recognition, the Capital Group measures a financial asset at fair market value, plus (in the case of a financial asset that is not measured at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the asset.
Transaction costs for financial assets that are measured at fair value through profit or loss are recognised through profit or loss.

Subsequent valuations.

(i) *Debt instruments - Financial assets measured at amortised cost.*
(j) In particular, the Capital Group classifies the following into this category:

Debt instruments held to collect contractual cash flows that include 'solely the payment of principal and interest' (SPPI) are measured at amortised cost. Interest income is calculated using the effective interest rate method and reported under 'interest income' through profit or loss. Impairment losses are recognised according to the accounting policies referred to in the note and are presented under 'impairment losses on financial assets'.
- trade receivables other than factored ones;
- loans which classify as SPPI and, according to the business model, are disclosed as 'held for cash flow',
- cash and cash equivalents.

Notes to Financial Statements
(PLN’000 unless otherwise specified)

(ii) *Debt instruments- Financial assets measured at fair value through comprehensive income*
Debt instruments which generate cash flow representing ‘solely payments of principal and interest’ (SPPI) and which are held to collect contractual cash flows and held for sale, are measured at fair market value through other comprehensive income. Changes in the carrying amount are recognised through other comprehensive income, with the exception of gains and losses on impairment, interest income and exchange differences which are recognised through profit or loss. When de-recognising a financial asset, the aggregate gain or loss previously recognised through other comprehensive income is moved from equity to profit or loss and recognised as other gains (losses). Interest income on such financial assets is calculated using the effective interest rate method and reported under 'interest income’. Impairment losses are recognised according to the accounting policies referred to in the note and are presented under 'impairment losses on financial assets'.
As at 1 January 2022 and 31 December 2022, the Capital Group had no financial assets classified in this category.
(iii) *Debt instruments - Financial assets measured at fair value through profit or loss.*
Assets that do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. In particular, the Capital Group includes the following instruments in this category:
- trade receivables that are factored on a recurring basis for liquidity management purposes when the factoring terms and conditions cause de-recognition of the receivable item; and
- borrowings that do not meet the SPPI test (namely, cash flows under such loans and facilities are not ‘solely payments of principal and interest’) as the frequency of interest rate changes does not correspond to the interest calculation formula.

The gain or loss on the fair value measurement of debt investments is recognised through profit or loss and presented under 'gains (losses) on changes in fair value of financial instruments' in the period when occurred. These fair value gains or losses include contractual interest received on financial instruments that are included in this category.

Non-derivative financial liabilities

Debt instruments issued and subordinated debts are posted in books as at the date they arise. All other financial liabilities, including those measured at fair value through profit or loss, are initially recognised on the transaction date on which the Capital Group becomes a party to the contract for a given financial instrument.

The Capital Group derecognises a financial liability when the liability becomes repaid, cancelled or expired under the statutory time bar.

Financial assets and financial liabilities are offset against each other and the net amount disclosed in the statement of financial position only if and when the Capital Group has a legally enforceable right to set off certain financial assets and financial liabilities or intends to settle the transaction based on the net value of the financial assets and liabilities to be offset, or intends to recover the financial assets to be offset while at the same time settling the financial liabilities to be offset.

The Capital Group has the following non-derivative financial liabilities: borrowings, trade payables and other liabilities.
Such financial liabilities are initially recognised at fair value plus directly attributable transaction costs. Subsequently to the initial recognition, such liabilities are measured based on amortised cost using the effective interest rate.
Other financial liabilities include borrowings such as loans and credit facilities, other debt instruments, overdrafts, trade payables and other liabilities.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Common shares

Common shares are recognised in equity. Costs directly attributed to the issue of common shares and share options, adjusted for the effect of taxes, reduce the value of equity.

The Capital Group did not use derivative financial instruments.

2. Exchange rates and foreign entity conversions

The individual items of the income statement of foreign affiliates which are included in the consolidated statement of comprehensive income were translated based on the weighted average monthly exchange rates of UAH, EURO and GBP to PLN for the individual months of the year, according to the National Bank of Poland tables. In 2022, these exchange rates were in the range between PLN 0.1256 and PLN 0.1487 per one UAH, between PLN 5.2676 and PLN 6.0211 per one GBP, and between PLN 4.4879 and PLN 4.9647 per one EURO. Respectively, in 2021 these were between PLN 0.1323 and PLN 0.1539 per one UAH, between PLN 5.0879 and PLN 5.4815 per one GBP and between PLN 4.5435 and PLN 4.6508 per one EURO.

Individual items in assets, liabilities and equity were converted at the average exchange rates prevailing on 31 December 2022 and 31 December 2021 as announced by the National Bank of Poland (Table 252/A/NBP/2022; Table 254/A/NBP/2021).

3. Expenses

3A. Selling expenses and overheads

	2022	2021
Payroll and other benefits	25,768	24,287
Marketing services	6,406	6,071
Depreciation / amortisation	5,407	4,890
Transport costs	16,605	14,243
Fuel, gas, electricity	2,857	1,758
Taxes and charges	1,892	1,545
Refurbishments and replacement parts	2,853	2,227
IT and telecom costs	939	781
Rental fees	544	318
Business travel	2,002	1,228
Insurance	686	652
Consultancy services	1,829	1,778
Other	2,152	2,373
	69,940	**62,151**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

3B. Cost of goods sold

	2022	2021
Cost of direct materials	74,717	73,604
Payroll and other benefits	9,869	8,675
Depreciation / amortisation	1,917	1,443
Transport costs	33	29
Fuel, gas, electricity	1,472	1,058
Refurbishments and replacement parts	2,116	2,011
Other	1,313	864
Cost of purchased goods	27,092	20,424
Selling expenses for services	6,378	5,787
	124,907	**113,895**

4. Revenues

4A. Sales revenue

	2022	2021
Business-to-Business (B2B) channel	160,707	159,584
Do-It-Yourself (DIY) channel	11,627	9,970
Exports*	15,718	10,273
Interior paint (retail)	8,791	8,928
Other	4,716	6,140
	201,559	**194,897**

**Export is broadly defined as sales to other countries, namely others than where the Capital Group has subsidiaries.*

The Capital Group has a scattered pool of customers and does not depend on any of them. No counterparty exceeded 7.5% of the group turnover in the reported periods.
The Capital Group recognises all revenue at a certain point in time.

