



GRUPA KĘTY S.A.

ANNUAL FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION**

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STATEMENT OF PROFIT OR LOSS

	Note	2019	2018
Total operating revenue, including:		1,307,526	1,285,572
Revenue from contracts with customers	14.1	1,122,610	1,127,244
Other operating revenue	14.2	2,442	5,451
Dividends	14.3	182,474	152,877
Change in the level of products and work in progress		(19,640)	8,015
Cost of manufacturing of products for own needs		5,995	5,559
Total operating costs, including:		(1,072,507)	(1,090,331)
Depreciation	18, 19, 20	(49,902)	(41,869)
Materials and energy and the value of materials and trade goods sold	14.9	(727,137)	(752,358)
Third-party services		(154,515)	(158,267)
Taxes and fees		(5,950)	(6,055)
Employee benefits	14.8	(131,347)	(126,340)
Revaluation of financial assets	14.4	(447)	(460)
Other operating costs	14.5	(3,209)	(4,982)
Profit on operating activities		221,374	208,815
Financial revenue	14.6	185	194
Finance costs	14.7	(9,630)	(7,673)
Profit before tax		211,929	201,336
Income tax	15	(6,902)	(9,897)
Net profit on continued operations		205,027	191,439
Basic net earnings per share (PLN)	16	21.45	20.07
Diluted net earnings per share (PLN)	16	21.41	20.05

In 2019 and 2018, the Company did not discontinue any operations.

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019	2018
Net profit for the period		205,027	191,439
Other comprehensive income recognised in profit or loss, including:		4,696	(7,011)
Valuation of cash flow hedging instruments	39.2	5,515	(7,324)
Result on cash flow hedging transactions		229	(1,078)
Income tax related to other comprehensive income		(1,048)	1,391
Other comprehensive income recognised outside profit or loss, including:		(21)	84
Actuarial gains (losses)	24.2.2	(26)	104
Income tax related to actuarial gains (losses)		5	(20)
Comprehensive income for the period		209,702	184,512

BALANCE SHEET

ASSETS	Note	31.12.2019	31.12.2018
I. Non-current assets		888,214	877,508
Property, plant and equipment	18	498,562	486,547
Intangible assets	19	6,993	6,497
Right-of-use assets	20	11,888	0
Shares and interests	21	369,440	369,107
Advance payments for the purchase of property, plant and equipment	23	1,331	15,357
II. Current assets		282,235	345,548
Inventories	25	96,212	134,887
Income tax receivables	26	1,498	0
Trade and other receivables	27	176,324	194,457
Derivative financial instruments	39	1,554	347
Cash and cash equivalents	28	6,647	15,857
Total assets		1,170,449	1,223,056
EQUITY/LIABILITIES			
I. Equity		676,451	689,590
Share capital	29.1	67,825	67,763
Share premium	29.2	38,018	33,900
Capital from the revaluation of property, plant and equipment	29.3	2,369	2,842
Capital from share based payments	29.4	26,392	24,322
Capital from the revaluation of hedging instruments	29.5	1,259	(3,208)
Result on cash flow hedging transactions	29.6	(303)	(532)
Retained earnings	29.7	540,891	564,503
II. Long-term liabilities		272,654	158,326
Liabilities related to loans	30	213,525	105,829
Lease liabilities	31	3,579	0
Provisions	33	107	0
Provisions for employee benefits	24.2	1,947	1,691
Subsidies	32	28,258	29,246
Deferred income tax provision	15.1	25,238	21,560
III. Short-term liabilities		221,344	375,140
Liabilities related to loans	30	123,269	252,107
Lease liabilities	31	177	0
Income tax payables	26	0	2,356
Trade payables and other liabilities	34.1	81,079	98,445
Contractual liabilities	34.2	705	1,203
Provisions and accruals	33	14,960	15,702
Derivative financial instruments	39	134	4,307
Subsidies	32	1,020	1,020
Total equity/liabilities		1,170,449	1,223,056

STATEMENT OF CASH FLOWS

	Note	2019	2018
Cash flow from operating activities			
Profit before tax		211,929	201,336
Adjustments:		59,903	47,657
Depreciation	18, 20	49,902	41,869
Recognition of write-downs of interests	14.5	47	45
Recognition of write-downs of property, plant and equipment	14.5	206	83
Net (profit) loss from currency translation differences		303	1,654
(Profit)/loss from sales of property, plant and equipment	14.2	(105)	109
Interest		7,631	3,819
Proceeds from the liquidation of a subsidiary	37	736	0
Realised result on transactions hedging the price of aluminium recognised in equity		229	(1,078)
Costs of share based payments	14.8	954	1,156
Cash flow from operating activities before the change of working capital and tax payment		271,832	248,993
Change in inventories	44	38,675	(18,186)
Change in net receivables	44	18,137	(20,853)
Change in short-term liabilities, except for loans	44	(2,369)	(12,987)
Change in provisions	44	(405)	1,075
Change in subsidies	44	(988)	(1,020)
Net cash generated from operating activities before tax payment		324,882	197,022
Tax (paid)/refunded	26	(8,121)	(10,053)
Net cash from operating activities		316,761	186,969
Cash flow from investing activities			
(+) Proceeds:		216	386
Sales of intangible assets, and property, plant and equipment		216	386
(-) Expenses:		(71,847)	(124,602)
Acquisition of intangible assets, and property, plant and equipment		(71,847)	(124,602)
Net cash from investing activities		(71,631)	(124,216)
Cash flow from financing activities			
(+) Proceeds:		113,535	214,062
Net proceeds from the issue of shares		4,180	2,781
Proceeds from loans and credits		109,355	211,281
(-) Expenses:		(367,875)	(264,343)
Dividends	17	(229,009)	(228,521)
Repayment of loans		(130,406)	(30,484)
Interest on loans		(8,283)	(5,338)
Payment of lease liabilities		(177)	0
Net cash from financing activities		(254,340)	(50,281)
Total net cash flows:		(9,210)	12,472
Cash and cash equivalents at the beginning of the period		15,857	3,385
Cash and cash equivalents at the end of the period	28	6,647	15,857

STATEMENT OF CHANGES IN EQUITY

Present year	Share capital	Share premium	Capital from the revaluation of property, plant and equipment	Capital from share based payments	Capital from the revaluation of hedging instruments	Result on cash flow hedging transactions	Retained earnings	Total equity
Equity as at 01.01.2019	67,763	33,900	2,842	24,322	(3,208)	(532)	564,503	689,590
Comprehensive income for the period:	0	0	0	0	4,467	229	205,006	209,702
<i>Net profit for the period</i>	0	0	0	0	0	0	205,027	205,027
<i>Other comprehensive income</i>	0	0	0	0	4,467	229	(21)	4,675
Valuation of share based payments	0	0	0	2,070	0	0	0	2,070
Transfer due to depreciation	0	0	(473)	0	0	0	473	0
Issue of shares	62	4,118	0	0	0	0	0	4,180
Payment of dividend	0	0	0	0	0	0	(229,091)	(229,091)
Equity as at 31.12.2019	67,825	38,018	2,369	26,392	1,259	(303)	540,891	676,451

Previous year	Share capital	Share premium	Capital from the revaluation of property, plant and equipment	Capital from share based payments	Capital from the revaluation of hedging instruments	Result on cash flow hedging transactions	Retained earnings	Total equity
Equity as at 01.01.2018	67,704	31,179	3,314	21,992	2,725	546	601,029	728,489
Comprehensive income for the period:	0	0	0	0	(5,933)	(1,078)	191,523	184,512
<i>Net profit for the period</i>	0	0	0	0	0	0	191,439	191,439
<i>Other comprehensive income</i>	0	0	0	0	(5,933)	(1,078)	84	(6,927)
Valuation of share based payments	0	0	0	2,330	0	0	0	2,330
Transfer due to depreciation	0	0	(472)	0	0	0	472	0
Issue of shares	59	2,721	0	0	0	0	0	2,780
Payment of dividend	0	0	0	0	0	0	(228,521)	(228,521)
Equity as at 31.12.2018	67,763	33,900	2,842	24,322	(3,208)	(532)	564,503	689,590

SUPPLEMENTARY INFORMATION AND EXPLANATORY NOTES

1. General information

The financial statements of Grupa Kęty S.A. refers the year ended 31 December 2019 and comprises comparative data for the year ended 31 December 2018.

Grupa Kęty S.A. is:

- a joint stock company incorporated in Poland, with its registered office in **Kęty, ul. Kościuszki 111**;
- registered by the District Court in Kraków, 12th Commercial Division of the National Court Register (KRS) in the Register of Entrepreneurs under the number **KRS 0000121845**;
- listed at the Warsaw Stock Exchange under number **ISIN PLKETY000011** and classified in the metal sector.

The Company originated from the transformation of Zakłady Metali Lekkich 'Kęty' ['Kęty' Light Metals Plant] state-owned company into a sole-shareholder company of the State Treasury, by way of a notarised deed dated 3 March 1992.

The Company has tax identification number: **NIP 549-000-14-68**.

The Company has statistical identification number: **REGON 070614970**.

The basic activities of the Company include production, trade and services related to the processing of aluminium and its alloys. Moreover, the Company deals with managing the Company capital group and commercial intermediation, supplies and marketing, and other activities (including transmission and distribution of natural gas and electric energy).

The lifetime of the Company is unlimited.

2. Identification of the consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31 December 2019.

The consolidated financial statements of the Company are published at the same date as the separate statement. The consolidated statements of the Company are available on the website: www.grupakety.com.

3. Membership of the Company Management Board

The Company Management Board, as at the date of approving these statements for publication, consisted of:

Mr Dariusz Mańko – President of the Management Board/CEO,

Mr Piotr Wysocki – Member of the Management Board/Vice CEO,

Mr Rafał Warpechowski – Member of the Management Board/CFO

Mr Tomasz Grela – Member of the Management Board.

As at 30 May 2019 Mr Adam Piela resigned from the function of the Member of the Management Board/CFO.

As at 7 June 2019 Mr Rafał Lechowicz resigned from the function of the Member of the Management Board.

As at 1 October 2019, Mr Rafał Warpechowski was appointed Member of the Management Board/CFO.

4. Financial statements approval

These financial statements were approved for publication by the Management Board on 25 March 2020.

5. Investments in other companies

The Company has the following investments in subsidiaries:

No.	Company name	Registered office	Core business	Percent of share capital and total number of votes as at 31.12.2019	Percent of share capital and total number of votes as at 31.12.2018	Date of control take-over by Grupa Kęty S.A.
1.	Alupol Packaging S.A.	Tychy, Poland	Production and trade in plastic packaging	100.00 %	100.00 %	04/1998
2.	Aluprof S.A.	Bielsko-Biała, Poland	Production of construction joinery	100.00 %	100.00 %	06/1998
3.	Dekret Centrum Rachunkowe Sp. z o.o.	Kęty, Poland	Accounting and bookkeeping services	100.00 %	100.00 %	09/1999
4.	Aluform Sp. z o.o.	Tychy, Poland	Profiles production services	100.00 %	100.00 %	6/2009
5.	Grupa Kety Italia S.R.L.	Milan, Italy	Commercial intermediation	100.00 %	100.00 %	5/2014

Moreover, the Company has investments in other business operators of the gross value of PLN 840,000. Investments in other business operators are fully covered with an impairment loss provision.

In 2019 the subsidiary Alu Trans System spółka z o.o. was liquidated.

The investments in other business operators date back to the 1990s, and result from the conversion of the Company amounts receivable into shares or interests in companies undergoing restructuring processes.

6. Professional judgement and estimates

6.1. Professional judgement

In the process of accounting principles (policy) application to the issues specified in note 6.2, apart from the accounting estimates, the professional judgement of the management was most significant.

6.2. Uncertainty of estimates

Further herein the basic assumptions related to the future as well as other key sources of uncertainty as at the balance-sheet date are discussed, including the risk of considerable adjustment of the carrying amounts of assets and liabilities.

Deferred income tax assets

The Company recognises the deferred income tax asset on the basis of the assumption that, in the future, tax profit is to be obtained enabling its utilisation. A deterioration of the generated tax results could cause these assumptions to become unjustified in the future.

Impairment of assets

In 2019 and 2018, due to the absence of indicators of impairment, the Company did not carry out any impairment test with regard to property, plant and equipment.

The write-down of property, plant and equipment recognised during the year is related to the individual assessment of their wear and tear, and the possibility of generating financial benefits by the assets.

Moreover, the Company carried out impairment tests in reference to the possessed interests and shares in subsidiaries. The information on the results of the tests and the recognised write-downs are provided in note 21.

Valuation of provisions and accruals

The long-term provisions for employee benefits comprise retirement and disability benefits. They were measured by a licensed actuary with the use of actuarial methodology. The assumptions adopted for that purpose are specified in note 24.2. The valuation of other provisions and accruals, including provisions for bonuses and unused employee

holiday is based on the estimates of the Management Board. The costs of recognised provisions and accruals reflect the most accurate estimate of expenditure needed to fulfil the current obligation as at the balance-sheet date. If the effect of the change of money value in time is material, the provision amount corresponds to the present value of expenditure which, as expected, will be necessary to satisfy the obligation.

Fair value of derivative financial instruments

Fair value of financial instruments for which there is no active market is measured with the application of appropriate valuation techniques. In order to select the applicable methods and assumptions, the Company is guided by a professional opinion. The method of fair value determination for individual financial instruments is specified in notes 12.10, 39 and 41.

Write-down of inventories

The Company assesses the value and the probability of obtaining future economic benefits in relation to the possessed inventories. In the case of circumstances substantiating that the amount obtained will be lower than the value of inventories, the Company recognises write-downs of inventories up to the realisable net sales price. The information about the method of determining the value of inventories is presented in note 12.14.

Write-down of receivables

The Company uses provision matrices to measure the expected write-downs of credit losses in reference to trade receivables. In order to determine the credit losses, trade receivables are grouped based on the probability of credit risk characteristics. The Company uses its historical data regarding credit losses, adjusted in the respective cases on the basis of information applicable to the future. The information about the method of determining the value of receivables is presented in note 12.15.

Fair value of the share option plan for the management staff

The Company runs a share option plan for the management staff. The fair value of the plan is determined as at the date of launching the plan by an actuary with the use of actuarial methodology. In addition, as at each balance-sheet date, the Company assesses the probability of accomplishment of the particular non-market conditions for the take-up of shares, by making an appropriate adjustment of the number of the share options assumed in valuation.

The assumptions adopted for that purpose are specified in note 24.1.

Depreciation/amortisation rates

Depreciation/amortisation rates are determined on the basis of the projected useful lives of property, plant and equipment, intangible assets, and right-of-use assets. The assumptions adopted for that purpose are specified in notes 12.3 and 12.7.

Each year, the Company verifies the assumed useful lives based on current estimates.

Uncertainty of estimates as regards identification of contracts and business relations in reference to IFRS 16

Professional judgement is described in notes 8 and 12.4.

Uncertainty related to tax settlements

Regulations concerning VAT tax, corporate income tax and social security contributions are subject to frequent changes. Such changes result in the absence of appropriate points of reference, inconsistent interpretations and few established precedents that could be applied. The binding regulations are also unclear, which results in different opinions as to legal interpretation of tax regulations. Tax settlements and other areas of activities (e.g. customs or foreign exchange issues) may be subject to inspections of authorities that are entitled to impose penalties and fines, and any additional tax obligations resulting from such inspections must be paid with penal interest.

Consequently, the amounts recognised and disclosed in financial statements may change in the future as a result of final decisions of tax inspection authorities.

On 15 July 2016, amendments were introduced to the Polish General Tax Code to account for the provisions of the General Anti-Abuse Rule ('GAAR'). GAAR is to prevent the establishment and use of artificial legal arrangements created in order to avoid payment of tax in Poland. GAAR defines tax avoidance as an act committed primarily to achieve a tax advantage contrary, in the given circumstances, with the subject and purpose of the provisions of the Tax Act. In accordance with GAAR, such act does not result in a tax advantage if the mode of operation was artificial. The above regulations will call for a much more insightful judgement when assessing tax implications of individual transactions.

The Company recognises and measures current and deferred income tax assets or liabilities in accordance with IAS 12 *Income Taxes* on the basis of taxable profit (loss), the tax base, unused tax losses, unused tax credits and tax rates, taking into account the evaluation of the uncertainty related to tax settlements.

7. Basis for the financial statements preparation

The financial statements were prepared on the basis of the historical cost concept, except for derivative financial instruments which were measured at fair value; property, plant and equipment classified as 'energy-related assets' which are measured at revalued amount; and equity revalued with regard to the periods subject to hyperinflation in accordance with IAS 29.

The figures in the financial statements are presented in PLN thousands, unless otherwise indicated.

The financial statements were prepared assuming that the Company will continue as a going concern in the foreseeable future for the period of at least 12 months from the balance-sheet date. As at the date of approval of these financial statements for publication, there were no circumstances implying that the Company would not continue as a going concern. The going concern assessment takes into account the post-balance-sheet event described in note 47.

For the thorough understanding of the financial standing and the results of the Company operations as a parent of the Capital Group, these financial statements should be read together with the consolidated financial statements of the Capital Group of Grupa Kęty S.A. for the year ending 31 December 2019. The statements will be available on the Company website at: grupakety.com, at the date of these statements publication.

7.1. Statement of compliance

These financial statements were prepared in accordance with the International Financial Reporting Standards ('IFRS') adopted by the EU.

7.2. Functional and presentation currency of these financial statements

The functional and presentation currency of these financial statements is Polish zloty ('PLN').

8. Changes in the applied accounting policies and changes in presentations

The accounting principles (policy) applicable to these financial statements comply with those applied in preparing financial statements of the Company for the year ended 31 December 2018, except for the items presented below.

8.1. Adoption of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ('IFRS 16'), which replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 introduces a single accounting model for lessees under which a lessee must recognise assets and liabilities under each lease with a term of over 12 months, unless the underlying asset is of low value. At the commencement date of a lease, a lessee will recognise an asset representing the right to use the underlying asset ('right-of-use asset') and a lease liability to make lease payments ('lease liability').

Lessees are required to separately recognise the depreciation expense on the right-of-use asset and interest expense on the lease liability.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of lease liability remeasurement as an adjustment to the right-of-use asset.

The lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance ones.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach, whereas the transition provisions permit certain practical measures. The Company assumed the modified approach.

The Company avails of free-of-charge land perpetual usufruct rights. In accordance with the previous accounting policies, the Company recognised the rights as land. Apart from the above, the Company has no other contracts to which IFRS 16 would apply.

In reference to the land perpetual usufruct rights, as at the date of the first adoption of IFRS 16 the Company assumed a solution consisting in measuring the rights in the amount previously recognised as property, plant and equipment, increased for the value of the liability as at 1 January 2019. They are presented in a separate balance-sheet item as the

'right-of-use assets' and, on the other hand, in a separate balance-sheet item of 'lease liabilities' there are presented the discounted amounts of lease liabilities.

As regards the IFRS 16 adoption, starting from 2019 the Company introduced the following changes:

Opening balance 2019

Balance sheet item	31.12.2018	Adjustment for IFRS 16	01.01.2019
ASSETS, including:	1,223,056	3,764	1,226,820
Property, plant and equipment, including:	486,547	(8,293)	478,254
land, including land perpetual usufruct rights	11,735	(8,293)	3,442
Right-of-use assets, including:	0	12,057	12,057
land use rights (land perpetual usufruct rights)	0	12,057	12,057
EQUITY/LIABILITIES, including:	1,223,056	3,764	1,226,820
long-term liabilities related to right-of-use assets	0	3,587	3,587
short-term liabilities related to right-of-use assets	0	177	177

Company as a lessee

Lease identification

The Company adopted new guidelines regarding lease identification only in reference to contracts concluded (or amended) on the first adoption date, i.e. 1 January 2019, or thereafter. Thus, in reference to all contracts concluded before 1 January 2019, the Group applied a practical expedient provided for in IFRS 16, in accordance to which a company is not obliged to reassess an arrangement whether it is a lease or contains a lease on the first adoption date. The Company applied IFRS 16 only to the contracts which have been previously identified as lease contracts in accordance with IAS 17 and IFRIC 4.