Information on the value of sales revenue with related parties is stated in Note 25 'Transactions with Related Parties'.

4B. Other operating income

	2022	2021
Adjustment of provisions	169	225
Gains from sold non-financial non-current assets	421	361
Other	189	46
	779	**632**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

5. Other operating expenses

	2022	2021
Donations	48	32
Other fees and charges	17	40
	65	**72**

6. Financial income

	2022	2021
Interest income	75	27
Currency differences, net	-	627
	75	**654**

7. Financial costs

	2022	2021
Interest expense	2,561	319
Currency differences, net	-21	-
Other	181	125
	2,763	**444**

8. Payroll and other benefits

	2022	2021
Staff wages and non-staff compensation	28,736	26,828
State social security contributions, internal employee benefits fund	5,998	5,457
External training	189	162
Compensation for non-compete arrangements	111	92
Increase in provisions for pensions and disability benefits and for unused leave	82	150
	35,116	**32,689**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

9. Income tax

9A. Income tax recognised as profit or loss in the current period

The Capital Group is subject to the tax regulations of Poland. The income tax structure according to the statement of comprehensive income:

	2022	2021
Current income tax	**(1,114)**	**(3,788)**
Income tax for the period	(1,114)	(3,788)
Deferred income tax	**314**	**(2,058)**
Current deferred tax	604	421
Provision for tax audit decisions	(290)	(2,479)
Total income tax reported in statement of comprehensive income	**(800)**	**(5,846)**

Below is the effective income tax rate adjusted based on the actual income tax reported in the statement of comprehensive income.

	2022	2021
Earnings before tax	5,387	19,659
Income tax based on 19% rate	(1,024)	(3,735)
Recurring expenses that are not deductible	-	(118)
IP BOX tax relief	3	10
R & D tax relief	494	476
Income tax from previous years	(273)	(2,479)
Income tax reported in statement of comprehensive income	(800)	**(5,846)**

Tax authorities may audit an entity's tax accounts at any time during five years of the end of the year in which the tax returns were filed and make extra assessments of any outstanding tax plus fines and interest.

As a result of audits and tax proceedings regarding 2014 and 2015 income tax, the Capital Group received official decisions excluding the trademark amortisation as well as interest related to the payment for the acquiring the trademarks, and also making an additional assessment of income tax arrears at PLN 1,293 thousand for 2014 and PLN 1,186 thousand for 2015. These amounts include interest as at the date of the respective tax decisions.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

In the opinion of the management board of the Capital Group, in consultation with its tax advisors and the Supervisory Board, the attempted exclusion of such expenses as non-deductible is not founded on applicable legal regulations and the Capital Group is not going to make adjustments to its income tax accounts for the above periods. The Capital Group has lodged a complaint with the Provincial Administrative Court (WSA) against such these tax assessment decisions and is awaiting legal proceedings. If the decisions are upheld, the Capital Group will consider making a formal appeal against them to the Provincial Administrative Court.

9B. Deferred tax assets and provision for deferred tax liabilities

As at 31 December 2022 and 2021, deferred tax assets and provision for deferred tax liabilities resulted from the following items:

	Assets		L & Eq		Net	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Tangible assets (PP&E)	(616)	(415)	934	719	318	304
Goodwill	-	-	14,467	14,467	14,467	14,467
Trade and other receivables	(162)	(162)	-	-	(162)	(162)
Inventory	(48)	(51)	-	-	(48)	(51)
Bank loans	-	-	10	10	10	10
Shareholder / related party loans	(39)	2	15	7	(24)	9
Provisions, trade payables and other liabilities	(210)	(1,040)	-	-	(210)	(1,040)
Other (leases)	(2,036)	(617)	-	-	(2,036)	(617)
Income tax from previous years	-	-	2,760	2,479	2,760	2,479
(Deferred tax assets) / provision for deferred tax liabilities after re-measurement	(3,111)	(2,283)	18,186	17,682	15,075	15,399
(Deferred tax assets) / provision for deferred tax liabilities, net	-	-	-	-	15,075	15,399

As at 31 December 2022, the Capital Group has no tax loss to recognise.

According to the Capital Group, deferred tax assets and provision for deferred tax liabilities are going to be recovered or settled (respectively) in short- and long-term horizon as follows:

	31 December 2022	31 December 2021
Short-term asset	2,495	1,868
Long-term asset	616	415
Total deferred tax asset	**3,111**	**2,283**
Short-term provision for liabilities	(2,785)	(2,496)
Long-term provision for liabilities	(15,401)	(15,186)
Total provision for deferred tax liabilities	**(18,186)**	**(17,682)**
Provision for deferred tax liabilities	**(15,075)**	**(15,399)**

(PLN'000 unless otherwise specified)

10. Tangible assets (PP&E)

The following tables present a summary of changes in the value of tangible assets (PP&E) from 1 January 2022 to 31 December 2022 as well as from 1 January 2021 to 31 December 2021:

2022	Land and buildings	Plant and machinery	Other tangible assets	Work in progress	Total
Gross					
1 January 2022	22,134	50,293	8,289	11,169	91,885
increased by	-	-	-	16,645	16,645
re-classified	12,947	6,015	1,217	(20,179)	-
decreased by	(121)	(2,024)	(1,214)	-	(3,359)
31 December 2022	34,960	54,284	8,292	7,635	105,171
Write downs					
1 January 2022	13,039	35,398	6,506	-	54,943
increased by	1,526	4,641	844	-	7,011
decreased by	(35)	(1,844)	(1,188)	-	(3,066)
31 December 2022	14,530	38,195	6,162	-	58,888
Net value as at 1 January 2022	**9,095**	**14,895**	**1,783**	**11,169**	**36,942**
Net value as at 31 December 2022	**20,429**	**16,089**	**2,130**	**7,635**	**46,283**

2021	Land and buildings	Plant and machinery	Other tangible assets	Work in progress	Total
Gross					
1 January 2021	20,212	48,441	7,897	1,661	78,211
increased by	-	-	-	16,679	16,679
re-classified	1,975	4,406	790	(7,171)	-
decreased by	(53)	(2,554)	(398)	-	(3,005)
31 December 2021	22,134	50,293	8,289	11,169	91,885
Write downs					
1 January 2021	12,193	33,531	5,947	-	51,671
increased by	873	4,214	952	-	6,040