At the moment of concluding a new contract, the Company assesses whether the arrangement is a lease or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to assess whether a right to control the use of the underlying asset by a period of time is conveyed under the concluded contract, the Company assesses whether throughout the period of use it avails jointly of the following rights:

- the right to obtain basically all economic benefits on account of the use of the underlying asset, and
- the right to manage the use of the underlying asset.

If the Company is entitled to control the use of the underlying asset only for a part of the contract term, the contract contains a lease in reference to that part of the term.

Initial disclosure and measurement

The Company recognises a right-of-use asset and a lease liability at the date of the lease commencement.

At the commencement date, the Company measures the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee; and
- the estimate of costs to be incurred by the lessee dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The lease payments included in the measurement of the lease liability shall comprise:

- fixed lease payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate in accordance with their value as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if it is reasonably certain that the Company will exercise the purchase option;

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- payments of penalties for terminating the lease, unless it is reasonably certain that the Company will not exercise the option to terminate.

Variable lease payments which are not tied to an index or rate are not included in the value of the lease liability. The payments are recognised in profit or loss in the period of occurrence of the event resulting in their becoming due.

At the commencement date, the lease liability is measured at the present value of the lease payments due as at that date, discounted with the use of the lessee's incremental borrowing rate.

The Company does not discount lease liabilities with the use of interest rates implicit in the lease, as for the purpose of the rate determination, information regarding the unguaranteed residual value of the leased asset, as well as direct costs incurred by the lessor, i.e. information which may be known solely to the lessor, would be needed.

Determination of the lessee's incremental borrowing rate

The incremental borrowing rate has been defined as the total of:

- the risk-free rate determined based on Interest Rate Swap (IRS) in accordance with the discount rate maturity date and the respective base rate for the given currency; and
- credit risk premium of the particular companies of the Company (lessees).

Subsequent measurement

After the commencement date, a lessee shall measure the right-of-use asset by applying a cost model.

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

- less any accumulated depreciation (amortisation) and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability on account of lease which does not result in the necessity of reflecting a separate lease asset.

After the commencement date, a lessee shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Company remeasures the lease liability, if there is a change in the future lease payments resulting from a change of interest or rate applied to determine the payments (e.g. the payment on account of perpetual usufruct right changes); if there is a change in the amount expected by the Company to be payable under residual value guarantee; or if the Company changes the assessment of probability to exercise the purchase option, extension or termination of the lease.

The remeasurement of the lease liability also results in an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero the Company recognises a further reduction in the measurement of the lease liability in profit or loss.

Depreciation

Right-of-use assets are depreciated on straight-line basis for the shorter of the two periods: lease term or useful life of a right-of-use asset, unless the Company is reasonably certain that it is going to obtain the ownership title before the end of the lease term – in such case the right-of-use asset is depreciated from the commencement date to the end of the useful life. The estimated useful life of the right-of-use assets is determined in the same manner as for property, plant and equipment.

The Company has lease contracts related to the right of perpetual usufruct of land concluded for limited term ending 2079.

Impairment

The Company applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset lost its value and to recognise the identified impairment loss.

Recognition exemptions, simplified approach and practical expedients related to the application of IFRS 16

Eliminations

The following contracts of the Company are not subject to IFRS 16:

- licences granted falling under IFRS 15 *Revenue from Contracts with Customers*, and
- rights obtained under licences subject to IAS 36 *Intangible Assets*.

The Company does not apply IFRS 16 to lease contracts or similar contracts applicable to intangible assets.

Simplified approach and practical expedients related to the application of IFRS 16

Short-term lease

The Company has adopted a practical expedient in relation to short-term lease contracts characterised with the maximum possible term of 12 months, including the renewal option.

The simplified approach related to such contracts consists in recognising the lease payments as costs:

- on straight-line basis throughout the lease term; or
- on other systematic basis if it is more representative of the pattern of the lessee's benefit.

Lease of low-value assets

- The Company has not adopted the general principles of recognition, measurement and presentation under IFRS 16 to lease contracts of low-value assets.
- Low-value assets are considered to be those worth not more than PLN 20,000 when new, calculated as at the exchange rate of the first adoption date, i.e. 1 January 2019, or at the mean closing rate of the National Bank of Poland as at the moment of the contract first recognition, if the contract has been concluded post 1 January 2019.
- The simplified approach related to such contracts consists in recognising the lease payments as costs:
- on straight-line basis throughout the lease term; or
- on other systematic basis if it is more representative of the pattern of the lessee's benefit.
- The object of a lease contract cannot be considered to be of low value if it results from its characteristics that the new (unused) asset has usually a high value.

Lease term determination: unlimited time contracts

- When determining the lease term for unlimited time contracts, the Company makes a professional judgement in consideration of:
 - the expenditure incurred in relation to the contract; or
 - the potential costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location.
- If the lease contract termination costs are significant, the lease term equal to the assumed depreciation term of a similar item of property, plant and equipment with parameters close to the object of lease is assumed.
- Providing that the lease contract termination costs may be reliably determined, there must be assumed a term in which the contract termination will not be justified.
- If the expenditures incurred in relation to the specific contract are significant, a lease term is assumed to be the term of deriving economic benefits from the use of the expenditure.
- The value of expenditure incurred is a separate item of assets, other than the right-of-use assets.
- If no expenditures are incurred in relation to the respective contract or if there are no costs related to the contract termination, or if the costs are of insignificant value, the lease term is deemed to be the contract notice period.

PROFESSIONAL JUDGEMENT

Separating non-lease components

The Company judges whether a contract contains lease and non-lease components. Under contracts which contain lease and non-lease components, the non-lease components are separated, e.g. service of assets being the object of the contract.

However, if a contract comprises non-lease components which are considered by the Company to be insignificant in the context of the whole contract, the Company applies a simplified approach consisting in joint treatment of the lease and non-lease elements as one lease element.

Lease term determination

When determining the lease term, the Company considers all important facts and events which result in economic incentives to avail of the extension option, economic penalties for a failure to extend the contract, or non-exercise of the termination option. The judgement is made if there occurs an important event or change in circumstances under the control of the Group, which affect the judgement.

Right-of-use assets useful life

The estimated useful life of the right-of-use assets is determined in the same manner as for property, plant and equipment.

8.2. Additionally

a) Interpretation of IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation explains the method of income tax recognition and measurement in accordance with IAS 12, if there is an uncertainty regarding the tax treatment. It does not refer to taxes or payments outside of the scope of IAS 12, or requirements related to interest and penalties related to uncertain income tax treatment. The interpretation refers in particular to:

- separate consideration by an entity of the cases of uncertain tax treatment;
- assumptions made by an entity as to the control of the tax recognition by taxation authorities;
- the method in which an entity determines taxable income (tax loss), tax basis, unsettled tax losses, unused tax and tax rates;
- the method in which an entity recognises changes in facts and circumstances.

An entity must determine whether it considers each uncertain tax treatment separately, or jointly with one or more other uncertain tax treatments. There must be followed an approach which better foresees the uncertainty clarification.

b) Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

c) Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

d) Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

e) Changes resulting from the Annual Improvements to IFRS: 2015–2017 cycle

- IFRS 3 *Business Combinations* – as regards combinations achieved in stages
- IFRS 11 *Joint Arrangements* – as regards obtaining joint control of the joint operation
- IAS 12 *Income Taxes* – as regards the tax consequences of dividend payment
- IAS 23 *Borrowing Costs*

The amendments clarify that an entity recognises any initially incurred loans for the purpose of qualifying asset production as part of general loans when basically all of the actions needed to prepare that asset to its intended use or sale are completed.

9. New standards and interpretations issued, but not yet effective

No new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2019 have been published after 1 January 2019.

The Company decided not to apply earlier any standard, interpretation or amendment that have been issued but are not yet effective in the light of the European Union regulations.

The below standards have not yet been approved:

- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – in accordance with the decision of the European Commission, the process of approval of the standard in its preliminary version will not be initiated prior to the release of the standard in its final version – effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 *Sales or contributions of assets between an investor and its associate/joint venture* (issued on 11 September 2014) – the effective date has been deferred by the IASB indefinitely;
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017) – effective for annual periods beginning on or after 1 January 2021;
- Amendments to *References to the Conceptual Framework in IFRS Standards* (issued on 29 March 2018) – effective for annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 3 *Business Combinations* (issued on 22 October 2018) – effective for annual periods beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8: *Definition of Material* (issued on 31 October 2018) – effective for annual periods beginning on or after 1 January 2020;

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- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest rate benchmark reform* (issued on 26 September 2019) – effective for annual periods beginning on or after 1 January 2020;

The effective dates are the dates resulting from the content of standards issued by the International Financial Reporting Council. The dates of the standards adoption in the European Union may differ from the dates of adoption resulting from the content of the respective standards and are announced at the time of approving them for adoption by the European Union.

10. Error correction

These financial statements do not contain error corrections.

11. Estimation areas

The main estimations of the Management Board and the assumptions made are presented in the respective explanatory notes to the financial statements:

- estimations and assumptions applicable to the useful life of property, plant and equipment as well as intangible assets are presented in notes 12.3 and 12.7;
- estimations applicable to the revalued amount of property, plant and equipment are presented in note 18.7;
- estimates concerning the write-downs of inventories are presented in note 25;
- estimations applicable to write-downs of property, plant and equipment are presented in note 18;
- estimates concerning the write-downs of receivables are presented in note 27;
- estimations applicable to employee benefits and provisions are presented in notes 24.2 and 33;
- estimations applicable to the options plan are presented in note 24.1;
- estimations applicable to discounted cash flows used in the calculation of the possible write-downs of shares in subsidiaries are presented in note 21;
- estimations applicable to the fair value of derivative financial instruments are presented in note 39;
- estimations applicable to identification of contracts and business relations in reference to IFRS 16 are presented in notes 8 and 12.4.

12. Significant accounting principles

Except for those described in clause 8, the adopted accounting principles were applied in a continuous manner in all presented periods.

12.1. Measurement at fair value

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Moreover, the value of financial instruments measured at amortised cost is reflected in the notes to the financial statements.

The fair value is defined as the price that would be received from sale of an asset or paid in order to transfer a liability in the transaction conducted on normal conditions between market participants at the valuation date. The valuation of fair value is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs either:

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

Both the principal and the most advantageous markets must be accessible to the Company.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Summary of significant accounting principles applicable to measurement at fair value

The Company has introduced policies and procedures for both recurring measurement at fair value of e.g. investment properties and unquoted financial assets, and non-recurring measurement of e.g. assets held for distribution in discontinued operations.