Notes to Financial Statements
(PLN'000 unless otherwise specified)

decreased by	(27)	(2,348)	(393)	-	(2,768)
31 December 2021	13,039	35,398	6,506	-	54,943
Net value as at 1 January 2021	**8,019**	**14,910**	**1,950**	**1,661**	**26,540**
Net value as at 31 December 2021	**9,095**	**14,895**	**1,783**	**11,169**	**36,942**

Depreciation

Depreciation of tangible assets (PP&E) is recognised in the statement of comprehensive income in the following items:

	2022	**2021**
Selling expenses	4,573	4,105
Overhead expenses	611	492
Cost of goods sold	1,917	1,443
	7,101	**6,040**

Tangible assets (PP&E) used under finance leases

In 2022, the Capital Group signed a warehouse lease and lease contracts covering 14 vehicles, 2 tractors with trailers, storage racks and the dosing mixer machinery. As at 31 December 2022, the net value of the four warehouses leased is PLN 3,196 thousand. Three of the leased warehouses are located in the UK, and there is one in Poland. As at 31 December 2022, the net value of 78 vehicles leased is PLN 1,854 thousand, and tractors with trailers PLN 641 thousand, storage rack systems PLN 461 thousand, and 470 dosing mixers PLN 1,464 thousand, which makes a total of PLN 4,421 thousand. In 2021, the Capital Group signed lease contracts covering 23 vehicles and a lease for the dosing mixer machinery. As at 31 December 2021, the net value of all 76 vehicles leased is PLN 2,088 thousand and 424 tractors dosing mixers PLN 1,705 thousand, which makes a total of PLN 4,217 thousand.
Most of the lease contracts concluded until 2022 allow buy-back of the vehicles, dosing mixers and storage racks, and the Capital Group is planning to exercise that option. The depreciation rates used reflect the economic useful life of the assets as well as their potential buy-back. The Capital Group does not intend to buy back only five of the vehicles it has registered in assets.

Right-of-Use assets

	Premises / warehouses	Dosing mixers	Vehicles	**Other**	**Total**
31.12.2021	**0**	**1,705**	**2,419**	-	4,124
Adjustment after IFRS 16 recognition	**1,596**	**-**	**(242)**		1,354
increased by amended / new leases	2,249	560	1,753	522	5,084
decreased by	-	-	(60)	-	(60)
Depreciation	(649)	(800)	(1,354)	(61)	(2,864)

Notes to Financial Statements
(PLN'000 unless otherwise specified)

31.12.2022	**3,196**	**1,465**	**2,516**	**461**	**7,638**

		IFRS 16
Lease items recognised in the reporting period		
Depreciation of right-of-use assets by category		
	Premises / warehouses	649
	Dosing mixers	800
	Vehicles	1,354
	Other	61
Total depreciation		2,864
Interest on leases (included in financial expense)		401
Low-value asset leases that are not short-term lease (included in overhead expenses)		441
Total expenses related to leases		**3,706**

Minimum lease fees for all motor vehicles, dosing mixers and other machinery used under finance leases and the rental fees for the retail premises (shop) are as follows:

	2022	**2021**
up to one year	2,878	1,965
from 1 to 5 y	5,606	5,529
	8,484	5,484

The total amount of the minimum lease fees, less cost of finance (interest), matches the level of liabilities for leases.

	2022	**2021**
Minimum lease fees	8,484	5,484
Financial expense (interest)	(401)	(95)
Lease liabilities	**8,083**	**5,389**

Security interests in assets

As at 31 December 2022, the Capital Group's assets are encumbered by contractual mortgages of PLN 34.3 million and the claim assignments (security under insurance policies) that secure the repayment of bank loans and facilities (see note 17).

Future contractual liabilities for non-current asset acquisitions

No contracts for the introduction and development of new non-current assets, tangible (PP&E) or intangible, were signed during the year that would be implemented over any future years.

Change in estimates

Based on the 2022 analysis, the Capital Group did not revise its estimates of the useful life of tangible assets (PP&E).

Notes to Financial Statements
(PLN'000 unless otherwise specified)

11. Intangible assets

The following tables summarise changes in intangible assets from 1 January 2022 to 31 December 2022 and from 1 January 2021 to 31 December 2021.

2022	Goodwill	Other
Gross value		
1 January 2022	104,431	12,315
increased by	-	69
decreased by	-	(8,368)
31 December 2022	104,431	4,016
Write downs		
1 January 2022	-	11,202
increased by	-	313
decreased by	-	(8,368)
31 December 2022	-	3,147
Net value as at 1 January 2022	**104,431**	**1,113**
Net value as at 31 December 2022	**104,431**	**869**

2021	Goodwill	Other
Gross value		
1 January 2021	104,431	11,023
increased by	-	1,292
decreased by	-	-
31 December 2021	104,431	12,315
Write downs		
1 January 2021	-	10,909
increased by	-	293
decreased by	-	-
31 December 2021	-	11,202
Net value as at 1 January 2021	**104,431**	**114**
Net value as at 31 December 2021	**104,431**	**1,113**

Amortisation

Amortisation of other intangible assets is recognised in the statement of comprehensive income in the following items:

	2022	**2021**
Overhead expenses	313	293
	313	**293**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Goodwill impairment testing

The Capital Group produces two main lines of thermal insulation products: wet products (acrylic plasters which are sold ready-to-use) and dry products (mineral plasters which become ready after mixing with water), and paint. Each product is manufactured using separate machinery. However, all product types are addressed to the same customer groups (who are wholesalers), their end users are the same, and the products are distributed by the same sales teams and through the same distribution network. Consequently, the Capital Group treats the entire business as a single pool of cash-generating assets.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

The recoverable amount of cash-generating assets is calculated based on a value-in-use calculation. This calculation uses cash flow projections made assuming a five-year financial forecast. The average annual increase in cash flows over the forecast period is 20.9%. When estimating cash flows beyond the years of the forecast, cash flows were assumed at a constant growth rate. When discounting future cash flows, a discount rate of 6.5 per cent was used before taking into account the effect of income tax.

Such future cash flow forecasts are based on a number of assumptions and even their slight change could have a significant impact on the outcome of the financial forecasting and test results. Among the most important ones are the trends in economic growth, the regulatory policy on thermo-modernisation public aid, and demand from main customers of the Capital Group.

The net discount rate at which the value-in-use of the business equals the net value of its non-current assets is 13.2% before income tax.

Based on the results of the performed test, no write-downs were applied to goodwill.

Work-in-progress (CWIP) by period

31 December 2022

	WIP value in the period				
	Less than 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
In progress	5,305	2,330			7,635
Temporarily suspended	-	-	-	-	-

31 December 2021

	WIP value in the period				
	Less than 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Projects in progress	11.138	31			11,169
Temporarily suspended	-	-	-	-	-

Notes to Financial Statements
(PLN'000 unless otherwise specified)

12. Inventory

Inventory stock as at 31 December 2022 and 31 December 2021 is shown in the table below:

	31 December 2022	31 December 2021
Raw materials	7,037	7,589
Semi-finished goods and work in progress	2,435	1,821
Finished goods	4,864	3,397
Goods for resale	3,441	4,108
	17,777	**16,915**

Inventories are presented net. As at 31 December 2022, the inventory was written down by PLN 252 thousand (31 December 2021: PLN 265 thousand).

13. Trade and other receivables

Trade and other receivables as at 31 December 2022 and 31 December 2021 are shown in the table below:

	31 December 2022	31 December 2021
Trade receivables from unrelated / unaffiliated entities	29,722	29,128
Other receivables	933	423
VAT receivables	1,276	3,516
	31,931	**33,067**

Trade receivables ageing table

31 December 2022

		Past due date by outstanding period					
	Before due date	*Under 6 months*	*6 months - 1 year*	*1-2 years*	*2-3 years*	*Over 3 years*	**Total**
Undisputed trade receivables - considered 'good'	21,784	7,938	-	-	-	-	29,722
Undisputed trade receivables - considered 'high rise of credit risk'	-	-	-	645	704	-	1,142
Undisputed trade receivables - considered 'impaired due to credit risk'	-	-	-	-	-	-	-

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Disputed trade receivables - considered 'good'	-	-	-	-	-	-	-
Disputed trade receivables - considered 'high rise of credit risk'	-	-	-	-	566	-	566
Disputed trade receivables - considered 'impaired due to credit risk'	-	-	-	-	-	-	-
Allowance for receivables							(1,708)
Total	**21,784**	**7938**	**-**	**645**	**1,270**	**-**	**29,722**

31 December 2021

	Past due date by outstanding period						
	Before due date	*Under 6 months*	*6 months - 1 year*	*1-2 years*	*2-3 years*	*Over 3 years*	**Total**
Undisputed trade receivables - considered 'good'	24,790	4,338	-	-	-	-	29,128
Undisputed trade receivables - considered 'high rise of credit risk'	-	-	139	283	704	-	1,125
Disputed trade receivables - considered 'impaired'	-	-	-	-	-	-	-
Disputed trade receivables - considered 'good'	-	-	-	-	-	-	-
Disputed trade receivables - considered 'high rise of credit risk'	-	-	-	10	608	-	619
Disputed trade receivables - considered 'impaired due to credit risk'	-	-	-	-	-	-	-
Allowance for receivables							(1,744)
Total	**24,790**	**4,338**	**139**	**293**	**1,312**	**-**	**29,128**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Trade and other receivables are presented net, adjusted for impairment losses of PLN 1,708 thousand and PLN 1.744 thousand (31 December 2022 and 31 December 2021, respectively), which the Capital Group applied in the amount equal to credit losses expected (ECL) over the life of a given receivables from its initial recognition. The Capital Group uses a dedicated matrix where allowances are calculated for trade receivables depending on different overdue periods: (1) up to 30 days (0.03% allowance); (2) from 31 to 90 days (0.83% allowance); (3) from 91 to 180 days (2.54% allowance); (4) from 181 to 360 days (9.77% allowance). According to the adopted matrix, the write-down is PLN 237 thousand while the remaining single write-down of impairment (PLN 1,471 thousand) was recognised in selling expense in the statement of comprehensive income.

14. Other current assets

As at 31 December 2022 and 31 December 2021, other current assets are shown in the table below:

	31 December 2022	**31 December 2021**
Certificates	2,230	2,608
Prepaid property insurance	352	215
Rental fees related to future periods	30	37
Other	341	419
	2,953	**3,279**

15. Loans Granted

Loans granted on 31 December 2022 and on 31 December 2022 presented below:

	31 December 2022	**31 December 2021**
Loan granted	2,161	-
	2,161	**-**

16. Cash and cash equivalents

	31 December 2022	**31 December 2021**
Cash at bank	1,548	2,352
Cash in hand	33	39
Term deposits	55	108
	1,636	**2,499**

17. Equity

Share capital and statutory reserve

As at 31 December 2022 and 31 December 2021, the share capital and statutory reserve are shown in the table below:

	31 December 2022	**31 December 2021**

(PLN'000 unless otherwise specified)

Share capital	10,000	10,000
Statutory reserve	101,042	95,849
	111,042	**105,849**

Shareholding structure by respective holders

	31 December 2022				
Shareholder Name LUSAKO TRADING LIMITED	**Shareholding at start of year**	**Change during year**	**Shareholding at end of year**	**% of total shares**	**Change % in the year**
Fully covered	10,000,000	-	10,000,000	100	-

	31 December 2021				
Shareholder Name LUSAKO TRADING LIMITED	**Shareholding at start of year**	**Change during year**	**Shareholding at end of year**	**% of total shares**	**Change % in the year**
Fully covered	10,000,000	-	10,000,000	100	-

As at 31 December 2022, the share capital comprised of 10,000,000 issued and paid up common shares, par value PLN 1.00 each. All shares issued were fully covered with payments.

The statutory reserve as at 31 December 2022 is additional capital contributions made in previous years plus any distributed profits from 2007-2021.
On 10 October 2022, the Extraordinary General Meeting resolved to pay a dividend of 4,915 thousand. The dividend was paid in USD.