Independent appraisers are engaged to measure significant assets, such as properties or acquisition transactions.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

12.2. Translation of items expressed in foreign currencies

Transactions in currencies other than PLN are translated into PLN at a rate applicable as at the transaction conclusion date.

As of the balance sheet date, monetary assets and liabilities expressed in currencies other than PLN are translated into PLN at the mean exchange rate of a given currency determined by the National Bank of Poland as at the end of the reporting period. Exchange differences resulting from translation and settlements are recognised under financial income or financial costs, or – in cases provided for in the accounting policy – capitalised in the value of assets.

Non-monetary assets and liabilities recognised at the historical cost expressed in a foreign currency are disclosed at the historical exchange rate as of the transaction date.

The following exchange rates have been assumed for the purposes of balance sheet valuation:

	31.12.2019	31.12.2018
USD	3.7977	3.7597
EUR	4.2585	4.3000
GBP	4.9971	4.7895

12.3. Property, plant and equipment

Property, plant and equipment are recognised at purchase price/generation cost less depreciation and impairment losses, except for property, plant and equipment classified as 'energy-related assets' which are measured according to the revalued amount model, i.e. at fair value as at the revaluation date less depreciation and any possible impairment losses. The Company 'energy-related assets' are property, plant and equipment related to the transmission and distribution of electrical energy.

The initial value of property, plant and equipment includes their purchase price increased for costs directly related to the purchase and the adjustment of a given asset to usable condition.

Costs also include the cost of spare parts replacement in plant and machinery at the moment of the incurrence, provided that the recognition criteria have been met. The costs incurred after the date of the commissioning of a given component of property, plant and equipment, such as the current costs of maintenance and repair works, are recognised in profit or loss at the moment of their incurrence.

Property, plant and equipment, at the moment of their purchase, are divided into individual components constituting items of significant value to which separate useful lives can be assigned. Also the costs of general overhauls are the components of the assets.

Depreciation is calculated with the application of the straight-line method for the estimated useful life of a given asset which amounts to:

Type	Period	
Buildings and structures	25–75	years
Plant and machinery, including:	10–40	years
- crucial components	15–25	years
Energy-related assets	15–91	years
Means of transport	7–15	years
Other property, plant and equipment	5–10	years

The final value, the useful life and the depreciation method for the assets are reviewed on an annual basis and, if necessary, adjusted effective from 1 January the next financial year.

A given item of property, plant and equipment can be derecognised from the balance sheet after having been sold or in the case when no economic benefits are expected to occur as a result of the further utilisation of such an asset. Any gains or losses resulting from the derecognition of a given asset from the balance sheet (calculated as a difference between the potential net proceeds from sales and the carrying amount of the item) are recognised in profit or loss for the period in which such derecognition took place.

Property, plant and equipment under construction are assets currently under construction or assembly and are disclosed at purchase prices or generation costs. Property, plant and equipment under construction are not depreciated until the termination of the construction, i.e. only at the moment when the asset becomes available for use. Each time an overhaul is carried out, the costs of the same are reported in the carrying amount of property, plant and equipment, if the recognition criteria are met, and are recognised in the next planned periodical repairs.

12.4. Lease

12.4.1 Accounting policy valid till 31 December 2018

Finance lease agreements, that as a rule transfer to the Company the whole risk related to and the benefits resulting from the possession of the object of lease, are recognised in the balance sheet at the lease start date at the lower of the two values: fair value of the property, plant and equipment being the object of lease or current value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss unless the capitalisation requirements are met.

The depreciation policy for property, plant and equipment used under finance leases shall be consistent with that for depreciation of assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the property, plant and equipment used under finance leases are depreciated over the shorter of the two terms: the estimated useful life of the asset or the lease term.

Conditional lease payments are recognised as cost in the period when they become due.

12.4.2 Accounting policy applied starting from 1 January 2019

Company as a lessee

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

The Company applies uniform principles of recognition and measurement of all leases, except for short-term or low-value assets lease contracts. At the lease commencement date, the Company recognises a right-of-use asset and a lease liability.

Right-of-use assets

The Company recognises right-of-use assets at the lease commencement date (i.e. the day when the underlying asset is available for use). Right-of-use asset are measured at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. The cost of the right-of-use assets covers the amount of the recognised lease liabilities, the initially incurred direct costs, and any lease payments made on or before the commencement date, less any lease incentives received. If the Company has no reasonable certainty that at the end of the lease term it will obtain the ownership of the leased item, the recognised right-of-use assets are depreciated on straight-line basis for the shorter of the two terms: the estimated useful life or the lease term. The right-of-use assets are tested for impairment.

Lease liabilities

At the commencement date, the Company measures lease liabilities at the present value of the lease payments due as at that date. Lease payments cover fixed payments (including basically fixed lease payments), less any lease incentives due and variable payments that are tied to an index or rate, which are expected to be payable under residual value guarantees. Lease payments include also the exercise price of the purchase option, if it is reasonably certain that the Company will exercise the option, as well as penalties payable for terminating the lease, if the lease terms provide for the possibility of the lease termination by the Company. Variable lease payments that are not tied to an index or rate are recognised as cost in the period when the event or condition resulting in payment occur.

In the calculation of the present value of the lease payments, the Company applies the weighted average incremental borrowing rate of the lessee, as at the lease commencement date, if the interest rates implicit in the lease cannot be easily determined. After the commencement date the amount of lease liabilities is increased in order to reflect interest, and reduced for the lease payments made. Moreover, the carrying amount of lease liabilities is subject to remeasurement if the lease term changes, the in-substance fixed lease payments are revised or the judgement regarding the purchase of underlying assets is adjusted.

Short-term and low-value assets lease contracts

The Company applies an exemption from recognising short-term leases in reference to its short-term lease contracts [e.g. for plant and machinery] (i.e. lease contracts for 12 months or shorter of the commencement date, without purchase option). Further, the Company applies an exemption from recognising low-value assets lease contracts. Lease payments under short-term lease contracts or low-value assets lease contracts are recognised as costs on straight-line basis over the lease term.

Company as a lessor

Lease agreements in accordance with which the Company maintains generally the whole risk related to and all benefits resulting from owning an object of lease are classified as operating lease agreements. The initial direct costs incurred in the course of negotiating operating leases are added to the carrying amount of the property, plant and equipment being the leased item and disclosed over the entire lease term on the same basis as the rental income. Conditional lease payments are recognised as revenue in the period when they become due.

12.5. Impairment of non-financial non-current assets

As at each balance-sheet date, the Company assesses whether there are indicators of impairment of any non-financial non-current assets. In the event of the determination that such indicators exist or in necessity of conducting an annual impairment test, the Company estimates the recoverable amount for a given non-current asset or a cash flow generating unit the asset is allocated to.

Independently of the existence of the indicators, each year, the Company carries out impairment tests for intangible assets with an indefinite useful life and intangible assets not put into use.

The recoverable amount of an asset or of a cash flow generating unit is equivalent to the fair value less the costs of sale of the asset or the cash flow generating unit, or its value in use, whichever is higher. The amount is determined for individual assets, unless a given asset does not individually generate cash inflows being primarily independent from those generated by other assets or asset groups. Should the carrying amount of an asset be higher than its recoverable amount, impairment occurs and a write-down up to the determined recoverable amount is recognised. For the estimation of the value in use, the projected cash flows are discounted to their present value with the application of a discount rate prior to inclusion of the effects of taxation, which reflects the current estimated value of money in

time as well as the risk typical for a given asset. Impairment losses for tangible assets utilised in the course of continuing operations are disclosed in the 'Other operating costs' item.

As at each balance-sheet date, the Company assesses whether there are indicators implying that the impairment loss, disclosed in the previous periods with regard to a given asset, could be unnecessary, or whether it should be decreased. If the indicators exist, the Company estimates the recoverable amount for the asset. The impairment loss recognised beforehand is reversed only and exclusively if, from the time when the last impairment loss was recognised, there has been a change of the estimated values applied to determine the recoverable amount of a given asset. In such event, the carrying amount of the asset is increased up to the level of its recoverable amount. The increased amount cannot exceed the carrying amount of the asset, which would be determined (after amortisation deduction), if in the previous years impairment would have been reflected on account of loss of value in reference to that asset. The reversal of the impairment loss for an asset is recognised immediately as revenue in profit or loss, if the rationale for impairment loss recognition no longer exists. Following the reversal, in the subsequent periods, the depreciation charge for a given asset is adjusted in a manner which allows for, within the remaining useful life of the asset in question, systematic write-down of its verified carrying amount decreased for the exit value.

12.6. Borrowing costs

Borrowing costs are recognised as costs in the statement of profit or loss in the period in which they were incurred. Borrowing costs that may be directly attributed to the acquisition, construction or production of a qualifying asset affect its initial value as a part of the cost of that asset. The costs are capitalised when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Borrowing costs include interest calculated using the effective interest rate, financial charges in respect of finance leases and currency translation differences arising from borrowings up to the amount corresponding to an adjustment of interest costs.

Borrowing costs which were incurred without any specific purpose and used for the purpose of financing the acquisition or production of a qualifying asset affect the initial value of that asset in the amount determined by applying the capitalisation rate to the expenditure made on that asset. The capitalisation rate is the weighted average of all borrowing costs applicable to the borrowings that are outstanding during the period, other than loans taken specifically for the purpose of obtaining a qualifying asset.

Currency translation differences arising from foreign currency loans and credits (both special-purpose and general ones) affect the initial value of a qualifying asset to the extent that they are regarded as an adjustment of interest costs. The value of currency translation differences adjusting the interest cost is the difference between the interest cost on similar borrowings that the Company would incur in its functional currency and the cost incurred for the foreign currency borrowings.

12.7. Intangible assets

Intangible assets purchased in a separate transaction are initially measured at the purchase price, whereas the development costs, which meet the recognition criteria, are measured at their generation cost. The purchase price of intangible assets acquired in a business combination amounts to their fair value as at the combination date. After initial recognition, intangible assets are disclosed at their purchase price or generation cost less amortisation and impairment losses. Expenditure on intangible assets generated internally, except for capitalised expenditure on development works, are not capitalised and are recognised in the costs of the period in which they were incurred.