One common share entitled to one vote at the General Meeting.

18. Liabilities for borrowings

Recast

	Borrowings	**Leases**	**Total**
1 January 2022	19,397	5,389	24,785
Proceeds from incurred debts	6,076	5,759	11,835
finance received	6,076		6,076
new leases made		5,759	5,759
Accrued interest and commission fees	2,099	401	2,500
Debt payments	(2,733)	(3,467)	(6,200)
principal repaid	(634)	(3,066)	(3,700)
interest and commissions paid	(2,099)	(401)	(2,500)
31 December 2022	**24,839**	**8,082**	**32,921**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

The table below shows the maturity dates of borrowings as at 31 December 2022 and 31 December 2021:

	31 December 2022	31 December 2021
Long-term	5,368	6,000
Short-term	19,471	13,397
Total borrowings	**24,839**	**19,397**

Long-term	Currency	Interest	31 December 2022	31 December 2021
BNP PARIBAS S.A. non-revolving credit facility	PLN	Variable interest rate (WIBOR 3M) + margin	5,368	6,000
			5,368	6,000
less the short-term portion of long-term borrowings				
BNP PARIBAS S.A. non-revolving credit facility	PLN	Variable interest rate (WIBOR 3M) + margin	4,105	5,333
Long-term liabilities for borrowings			**4,105**	**5,333**

Short-term	Currency	Interest	31 December 2022	31 December 2021
Short-term portion of long-term borrowings			1,263	666
BGŻ BNP PARIBAS S.A. working capital credit facility	PLN	Variable interest rate (WIBOR 1M) + margin	14,196	13,397
BGŻ BNP PARIBAS S.A. working capital credit facility	GBP	Variable interest rate (SONIA) + margin	5,275	
			20,734	**14,063**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

By Amendment 12 of 24 March 2022, the limit of the principal amount was increased by PLN 4 million under the multi-purpose credit line facility made with BNP Paribas Bank Polska S.A.
In addition, the limit of the guarantee line was increased to PLN 25.5 million, available for contract performance bonds, defects liability guarantees and claim payment guarantees. The amendment concerned the overdraft facility made with Bank BNP Paribas SA.

On 4 November 2022, Amendment 14 and Amendment 15 to the credit facility established an overdraft sub-limit of £1 million under the existing credit limit. The amendment concerned the overdraft facility made with Bank BNP Paribas S.A. according to which the total credit limit in the period from 30 April to 30 September is PLN 33 million, from 01 October 2022 to 28 February 2023 is PLN 30 million, from 01 March 2023 to 29 April 2023 is PLN 26 million, from 30 April 2023 to 10 September 2023 is PLN 29 million. This includes the guarantee line up to PLN 25,500 thousand.

The facility was secured by a blank promissory note, a mortgage up to PLN 34.3 million established on the ownership right to a real property located in Żywiec, an assignment of claims under a property insurance policy, an 'undisclosed' general assignment of claims, and an assignment of claims under a receivables insurance contract.

On 8 December 2021, the Capital Group singed a non-revolving credit facility with Bank BNP Paribas S.A for PLN 6 million to procure finance for the purchase of a real property that is located in the town of Żywiec (ul. Prosta 12). This facility was secured by a blank promissory note, a statutory enforcement declaration (up to PLN 9 million), an assignment of claims under a property insurance policy, and a mortgage established on the property.
According to the above loans and credit facilities, the Capital Group is also required to comply with certain financial ratio covenants as defined there, namely:
The Capital Group was obliged to:
- to receive sales proceeds to the lender's current account;
- keep the debt ratio not higher than 2.0;
- to keep the solvency ratio not lower than 65%;
- to keep the net working capital not lower than negative PLN 6 million.

The ratios will be verified in the consolidated information of Bolix Capital Group, on an annual basis, as at the end of every financial year.

According to the loans and credit facilities, a breach of the financial covenants will entitle the lender to increase the margin and the commission fee without any separate annexation of the facilities needed.

(PLN'000 unless otherwise specified)

19. Payroll and other benefits

Payroll and other benefits comprise provisions for other long-term liabilities under employee benefit obligations related to old-age and disability pension benefits.

According to a calculation prepared by an actuarial expert based on current estimates, the Capital Group's old-age pension benefits amounted to PLN 309.6 thousand and PLN 410 thousand as at 31 December 2022 and 31 December 2021, respectively.

The discount rate was 6.70 %. Nominal growth rate of the benefit basis was 4.5% in subsequent periods.

The sensitivity of actuarial provisions to changes of assumptions is as follows:

	Old-age benefits	Disability benefits	Total
Baseline provisions for liabilities	**291**	**19**	**310**
Rotation factor - 1%	302	19	321
Rotation factor + 1%	281	18	299
Discount rate -0.50%	307	19	326
Discount rate +0.50%	276	18	294
increased benefit basis			
Change in wages -1%	261	18	279
Change in wages +1%	325	20	345

20. Provisions

Changes in provisions for liabilities are shown in the table below:

	Incentive scheme provision	Complaints provision	Total
1 January 2022	280	1,198	1,478
increased	-	253	253
31 December 2022	280	1,451	1,731
increased by/used in 2022	-	-	-
31 December 2022	**280**	**1,451**	**1,731**

21. Liabilities

21A. Trade payables and other liabilities comprise the following items:

	31 December 2022	31 December 2021
Trade payables	20,813	17,598
Accrued expenses	4,449	2,195
Other liabilities	442	269

Notes to Financial Statements
(PLN'000 unless otherwise specified)

VAT liability	1,352	1,546
Deferred income (subsidy)	283	318
	27,339	**21,926**

Trade payables ageing table

	31 December 2022				
	Value of liabilities by past due period				**Total**
	Less than 1 year	*1-2 years*	*2-3 years*	*Over 3 years*	
Liabilities to micro and small enterprises	20,813	-	-	-	20,813
Liabilities to creditors other than micro and small enterprises	-	-	-	-	-
Disputed liabilities to micro and small enterprises	-	-	-	-	-
Liabilities to creditors other than micro and small enterprises	-	-	-	-	-

	31 December 2021				
	Value of liabilities by past due period				**Total**
	Less than 1 year	1-2 years	2-3 years	Over 3 years	
Liabilities to micro and small enterprises	17,598	-	-	-	17,598
Liabilities to creditors other than micro and small enterprises	-	-	-	-	-
Disputed liabilities to micro and small enterprises	-	-	-	-	-
Liabilities to creditors other than micro and small enterprises	-	-	-	-	-

21 B. Payroll and other benefits

	31 December 2022	**31 December 2021**
Liabilities to employees	555	922
Liabilities for taxes and social security	2,162	2,120
Payroll liabilities	1,747	1,575
Internal benefits schemes	79	161
	4,543	**4,778**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

22. Financial instruments

22A. Classification of financial instruments

	IFRS 9	IFRS 9
	31 December 2022	**31 December 2021**
Financial assets measured at amortised cost:		
Loans granted and trade receivables	34,485	33,521
Loan Granted	2,161	
Cash and cash equivalents	1,636	2,499
Financial liabilities measured at amortised cost:		
Other financial liabilities	(41,989)	(31,930)
	(3,707)	**(4,090)**

(PLN'000 unless otherwise specified)

22B. Financial risk management

Credit, liquidity and market (mainly interest rate and currency) risks arise in the normal course of the business which the Capital Group operates. The objective of the financial risk management is to minimise the impact of market factors, such as exchange rates and interest rates, on the budgeted key financial parameters of the Capital Group expected for the year (financial result, cash flows).

Credit risk

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

The Capital Group operates in an industry that is characterised by a higher level of credit risk. The reason is that in its key markets the payment due dates in the Capital Group's customer relationships are between 30 and 120 days. As at 31 December 2022, the total trade receivables from unrelated parties were PLN 30,774 thousand and PLN 6,734 thousand from related parties.
The Capital Group assesses the creditworthiness of its customers on an ongoing basis and requires appropriate forms of security where reasonably justified. In order to reduce the risk of customer insolvency, the Capital Group has a receivables insurance contract which covers receivables representing approx. 78% of total trade receivables from unrelated parties. In addition, in a number of cases the Capital Group also has additional forms of receivables security, namely promissory notes.

Counterparties with no history of cooperation with the Capital Group or only occasional sales need to pay in cash for their purchases. On the other hand, trade credit lines are granted to customers with whom there is a positive history of relations and whose creditworthiness has been assessed based on both internal and external sources. Credit risk exposure is defined as the total receivables outstanding which are monitored on an ongoing basis and individually for each customer.

The Capital Group constantly monitors the financial condition of its customers and the level of credit risk. Financial assets related to past due receivables are PLN 9,726 thousand as at 31 December 2022 and PLN 6,062 thousand as at 31 December 2021. As at the date of the consolidated financial statements, receivables due in 2022 were more paid in over 90%. Thus, past due receivables have not converted into permanent defaults.
Past due receivables for which no allowance has been created amount to EUR 8,018 thousand as at 31 December 2022 and EUR 4,318 thousand as at 31 December 2021. These receivables are insured in most of the case, and 76% of receivables that are not covered by any allowance are related to payments past due no more than 60 days. As the Company is not dependent on sales to one or few major customers, in the opinion of the Capital Group its receivables are being recovered.

The table below shows the maximum exposure to credit risk in the Capital Group:

	31 December 2022	**31 December 2021**
Receivables	34,485	33,521
Cash and cash equivalents, and other financial assets	3,797	2,499
	38.282	**36,020**

Notes to Financial Statements
(PLN'000 unless otherwise specified)

Increases and decreases in allowances for receivables:

	31 December 2022	31 December 2021	3
Allowance for receivables at start of year	1,744	1,877	
Allowance created	127	735	
Allowance reversed	(112)	(724)	
Allowance utilised	(51)	(144)	
Allowance at end of year	**1,708**	**1,744**	

Cash and term deposits

Cash and cash equivalents are deposited with BNP Paribas S.A (if in a foreign currency) and Pekao S.A and Bank Santander S.A, which are highly credible financial institutions as confirmed by their high ratings from rating agencies, and the low credit risk as at the balance sheet date as well as a potential allowance have no impact on the cash balance presented.

Liquidity risk

Liquidity risk is the risk that the Capital Group will be unable to repay its financial liabilities as they fall due. Measures to mitigate this risk include proper liquidity management through correct assessment of the level of cash resources based on cash flow forecasts over various time horizons.

31 December 2022

	Balance sheet value	Contracted cash flow	up to 1 year	1-5 years
Liabilities				
Trade payables and other non-financial liabilities	(21,255)	(21,255)	(21,255)	-
Working capital facility in PLN	(14,196)	(15,342)	(15,342)	-
Working capital facility in GBP	(5,275)	(5,489)	(5,489)	-
Non-revolving facilities	(5,368)	(7,069)	(1,378)	(5,691)
Upstream borrowing	-	-	-	-
Lease liabilities	(8,082)	(8,484)	(2,878)	(5,606)
	(54,176)	**(57,639)**	**(46,342)**	**(11,297)**

(PLN'000 unless otherwise specified)

31 December 2021

	Balance sheet value	Contracted cash flow	up to 1 year	1-5 years
Liabilities				
Trade payables and other non-financial liabilities	(17,867)	(17,867)	(17,867)	-
Working capital facility	(19,396)	(20,046)	(14,511)	(5,535)
Liabilities to owners (dividend)	-	-	-	-
Lease liabilities	(5,389)	(5,484)	(1,965)	(3,519)
	(42,652)	**(43,397)**	**(34,343)**	**(9,054)**

The Capital Group operates in an industry that is characterised by a higher significant capital demand in terms of working capital finance. The reason is that in its key markets the payment due dates in the Capital Group's customer relationships are between 30 and 120 days, while at the same time the payment due dates asked by suppliers of key raw materials are shorter. In this situation, the consolidated statement of financial position shows, on the liabilities side (in addition to trade payables), also significant liabilities under borrowed loans and facilities.

Market risk

Interest rate risk

The Capital Group's exposure to changes in interest rates mainly relates to cash, cash equivalents and bank borrowings with variable interest rates based on WIBOR + margin and on SONIA + margin (in the case of the GBP facility).