The Company determines whether the useful life of intangible assets is definite or indefinite. Intangible assets with definite useful lives are amortised for the useful life and tested for impairment each time the indicators implying their impairment occur. The period and the amortisation method for intangible assets with definite useful lives are verified at least at the end of each financial year. Changes in the assumed useful life or the assumed manner of consuming economic benefits generated from a given asset represent a change in the estimated value and are recognised through a change of the period or amortisation method, respectively, effective from the beginning of the next financial year.

Intangible assets with indefinite useful lives and intangible assets not put into use are tested for impairment at the end of each financial year and every six months, if indicators of impairment occur.

The Company does not have any intangible assets of indefinite useful lives.

Costs of research and development works

The costs of research works are recognised as costs at the moment of incurrence.

The Company capitalises costs of development works only if all of the following aspects can be evidenced:

- the technical feasibility to finish an intangible asset;
- the intention to finish the intangible asset and utilise or sell it;
- the ability to utilise or sell it;
- future economic benefits acquired by the Company owing to the utilisation of the intangible asset;
- availability of adequate technical, financial and other resources to complete the development works;
- the ability to reliably measure the expenditure attributable to the intangible asset incurred in the course of development works.

Other development costs are recognised in the income statement upon their incurrence. The development costs are recognised as intangible assets pursuant to the historical cost concept and are subject to amortisation charges and impairment losses. Capitalised expenditure is depreciated throughout the planned period of generating sales revenues on the respective project.

Other intangible assets (including software) acquired by the Company are recognised at their purchase cost less amortisation and impairment losses. Expenditure made on goodwill generated internally or trademarks is recognised in profit or loss at its incurrence.

Subsequent expenditure

Subsequent expenditure on the components of the existing intangible assets is subject to capitalisation only when it is probable that the expected future economic benefits related to a given component will flow in. Other expenditure is recognised in the income statement at its incurrence.

Depreciation

The estimated useful life of intangible assets is as follows:

Software	5–7 years
Capitalised development costs	5-10 years

Any gains or losses resulting from the derecognition of intangible assets from the balance sheet are measured based on the difference between the net proceeds from sales and the carrying amount of a given asset and are recognised in profit or loss at their derecognition from the balance sheet.

12.8. Interests and shares in subsidiaries

Interests and shares in subsidiaries are accounted for at historical cost less any impairment losses. Subsidiaries are entities controlled by the Company.

The Company controls a given entity when it has:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity;
- the ability to exercise its power over the entity to affect the amount of its returns.

The Company verifies whether it controls other entities, if a situation occurs indicating a change of one or several aforementioned control requirements.

12.9. Advance payments for the purchase of property, plant and equipment

The advance payments, as non-monetary assets, are measured at their historical cost less any possible impairment losses. The period for the completion of the deliveries for which advance payments were made is usually shorter than 12 months.

12.10. Financial assets

Financial assets are classified in the following measurement categories:

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

The Company classifies a financial asset based on the Company business model as regards managing financial assets and characteristics resulting from contractual cash flows for the financial asset ('SPPI criterion'). The Company reclassifies investments in financial assets only if the model of managing the assets changes.

Measurement at the moment of initial recognition

Except for some trade receivables, at the moment of initial recognition, the Company measures a financial asset at its fair value, which in the event of financial assets not measured at fair value through profit or loss is increased for the transaction costs, which may be directly assigned to the purchase of those financial assets.

Derecognition

Financial assets are derecognised from the books of account if:

- the rights to obtain cash flows from the financial assets expire, or
- the rights to obtain cash flows from the financial assets are transferred, and the Company has transferred basically the whole risk and all benefits on account of their possession.

Measurement after initial recognition

For the purpose of measurement after initial recognition, financial assets are classified in one of the four categories:

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

Debt instruments – financial assets measured at amortised cost

A financial asset is measured at amortised cost if the following conditions are jointly fulfilled:

- the financial asset is held in accordance with the business model aiming at holding financial assets in order to obtain contractual cash flows; and
- the terms and conditions of a contract applicable to the financial asset result in generation of cash flows at specific dates, which is only a repayment of the principal amount and the interest on the outstanding principal amount.

In the category of financial assets measured at amortised cost the Company assigns:

- trade receivables other than subject to factoring or ones from provisional pricing,
- loans fulfilling the SPPI classification test, which in accordance with the business model are reflected as held to obtain cash flows,
- cash and cash equivalents.

Interest income is calculated with the use of the effective interest rate, and is recognised in profit or loss in the 'Interest income' item.

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

A financial asset is measured at fair value through other comprehensive income if the following conditions are jointly fulfilled:

- the financial asset is held in accordance with the business model which aims at both contractual cash flows obtaining and sale of financial assets; and
- the terms and conditions of a contract applicable to the financial asset result in generation of cash flows at specific dates, which is only a repayment of the principal amount and the interest on the outstanding principal amount.

Interest income, translation differences, profits or losses on account of impairment are recognised in profit or loss and calculated in the same way as for the financial assets measured at amortised cost. Other changes in goodwill are recognised through other comprehensive income. At the moment of derecognition of a financial asset, the total profit or loss previously recognised in other comprehensive income is reclassified from the 'Equity' item to profit or loss.

Interest income is calculated with the use of the effective interest rate, and is recognised in profit or loss in the 'Interest income' item.

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

At the moment of initial recognition, the Company may make an irrevocable election regarding recognition in other comprehensive income of future fair value changes of the investment in a capital instrument which is not held for trading, and which is not a contingent consideration reflected by the acquiring company within business combination, to which IFRS 3 applies. Such election is made separately for each capital instrument. The accumulated profits or losses recognised in other comprehensive income are not subject to reclassification to profit or loss. Dividends are recognised in profit or loss at the moment the company becomes entitled to receive dividend, unless the dividend is clearly a regaining of a part of the costs of investment.

In the presented reporting periods there were no capital instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets which do not fulfil the criteria to be measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

The profit or loss on debt instruments measured at fair value is recognised in profit or loss.

Dividend is recognised in profit or loss at the moment the Company becomes entitled to receive dividend.

In the presented periods there were no capital instruments measured at fair value through profit or loss.

If the Company:

- possesses a valid legal title to set-off the reflected amounts, and
- plans to settle in the net amount, or at the same time realise an asset and pay a liability,

the financial asset and the financial liability are set off and are recognised in the balance sheet at net amount.

12.11. Impairment of financial assets

The Company has been applying IFRS 9, which means that it determines the expected credit losses ('ECL') related to debt instruments measured at amortised cost and at fair value through other comprehensive income, regardless of whether impairment indicators are present.

With regard to trade receivables, the Company applies the simplified approach and measures the write-down for expected credit losses at an amount equal to the expected credit losses throughout the receivables lifetime, with the use of a provisions matrix. The Company uses its historical data regarding credit losses, adjusted in the respective cases on the basis of information applicable to the future.

With regard to other financial assets, the Company measures the write-down for expected credit losses in the amount equal to 12-month expected credit losses. If the credit risk related to the respective financial instrument is much higher from the moment of the initial recognition, the Company measures the write-down for expected credit losses on account of the financial instrument at the amount equivalent to the expected credit losses throughout the lifetime.

12.12. Embedded derivatives

If a hybrid (combined) instrument comprises a host contract which is an asset under the IFRS 9, the Company applies the requirements specified in paragraphs 4.1.1-4.1.5 of IFRS 9 to the whole hybrid contract.

If a hybrid (combined) instrument comprises a host contract which is not an asset under the IFRS 9, the embedded derivative is separated from the host contract and accounted for as a derivative under IFRS 9 only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

Embedded derivatives are accounted for in a manner similar to individual derivative instruments which are not treated as hedging instruments.

The scope in which the economic characteristics and risk specific to a given embedded derivative instrument expressed in a foreign currency are directly related to the economic characteristics and risk specific to the host

contract, also covers situations when the currency of the host contract is a typical currency for purchase or sale agreements of non-financial items on the market of a given transaction.

The assessment whether an embedded derivative should be separated is conducted by the Company at the time of its initial recognition.

12.13. Derivative financial instruments and hedging

Derivatives that the Company uses to hedge itself against the risk of changes in raw materials prices and the currency risk include mainly currency forward contracts, futures contracts for the purchase of aluminium and IRS contracts to hedge interest rates of loans. Such derivative financial instruments are measured at air value. Derivatives are recognised as assets if their value is positive and liabilities if their value is negative.

Gains and losses due to changes in the fair value of derivatives which do not meet the principles of hedge accounting are recognised directly in profit or loss for the period, in the statement of profit or loss.

The fair value of currency forward and futures contracts is determined by reference to the present forward rates for contracts with similar maturity.

In hedge accounting, hedge is classified as:

- fair value hedge against the risk of changes in the fair value of a recognised asset or liability, or
- cash flow hedge against changes in cash flows which may be attributed to a specific type of risk related to a recognised asset, liability or forecast transaction, or
- hedge of shares in the net assets in a foreign entity.

Currency risk hedge for a probable future liability is recognised as cash flow hedge. The hedge of the risk of interest rates of loans adjusts interest costs.

Upon the establishment of the hedge, the Company formally assigns and documents the hedging relation as well as the purpose of risk management and the strategy for hedge establishment. The documentation contains the identification of the hedging instrument, of the hedged item or transaction, the nature of the risk being hedged as well as the manner of assessing the effectiveness of a given hedging instrument in compensating for the risk of changes of fair value of the item being hedged or cash flows related to the hedged risk. It is expected that the hedging will be highly effective in compensating for changes of fair value or cash flows resulting from the risk being hedged. The effectiveness of hedging is assessed on an ongoing basis to check whether it is highly effective in all reporting periods for which it was established.

The Company uses only instruments hedging the future cash flows.

Cash flow hedging instruments

Cash flow hedge is a hedge against the variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The portion of gains or losses on a hedging instrument being an effective hedge is recognised in other comprehensive income and the non-effective part is recognised in profit or loss for the period, in the statement of profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any gains or losses related to it that were recognised in other comprehensive income and accumulated in equity are moved to the income statement in the same periods in which the acquired asset or assumed liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction related to a non-financial asset or a non-financial liability becomes a probable future liability to which fair value hedge will apply, then gains or losses that were recognised in other comprehensive income are reclassified from equity to profit or loss in the same period(s) in which the acquired non-financial asset or assumed liability affects profit or loss.