To finance its investments and day-to-day operations, the Capital Group has taken the bank loans and facilities as listed in note 17. They have variable interest rates and, consequently, each increase in the interest rate will result in a simultaneous increase in the financial expense of the Capital Group for the interest on such borrowings.

The table below shows the sensitivity profile (maximum exposure) to interest rate risk in the Capital Group:

(PLN'000 unless otherwise specified)

	Balance sheet value 31 December 2022	Balance sheet value 31 December 2021
Financial assets	3,797	2,499
Financial liabilities	(28,816)	(19,452)
	(25,019)	**(16,952)**

Measures to mitigate the risk of interest rate changes include ongoing monitoring of the money market situation.

The Capital Group has no fixed-rate financial instruments measured at fair value through profit or loss. In addition, the Capital Group also has no fixed-rate instruments recognised directly in equity.

The Capital Group carried out a sensitivity analysis of floating financial instruments to a change in market interest rates. The table below presents the impact that a 200 bps increase or decrease in the interest rate would have on the financial result and equity. The analysis was prepared with the assumption that all other variables, such as exchange rates, remain unchanged.

	Financial result		**Income tax**	**quity including financial result**	
	increased by 200bps	decreased by 200bps	increased/decreased by 200bps	increased by 200bps	decreased by 200bps
2022	(741)	741	(141)	(600)	600
2021	(419)	419	(80)	(339)	339

Currency risk

As the Capital Group carries out part of its sales and purchases based on EUR settlements, it is exposed to the risk of changes in the EUR/PLN exchange rate.

Approx. 22.27 % of the total sales comes from exports. Foreign currency purchases are approx. 41.6 % of total purchases made. Hence, exchange rate fluctuations have an impact on the turnover proceeds and the expense for raw material and product purchasing. Significant fluctuations in the domestic currency have a negative impact on exports profitability and on the domestic turnover. However, changes in proceeds from exports and domestic sales measured based on FX rates that change are compensate by changes in the cost of raw material imports (measured based on FX rates), therefore largely mitigating the exposure to exchange rate risk in the Capital Group.

Notes to Financial Statements
(PLN’000 unless otherwise specified)

Foreign exchange risk management involves the following processes: identification and measurement of risks, financial market trend monitoring, adaptations (to the extent possible) of levels of payables and receivables in respective currencies.

The below tables show the currency balances as at 31 December (PLN’000):

31 December 2022	Total in PLN	Exposure in PLN	Exposure in EUR	Exposure in USD	Exposure in SEK	Exposure in UAH	Exposure in GBP
Total assets	209,785	196,973	3,286	-	101	279	9,174
Equity and liabilities	(209,785)	(200,555)	(9,220)	-	-	-	(5,290)
Currency exposure in PLN’000 (EUR equivalent)	-	-	(5,934)	-	-	-	-
Currency exposure in PLN’000 (USD equivalent)	-	-	-	-	-	-	-
Currency exposure in PLN’000 (SEK equivalent and others)	-	-	-	-	101 -	- -	- -
Currency exposure in PLN’000 (GBP equivalent)	-	-	-	-	-	-	3,884 -
Company's loss if EUR rate rises by 10 % (PLN’000)	-	-	(593)	-	-	-	-
Company's profit if USD rate rises by 10 % (PLN’000)	-	-	-	-	-	-	-
Company's profit if SEK rate rises by 10 % (PLN’000)	-	-	-	-	10	-	-
Company's profit if GBP rate rises by 10 % (PLN’000)	-	-	-	-	-	-	388 -

Notes to Financial Statements
(PLN'000 unless otherwise specified)

31 December 2021	Total in PLN	Exposure in PLN	Exposure in EUR	Exposure in CZK	Exposure in USD	Exposure in SEK	Exposure in UAH	Exposure in GBP
Total assets	198,519	185,588	2,255	3	12	59	159	10,443
Equity and liabilities	(198,519)	(190,642)	(7,877)	-	-	-	-	-
Currency exposure in PLN'000 (EUR equivalent)	-	-	(5,622)	-	-	-	-	-
Currency exposure in PLN'000 (USD equivalent)	-	-	-	-	12	-	-	-
Currency exposure in PLN'000 (SEK equivalent)	-	-	-	-	-	59	-	-
Currency exposure in PLN'000 (UAH equivalent)	-	-	-	-	-	-	159	-
Currency exposure in PLN'000 (GBP equivalent)	-	-	-	-	-	-	-	10,443
Company's loss if EUR rate rises by 5 % (PLN'000)	-	-	(281)	-	-	-	-	-
Company's profit if CZK rate rises by 5 % (PLN'000)	-	-	-	3	-	-	-	-
Company's profit if SEK rate rises by 5 % (PLN'000)	-	-	-	-	-	3	-	-
Company's profit if UAH rate rises by 5 % (PLN'000)	-	-	-	-	-	-	8	-
Company's profit if GBP rate rises by 5 % (PLN'000)	-	-	-	-	-	-	-	522
Company's profit if USD rate rises by 5 % (PLN'000)	-	-	-	-	1	-	-	-

Risk of raw material prices

The Capital Group's business is characterised by the relative volatility of raw material prices in relation to the goods and products sold. These fluctuations cause variability in the margins that are realised on the sales and production of individual product lines. In particular, the prices of products such as polymer dispersions and colouring agents are highly sensitive to the level of oil prices on international markets, which is very difficult to forecast.

The material purchasing policy of the Capital Group diversifies suppliers of all raw materials that are needed for the Company products so that in group of raw materials there are several alternative contractors. The value of purchases from any supplier does not exceed 7.6 per cent of the total cost of raw materials.

Commercial contracts lack mechanisms that would automatically pass on the cost to the selling price, which requires the Capital Group to continuously monitor the level of market prices and adapt them accordingly through a discounting system and updated price lists. For this reason, the potential risk of mismatch between the purchase prices of raw materials and the selling prices of finished goods is associated with some of the product inventory held by the Capital Group at the balance sheet date. It is estimated that in the event of a 1% mismatch, the Capital Group would be exposed to a gain or loss at a level of approx. PLN 38 thousand.

22C. Fair value of financial instruments

Details of financial instrument fair market values that can be estimated are presented below:

- Cash and cash equivalents, short-term bank term deposits and short-term borrowings: the carrying amount of the above instruments approximates their fair market value as their maturities are short;
- Trade and other receivables, trade payables and other liabilities: the carrying amount of the above instruments approximates their fair market value as they are short-term in nature;
- Long-term borrowings, lease liabilities: the carrying amount of the above instruments approximates their fair market value as their interest rates are floating.

22D. Capital management

One of the fundamental principles of the capital management policy is to maintain a strong capital base that will underpin trust among investors, lenders and the market, and also ensure the future growth of the Capital Group. The Capital Group monitors changes in shareholdings, return on capital and equity-to-liability ratios.
The Capital Group's objective is to achieve a return on capital at a level satisfying the shareholders.
There were no changes in the capital management policy during the financial year.

23. Contingent liabilities

Financial liabilities, guarantees and contingent liabilities:

The Company made an agreement with the Solid Wall Insulation Agency in the UK to grant a corporate guarantee to its subsidiary, Soltherm External Insulations Ltd., covering any claims as may arise from the use of insulation systems manufactured by Bolix and marketed by Soltherm in the UK under ECO schemes. The guarantee capped at GBP 1,700,000 and realises the product liability of the insulation systems manufacturer.

In addition, the Company granted a guarantee to Watmos Community Homes in the UK covering the contract performance related to building energy efficiency improvements carried out by a related party, Surefire Management Services Ltd.

On 4 February 2023, the Company granted a payment default guarantee to Mat Clad up to GBP 25 thousand and to Styrene Packaging Ltd up to GBP 80 thousand to secure any event of payment default by Soltherm External Insulations Ltd for delivered goods.

The Company granted a contract performance guarantee to RENFREWSHIRE COUNCIL covering the contract performance by MP Group Ltd which is a customer of Soltherm External Insulations Ltd. The guarantee was issued on 25 July 2022.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

24. Other information affecting the company situation.

Effects of the COVID19 pandemic on the Company's environment and business
As of 19 May 2022, the official epidemic state has been cancelled in Poland.
Current status.
The COVID19 pandemic had no impact on the Company's operations in 2022.

Effect of Russia's invasion of Ukrainian territory
Current status.
The Company does not carry out a high energy uptake production. Increases in fuel, gas and energy prices have not had a significant impact on its operations. The Russian market was less than 1% of the turnover and its loss did not affect the overall economic situation of the Company. The Ukrainian market has been active on a level comparable to the period before 24 February 2022. It represents 1.5% of 2022 sales revenues and any potential collapse in sales will not have a material effect on the financial situation. In addition, the assets of Bolix Ukraine (subsidiary) that are inventory and trade receivables of approx. PLN 1 million are not materially at risk. The subsidiary's business is running and its employees are safe.

Expected trends.
The Management Board is prepared for the local market to develop in line with GDP growth projections. The forecasts for its financial performance are therefore very cautious and foresee increasing sales revenues due to several factors, among others mainly exports and local demand resulting from increased cost of heating. January and February significantly exceeded budget projections.

Thanks to the cost cuts and an improved discipline in expenditures, the Management Board does not observe any material reasons why the current situation should significantly jeopardise the Company's position in either revenues or profitability. For key raw materials, the Company does not depend on any single direction of supply and has the capacity to adapt alternative raw materials. In the opinion of the Management Board, the current situation does not affect the Company's going concern assumption. The governmental 'My First Home' mortgage subsidy programme, which starts on 1 July 2023, is likely to yield a positive impact on the market.

25. Events after balance sheet date

By Amendment 16 of 27 February 2023, the limit of the overdraft limit was increased by PLN 4 million under the multi-purpose credit line facility made with BNP Paribas Bank Polska S.A.

By Amendment 17 of 18 March 2023, the limit of the overdraft limit was increased by PLN 3 million and the drawdown period was extended until 11 September 2024 under the multi-purpose credit line facility made with BNP Paribas Bank Polska S.A.

Otherwise, in our best knowledge, there have been no material events after 31 December 2022 (after the end of the reporting period) that could significantly affect the assessment of assets, financial position and profit or loss and but have not been reflected in the financial statements for the year ended 31 December 2022.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

26. Transactions with related parties

As presented in note 1(a), the Capital Group is owned and controlled by Lusako Trading Limited. Lusako is an entity owned exclusively by Berger Paints India Limited ("Berger"), a capital group based in India.

The Capital Group sold products and services to Surefire Management Services Ltd (SMS Ltd) for a total of PLN 8,960 thousand (PLN 8,219 thousand of products, PLN 741 thousand of services are mainly re-invoicing of property insurance expenses, other current costs and employment expenses) and, as at 31 December 2022, the total receivables from this related entity is PLN 4,020 thousand. In addition, the balance of loans granted at 31 December 2022 is 2,118 thousand, with maturity by 31 December 2023. The interest rate is determined based on the 'safe harbour' mechanism, i.e. the base interest rate plus 2% margin.

Related party transactions took place on arm's length basis.

Related party transactions were carried out on arm's length basis.

In 2022, the Management Board consisted of the following individuals:
- Mr Maciej Korbasiewicz
- Mr Ryszard Czech
- Mr Piotr Michalski

The members were hired based on employment contracts and entitled only to short-term employee benefits.

Due to the three-member makeup of the Management Board, the Company does not disclose specific costs.

Notes to Financial Statements
(PLN'000 unless otherwise specified)

27. Certified auditor fees

	2022	2021
Bolix S.A and Capital Group	115	99
SOLTHERM EXTERNAL INSULATIONS LTD (UK)	43	43
SOLTHERM INSOLATIONS THERMIQUE EXTERIEURE (France)	19	16
Surefire Management Services Ltd. (affiliate)	43	43
Capital Group quarterly reviews by PwC	75	63
Other auditor services	**-**	**-**
Total	**295**	**264**

Unaudited limited liability companies: Build-Trade Sp. z o.o. and Bolix Ukraine

Signatures of Management Board Members

President of
Management Board
Mr Maciej Korbasiewicz

Member of
Management Board
Mr Ryszard Czech

Member of
Management Board
Mr Piotr Michalski

Signature of authorised bookkeeper
Chief Accountant
Ms Ewelina Politańska

Żywiec, 20 April 2023