12.14. Inventories

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

The purchase price or generation cost of an item of inventories covers for costs of purchase, costs of conversion and other costs of bringing inventories to their present location and condition.

Measurement of the particular categories of inventories:

- materials and trade goods – at purchase price,
- finished goods and work in progress – at the cost of direct materials and workmanship as well as the appropriate surcharge for the indirect production costs determined assuming the normal utilisation of the production capacity, except for the cost of third-party finance.

The value of outgoing materials, trade goods, finished products and work in progress is determined on the 'first-in first-out' basis.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale. Inventories are accounted for in the balance sheet less the recognised write-downs.

12.15. Trade and other receivables

Trade receivables are reflected and recognised at initially recognised amounts including the write-down for the expected credit losses throughout the useful time. Should the influence of the money value in time be significant, the value of receivables is determined by discounting the forecast future cash flows to the present value at the discount rate reflecting the current market valuations of the money value in time. If a discounting method has been applied, the increase in receivables related to the lapse of time is recognised as interest in finance income.

Other receivables include, in particular, advance payments for the future purchase of property plant and equipment, intangible assets and inventories. Advance payments are presented based on the nature of the assets to which they relate, as non-current or current assets, respectively. As non-monetary assets, advance payments are not discounted. State-budget receivables are presented in other non-financial assets, except for corporate income tax receivables, which represent a separate balance sheet item.

Write-downs of receivables are recognised, respectively, in other operating costs or in finance costs, depending on the type of receivables for which a write-down was recognised. Cancelled receivables, overdue receivables or uncollectible receivables decrease the previous write-downs recognised for them. Uncollectible receivables for which write-downs were not recognised or the write-downs were not in full amount, are recognised in other operating costs or finance costs, respectively.

12.16. Business combinations and acquisitions

Business acquisitions are accounted for under IFRS 3 using the 'acquisition method', except for situations when the Company acquires a jointly-controlled entity. In the case of the acquisition of a subsidiary's business, the acquisition is accounted for using the pooling of interests method.

The acquisition method involves the recognition of assets acquired and liabilities assumed at their fair values as at the acquisition date and the determination of goodwill or gain from a bargain purchase as the difference between the cost and fair value of acquired net assets.

The pooling of interests method involves the recognition of assets acquired and liabilities assumed at their book values determined pursuant to the Company principles. The difference between the consideration and the book value of the acquired net assets is accounted for in a separate item of retained earnings.

12.17. Cash and cash equivalents

Cash and short-term deposits recognised in the balance sheet comprise cash at bank and cash in hand as well as short-term deposits with the original maturity not exceeding three months.

The balance of cash and cash equivalents recognised in the statement of cash flows comprises the aforementioned cash and cash equivalents. The Company does not have any overdraft facilities which would serve cash management.

12.18. Equity

Share capital

Share capital is recognised at the value resulting from the restatement of the nominal value registered in the National Court Register ('KRS') in accordance with the requirements of IAS 29.

Share premium

Differences between the fair value of the payment received and the nominal value of shares are recognised in the share premium. The value of the share premium existing prior to 1 January 1997 was restated in accordance with IAS 29.

Capital from the issue of shares not registered in the National Court Register

The capital reflects the value of shares at the issue price taken up by eligible persons, which were not registered in the National Court Register as at the balance-sheet date.

Capital from the revaluation of property, plant and equipment

As regards the valuation of property, plant and equipment classified as 'energy-related assets', the Company applies a measurement model based on revalued amount. The capital reflects the increase in the net value of property, plant and equipment classified as 'energy-related assets' as a result of revaluation. The capital is reduced for difference in the value of depreciation charges after revaluation and before revaluation, as well as impairment losses.

Dividends

Dividends are recognised as liabilities in the period when they were approved by virtue of a resolution.

Capital from share based payments

The Company key employees are entitled to take up the Company shares at a fixed price. The capital from share based payments reflects the fair value of the options granted.

Capital from the revaluation of hedging instruments and capital from the result on cash flow hedging transactions

As specified in detail in note 12.10, the Company is a party to forward and futures contracts hedging future cash flows. The portion of gains or losses on a hedging instrument being an effective hedge is recognised in other comprehensive income in the 'Capital from the valuation of hedging instruments' item.

If the result on a hedged transaction refers to a transaction subsequently resulting in the recognition of a financial asset or a financial liability, the related gains or losses remain in the item of cash-flow hedging equity until the hedged item or transaction influences the profit or loss, and then the result in question is charged to profit or loss.

12.19. Interest-bearing bank loans, borrowings and debt securities

Upon the initial recognition, all bank loans, borrowings and debt securities are recognised at fair value less the costs of obtaining such a loan or credit.

After the initial recognition, interest bearing loans, borrowings and debt securities are measured at amortised cost with the application of effective interest rate. When determining the amortised cost, the costs of obtaining a loan as well as discounts or premiums attained during the settlement of a liability are taken into consideration.

Gains and losses are recognised in profit or loss upon the derecognition of a given liability from the balance sheet, and also as a result of settlement using the effective interest rate.

12.20. Trade payables and other liabilities

Short-term trade payables are recognised in the payable amounts due.

Financial liabilities not constituting financial instruments measured at their fair value through profit or loss are measured at amortised cost with the application of the effective interest rate method.

The Company excludes a financial liability from its balance sheet when the liability expires, i.e. when the obligation set forth in the contract is satisfied, cancelled or expired. The replacement of the existing debt instrument by an instrument with substantially different terms and conditions between the same entities is recognised by the Company as the expiration of the original financial liability and the recognition of a new one. Similarly, significant modifications of the terms and conditions of an agreement concerning an existing financial liability are recognised by the Company as the expiration of the original financial liability and the recognition of a new financial liability. The differences of the respective carrying amounts related to the exchange are recognised in the income statement.

Other non-financial liabilities are recognised in the amount due.

That item comprises, in particular, VAT payables to the tax office, income tax advances on remuneration, payables to the Social Security Institution (ZUS) due to contributions on remuneration, and liabilities due to received advance payments, which will be settled through the delivery of goods, services or property, plant and equipment.

12.21. Provisions

Provisions are recognised only when the Company has a current liability (either legal or customary) resulting from past events and when it is probable that the satisfaction of such a liability will necessitate the outflow of economic benefits, and when it is possible to conduct a reliable estimation of the amount of the liability. If the Company expects that the costs covered by the provision are to be reimbursed, e.g. pursuant to an insurance agreement, the reimbursement is recognised as a separate asset, yet only when it is virtually certain that the reimbursement will actually take place. Costs related to a given provision are recognised in profit or loss less any reimbursements. Should the influence of the money value in time be significant, the value of the provision is determined by discounting the forecast future cash flows to the present value at the gross discount rate reflecting the current market valuations of the money value in time as well as an optional risk related to a given liability. In the event of the application of a discounting method, the increase in the provision related to the lapse of time is recognised as finance costs.

12.22. Retirement benefits

In accordance with the corporate remuneration systems, the Company employees are entitled to retirement benefits and disability benefits. Retirement benefits and disability benefits are paid once, upon a given employee's retirement due to old age or disability. The value of the respective benefit is determined as one-month remuneration as at the date of acquiring the right to the benefit. The Company recognises a provision for future liabilities due to retirement benefits and disability benefits for the purpose of assigning costs to the periods they refer to. In accordance with IAS 19, retirement and disability benefits are defined benefit plans applicable after the employment period. The present value of these liabilities as at each balance sheet date is calculated by an independent actuary. The accrued liabilities equal the discounted payables to be made in the future having regard for the staff turnover and they refer to the period ending on the balance-sheet date. Demographic data as well as information about the staff turnover are based on historical data. Actuarial gains and losses due to ex-post adjustments of actuarial assumptions and changes in actuarial assumptions are recognised in equity through other comprehensive income in the period in which they occurred. Employment costs cover, among other things the costs of past and current employment. The cost of interest on net liabilities on account of the specific benefits is recognised in finance costs.

12.23. Share based payments

The Company employees (including the Management Board Members) receive a part of their remuneration in the form of treasury shares. As a result, they provide services in return for shares or rights to shares ('equity-settled transactions').

12.23.1 Equity-settled transactions

The cost of equity-settled transactions with the employees is measured by reference to fair value as at the date of vesting the rights. The fair value is determined by an independent actuary on the basis of the binominal model discussed in more detail in note 24.1. The valuation of equity-settled transactions takes into account market conditions of acquiring the rights (related to the price of the Company shares). The costs of equity-settled transactions are recognised together with the corresponding increase in equity in the period when the conditions concerning the effectiveness/results and/or the provision of work or service are met, ending on the date when the particular employees become fully entitled to the given benefits ('vesting date'). The costs of share options granted to the Company employees are recognised in the income statement, and the costs of options granted to employees of subsidiaries are recognised as the increase in the carrying amount of investments in subsidiaries.

The cumulated cost recognised due to equity-settled transactions as at each balance-sheet date until the vesting date reflects the progress of the period of acquiring (vesting) the rights and the number of share options, to which rights will be finally acquired in the opinion of the Company Management Board as of that day, based on the best possible estimates.

In the event of modifications of the conditions governing the granting of equity-settled awards, in order to comply with the minimum requirements, the costs are recognised as if the conditions have not been modified. Furthermore, the costs related to each increase in the transaction value as a result of the modification are recognised at the date of the change.

In the event of cancelling the equity-settled award, it is treated as if it was qualified on the cancellation date and all the award related costs not yet recognised are immediately recognised. It also refers to awards for which the conditions other than the vesting conditions subject to the Company control or an employee control are not met. However, in the event of replacing the cancelled award with a new one, specified as a substitution award on the date of its granting, the cancelled award and the new one are treated as if they constituted a modification of the original award, i.e. in accordance with the provisions of the paragraph above.

No costs are stated for not finally qualified awards, except for those awards for which the qualification depends on market conditions or conditions other than the vesting conditions, which are treated as acquired regardless of the fact of meeting the market conditions or conditions other than the acquiring (vesting) conditions, provided, however, that all other conditions with regard to the efficiency/results and/or the provision of work or services have been complied with.

The effect of the issued options is considered when determining the diluted earnings per share.

12.24. Revenue

12.24.1 Revenue from contracts with customers

The Company applies IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers, except for lease contracts under IFRS 16 *Leases*, financial instruments and other rights or contractual liabilities under IFRS 9

Supplementary information and explanatory notes to the financial statements form an integral part of the statements

Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures.

The basic principle of IFRS 15 is to recognise revenue at the moment of transfer of goods and services to the customer, in the value reflecting the price expected by the Company in exchange for the transfer of the goods and services. The principles are applied with the use of a five-step model:

- identification of contract with a customer;
- identification of performance obligation under the contract with the customer;
- determination of the transaction price;
- allocation of the transaction price to the particular performance obligation;

recognition of revenue at the moment the performance obligation under the contract is completed.

Identification of contract with a customer.

The Company reflects a contract with a customer only if the following criteria are met:

- the parties entered into agreement (in writing, orally or in accordance with other established commercial practices) and are committed to perform their obligations;
- the Company is able to identify the rights of each of the parties regarding the goods or services which are to be transferred;
- the Company is able to identify the payment terms for the goods and services which are to be transferred;
- the agreement has an economic content (i.e. it may be expected that as a result of the contract, the risk, the distribution in time or the amount of future cash flows of the Company will change); and
- it is probable that the Company receives consideration which is due to it in exchange for the goods or services which will be transferred to the customer.

When assessing whether the receipt of the amount of consideration is probable, the Company considers only the ability and the intent of the customer to pay the consideration amount in due time. The amount of consideration which will be due to the Company may be lower than the price determined in the contract if the consideration is variable, because the Company may offer a price discount to the customer.

Identification of performance obligation

At the moment of entering into contract, the Company assesses the goods or services committed in the contract with the customer and identifies as performance obligation every commitment to transfer to the customer the goods or services (or a package of goods or services), which may be separated or a group of separate goods or services, which are basically the same and for which the transfer to the customer has the same characteristics.

The good or service committed are separate if the following conditions are jointly fulfilled:

- the customer may acquire benefits from the goods or services either directly or indirectly by relationship with other resources, which are easily accessible for the customer; and
- the commitment of the Company to transfer goods or services to the customer may be identified as separate in reference to other obligations specified in the contract.

Transaction price determination

In order to determine the transaction price, the Company considers the contract terms and conditions and the applied established commercial practices. The transaction price is a part of consideration, which in accordance with the Company expectation will be due to it in exchange for the committed goods and services transfer to the customer, except for the amounts collected on behalf of third parties (for example some sales taxes). The consideration determined in the contract with the customer may cover fixed amounts, variable amounts or both.

Variable consideration

If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the committed goods or services to a customer, by applying one of the following methods, depending on which of them will enable the Company to better foresee the amount of the consideration it is entitled to:

- expected value, which is the total of the products of the possible amounts of consideration and their respective probability of occurrence. The expected value may be a proper estimate of the amount of variable consideration, if the Company concludes a large number of similar contracts;
- most probable value, which is a single, most probable amount from the interval of the possible amounts of consideration (i.e. a single most probable result of the contract). The most probable value may be a proper

estimate of the amount of variable consideration, if the contract has only two possible results (e.g. the Company either receives a performance bonus or not).

The Company includes in the transaction price a part of the whole of the variable remuneration amount solely to such extent, in which there is a high probability that a reversal of a major part of the previously reflected accumulated revenues will not occur at the moment when the uncertainty associated with the variable consideration is subsequently resolved.

The Company estimates the amount of variable consideration by applying the expected value method.

Allocation of the transaction price to the particular performance obligation

The Company allocates the transaction price to each performance obligation (or to a separate good or service) in the amount which reflects the amount of consideration, which in accordance with the expectation of the Company is due to it in exchange for the committed goods or services.

Performance obligation fulfilment

The Company recognises revenue at the moment of fulfilment of a performance obligation (or when fulfilment is pending) by way of transferring the committed goods or services to the customer. In reference to the contracts applicable to ongoing services, based on which the Company is entitled to receive consideration from the customer in the amount which is directly equivalent to the value assumed by the customer for the performance to date, the Company recognises revenue in the amount due as at the moment of invoice issue.

Consideration for the contracting party vs consideration for the intermediary

If another entity is engaged in the delivery of goods or services to the customer, the Company determines whether the nature of the Company obligation is a performance obligation consisting in the delivery of the specific goods or services (which means that the Company is a contracting party), or in ordering with another entity to deliver the goods or services (which means that the Company is an intermediary).

The Company is a contracting party if it controls the committed goods or services before they are handed-over to the customer. The Company does not have to act as the contracting party, if it obtains the legal title to the product only on temporary basis, before it is transferred to the customer. The Company acting in a contract as the contracting party may perform the obligation itself or may entrust the performance of the obligation or any part thereof to another entity (e.g. subcontractor) on its behalf. In such situation the Company recognises revenue in the amount of gross consideration, to which – according to the Group expectation – it is going to be entitled in exchange for the transferred goods or services.

The Company acts as an intermediary, if its performance obligation consists in ensuring the delivery of goods or services by another entity. In such situation the Company recognises revenue in the amount of any fee or commission to which – according to its expectation – it is going to be entitled in exchange for ensuring the delivery of the goods or services by another entity.

Significant financing component

If in reference to contracts with customers the period between the transfer of the committed good or service to the customer and the moment of payment for the good or service exceeds one year, the Company assesses that the contracts include a significant financing component. For the purpose of determining the transaction price, the Company adjusts the promised consideration amount for a significant financing component, by applying a discount rate which would be applied in case of entering into a separate finance transaction between the Company and its customer at the moment of entering into contract.

The Company has decided not to adjust the promised amount of the consideration for the effects of a significant financing component, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and the moment of payment for that good or service by the customer will be one year or less.

In-kind consideration

As regards contracts in which the customer committed to pay consideration otherwise than in monetary form, in order to determine the transaction price the Company measures the in-kind consideration (or promise of in-kind consideration) at fair value. If the Company cannot reasonably measure the fair value of the in-kind consideration, it measures it directly by reference to the individual sales price of goods or services committed to a customer (or class of customers) in exchange for consideration.

Warranties

The Company provides warranties for sold products, which represent a commitment towards the customer that the respective product complies with the specification agreed by the parties. The Company recognises such warranties pursuant to IAS 37 *Provisions, contingent liabilities and contingent assets*.

Some non-standard contracts with customers provide for extended warranties. Such warranties represent a separate service, reflected as a performance obligation, to which some of the transaction price is allocated.

Capitalised costs of arranging contract conclusion

The Company recognises additional costs of arranging the conclusion of a contract with a customer as an asset, if it expects to regain the costs. Additional costs of arranging contract conclusion include costs incurred by the Company for the purpose of arranging the conclusion of a contract with a customer, which would not have been incurred by the Company if the contract had not been concluded. These include *commissions on sales*. The costs of arranging contract conclusion incurred regardless of whether the agreement had been concluded, are recognised at the moment of their incurrence, unless the costs are clearly charged to the customer, whether the contract is concluded or not. The Company recognises other costs of arranging contract conclusion as costs at the moment of their incurrence, if the depreciation period of an asset, which would otherwise be recognised by the Company, is one year or less. An asset is systematically depreciated, in consideration of the period of transferring to the customer of the goods or services to which the asset is related. The Company reviews the depreciation period in order to reflect a significant change in the expected period of transferring to the customer the goods or services to which the asset is related.

Contractual assets

Within contractual assets, the Company reflects the right to consideration in exchange for goods or services transferred to the customer, if the right depends on a condition other than lapse of time (for example on future performance of the Company). The Company assesses whether there has or has not been an impairment of asset on account of the contract, at the same principle as is applicable to an asset under IFRS 9.

Contractual receivables

Within receivables the Company recognises the right to consideration in exchange for goods or services transferred to the customer, if the right is unconditional (the only condition of the consideration becoming due is the lapse of a certain time). The Company recognises receivables in accordance with IFRS 9. At the moment of initial recognition of receivables on account of the contract, any differences between the price of receivables under IFRS 9 and the respective previously recognised amount of revenue are reflected by the Company as cost (impairment loss).

Contractual liabilities Under contractual liabilities the Company reflects the consideration received or due from the customer, to which a duty to transfer goods or services to the customer is related.

Assets resulting from the right to refund

Within the assets resulting from the right to refund, the Company reflects the right to regain products from customers after the performance of the duty to refund the consideration paid.

Consideration refund commitment

The Company recognises the consideration refund commitment if after the consideration receipt it expects that the whole consideration or some part of it will be refunded to the customer. The consideration refund commitment is measured at the amount of the consideration received (or receivables), to which – according to the company expectations – it is not entitled (i.e. at the amount not reflected in the transaction price). The consideration refund commitment (and the respective change of transaction price as well as the resulting change of obligation under the contract) is reviewed at the end of each reporting period in reference to a change in circumstances.

12.24.2 Interest

Interest income is recognised gradually when interest accrues (taking into account the effective interest rate being the rate discounting future cash inflows over the estimated time of use of financial instruments) to the net carrying amount of a given financial asset.

12.24.3 Dividends

Dividends are recognised when the shareholders' rights to receive them are determined.

The Company is a group of operationally-related entities. The purpose of the existence of the group is to achieve better operational synergy. Accordingly, the Company accounts for the dividend income in its separate financial statements in operating activities.

12.24.4 *Rental income*

The rental income is recognised on a straight-line basis throughout the rental period in the item of contracts with customers of the statement of profit or loss.

12.24.5 *Other operating revenue*

This is income indirectly related to the operations, in particular:

- profit from the sale of property, plant and equipment and intangible assets;
- the surplus of reversed provisions charged previously to other operating costs over their recognition in a given period;
- received fines and damages;
- the surplus of reversed write-downs of materials over their recognition in a given period;
- the surplus of reversed write-downs of property, plant and equipment and intangible assets over their recognition in a given period.

12.24.6 *Subsidies*

Should a reasonable certainty exist that a subsidy is to be obtained and all related conditions are met, the subsidies are recognised at their fair value.

If a given subsidy is related to a cost item, then it is recognised as revenue proportionally to the costs the subsidy is intended to compensate for. If the subsidy is related to an asset, then its fair value is recognised in the 'Deferred income' item and then gradually, by means of equal annual write-downs, recognised in profit or loss throughout the estimated useful life of the related asset.

12.24.7 *Financial revenue*

Financial revenue includes mainly interest income and net gains from positive currency translation differences on receivables and liabilities in foreign currencies.

12.25. *Costs*

Costs are probable decreases in economic benefits during the period determined reliably in the form of a decrease in the value of assets or an increase in the value of liabilities or provisions which will result in a decrease in equity or an increase in its shortage in a manner other than the withdrawal of funds by shareholders or owners. The costs are recognised in the income statement according to the matching principle. In order to ensure the principle of the matching of revenue and costs, the assets or liabilities for a given period comprise prepayments or accruals including costs or revenue referring to future periods and the costs for that period which have not been incurred yet.

12.25.1 *Operating costs*

They comprise costs directly and indirectly related to the operations of the Company as broken down into the particular types of costs.

12.25.2 *Revaluation of financial assets*

It comprises the net value of recognised and reversed write-downs of receivables over their reversals in the specific period.

12.25.3 *Other operating costs*

These are costs indirectly related to the operations of the Company, in particular:

- recognised litigation provisions;
- donations granted;
- accrued or paid fines and damages;
- losses in tangible current or non-current assets;
- losses from the disposal of property, plant and equipment and intangible assets;
- the surplus of recognised write-downs of materials over their reversal in a given period.

12.25.4 *Finance costs*

Finance costs comprise specifically:

-
- interest on credits, loans and other borrowings, including the discount of liabilities;
 - changes in the provisions resulting from the approaching of the maturity of a liability (the so called 'unwinding of the discount' effect);
 - losses from net currency translation differences on receivables and liabilities expressed in foreign currencies.

12.26. Taxes

12.26.1 Current tax

Current income tax liabilities and receivables for the current period and for previous periods are measured at the amounts of the expected payment to tax authorities (reimbursable from the tax authorities) with the application of the tax rates and tax regulations already legally or practically binding at the balance-sheet date.

12.26.2 Deferred tax

For the sake of financial reporting, the deferred income tax is calculated based on the balance sheet liabilities method in relation to the temporary differences as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount.

Deferred income tax liability is recognised with regard to all taxable temporary differences, save for cases when

- the deferred tax liability originates as a result of the initial recognition of goodwill or the initial recognition of an asset or a liability for the transaction which neither constitutes a business combination nor, upon its conclusion, influences the gross financial result or the revenue to be taxed or tax loss; and
- in the event of taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, except for situations when the dates of reversing temporary differences may be controlled by the investor and when it is probable that temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised on all deductible temporary differences as well as unused tax abatements and unused tax losses carried forward to the following years in an amount of probable future taxable revenue which will allow for using the aforementioned differences, assets and losses, save for cases when

- deferred income tax assets on deductible temporary differences are recognised as a result of the initial recognition of an asset or a liability for the transaction which neither constitutes a business combination nor, upon its conclusion, influences the gross financial result or the revenue to be taxed or tax loss; and
- in the event of deductible temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, deferred income tax asset is recognised in the balance sheet only in an amount for which it is probable that the aforementioned temporary differences will be reversed in the foreseeable future and taxable income will be generated allowing for the deduction of deductible temporary differences.

The carrying amount of the deferred income tax asset is verified as at each balance-sheet date and is subject to a relevant decrease by the amount corresponding to the lack of likelihood of generating taxable revenue in the amount sufficient to partly or fully realise the deferred income tax asset. The non-recognised deferred income tax asset is subject to revaluation as at each balance-sheet date and is recognised up to the amount reflecting the likelihood of generating future taxable revenue in an amount enabling the recovery of that asset.

Deferred income tax assets and deferred income tax liabilities are measured with the application of tax rates forecast for the period when the asset will be realised or the liability reversed, applying, as the basis, the tax rates (and tax regulations) in force on the balance-sheet date or those which will certainly be in force in the future at the balance-sheet date.

Income tax applicable to the items recognised outside profit or loss is recognised in other comprehensive income for items to be reflected in other comprehensive income, or directly in equity for items to be reflected directly in equity.

The Company sets off deferred income tax assets against deferred income tax liabilities only and exclusively when it has an enforceable legal title to set off the receivables against liabilities due to the current tax, and the deferred income tax is related to the same tax-payer and the same tax authority.

12.26.3 Uncertainty over Income Tax Treatments

If in the opinion of the Company it is probable that the Company's approach to a tax issue or a group of tax issues will be accepted by the tax authority, the Company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates in consideration of the approach to tax planned or applied in its tax returns. Assessing the probability, the Company assumes that the tax authority entitled to control and question the tax treatment method is going to carry out such control and have access to any information.

If the Company decides that it is not probable that the tax authority accepts the Company's approach to a tax issue or a group of tax issue, then the Company reflects the consequences of the uncertainty in the tax booked for the period of the determination. The Company recognises an income tax liability with the use of one of the two methods below which best reflects the possible materialisation of the uncertainty:

- the Company determines the most probable scenario – it is an individual amount from among the possible results; or
- the Company recognises the expected value, which is the total of probability-weighted amounts from among the possible results.

12.26.4 VAT

Revenue, costs, assets and liabilities are recognised less VAT, except:

- when VAT paid upon the purchase of assets or services is not recoverable from the tax authorities; then, it is recognised accordingly as a part of the purchase price of a given asset or a part of the cost item; and
- for receivables and liabilities recognised including VAT.
- The net VAT amount recoverable from or payable to the tax authorities is recognised in the balance sheet as a part of public law receivables or payables.

12.27. Net earnings per share

Net earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in the given reporting period.

13. Information on business segments

The Company has two internally-separated operating segments, i.e. the Extruded Products Segment and other activities ('Other') including central functions. Due to the fact that the Company financial statements are published simultaneously with the consolidated financial statements, the Company presents business segment information only in the consolidated financial statements, pursuant to IFRS 8.4.

14. Revenue and costs

14.1. Revenue from contracts with customers

Sales by territories	2019	2018
Poland, including	684,749	695,785
– to related companies	304,169	280,547
EU without Poland, including:	402,052	396,108
– to related companies	6,615	5,021
Other European countries, including:	23,726	20,110
– to related companies	13,700	3,894
Other countries	12,083	15,241
Revenue from contracts, including:	1,122,610	1,127,244
– to related companies	324,484	289,462

The sales in the table above are recognised for the country of the counterparty within a sale transaction. A major sales concentration applies to Aluprof S.A. subsidiary and amounts to approximately 25% of the total sales value (23% in the preceding year).

Sales by items	2019	2018
Products, including:	1,091,965	1,094,120
– to related companies	306,867	269,903
Services, including:	24,266	24,838
– to related companies	17,110	19,326

Trade goods and materials, including:	6,379	8,286
– to related companies	507	233
Revenue from contracts, including:	1,122,610	1,127,244
– to related companies	324,484	289,462

In both periods there was no revenue recognised at the percent of completion.

14.2. Other operating revenue

	2019	2018
Write-down of inventories	136	0
Reversed provisions	0	430
Profit on sales of property, plant and equipment	105	0
Subsidies	988	1,020
Change in the sales price of shares in a subsidiary	0	3,064
Penalties and damages	765	496
Past due liabilities	91	14
Free-of-charge deliveries	244	90
VAT bad-debt relief	24	240
Tax payer's remuneration	35	33
Other	54	64
Total	2,442	5,451

14.3. Dividends

Paying company	2019	2018
Aluprof S.A.	140,000	95,000
Alupol Packaging S.A.	20,000	40,000
Aluform Sp. z o.o.	22,000	17,520
Dekret Centrum Rachunkowe Sp. z o.o.	447	357
Other	27	0
Total	182,474	152,877

14.4. Revaluation of financial assets – IFRS 9

	2019	2018
Credit losses on trade receivables	(447)	(460)
Total	(447)	(460)

14.5. Other operating costs

	2019	2018
Write-down of property, plant and equipment	(206)	(83)
Write-down of inventories	0	(233)
Write-downs of shares in subsidiaries	(47)	(45)
Loss on sales of property, plant and equipment	0	(109)
Promotion and publicity	(1,065)	(1,741)
Business trips	(686)	(817)
Property damage	(70)	(80)
Costs of liquidation of property, plant and equipment	(2)	(626)
Inventories scrapping	(21)	(105)
Fines and damages	(400)	(284)
Donations	(340)	(278)

Court costs related to litigation of receivables	(9)	(4)
Membership fees	(45)	(40)
Other	(318)	(537)
Total	(3,209)	(4,982)

14.6. Financial revenue

	2019	2018
Interest	185	194
Total	185	194

14.7. Finance costs

	2019	2018
Interest on borrowings	(7,631)	(3,819)
Interest on provisions for employee benefits	(48)	(58)
Interest on right-of-use assets	(169)	0
Other interest	(30)	(284)
Surplus of currency translation losses over currency translation gains	(1,216)	(2,675)
Commissions paid	(536)	(837)
Total	(9,630)	(7,673)

14.8. Costs of employee benefits

	2019	2018
Payroll	(101,671)	(97,313)
Social insurance	(18,245)	(17,425)
Other employee benefits	(10,477)	(10,446)
Costs of share based payments	(954)	(1,156)
Total	(131,347)	(126,340)

14.9. Costs of materials and energy, and the value of goods and materials sold

	2019	2018
Materials consumption	(677,848)	(714,986)
Energy consumption	(35,490)	(30,961)
Value materials and trade goods sold	(8,539)	(8,862)
Result on hedging transactions	(5,260)	2,451
Total	(727,137)	(752,358)

15. Income tax

The main components of the tax payables are as follows:

Income tax structure	2019	2018
Current tax	(4,267)	(8,430)
Deferred tax	(2,635)	(1,467)
Income tax recognised in the statement of profit or loss	(6,902)	(9,897)

Reconciliation of the income tax on gross financial result prior to taxation at the statutory tax rate with the income tax calculated at the Company effective tax rate:

Supplementary information and explanatory notes to the financial statements form an integral part of the statements

Effective tax rate	%	2019	%	2018
Gross financial result		211,929		201,336
Tax at the state rate of 19%	19%	(40,267)	19%	(38,254)
Dividends and share in profits	-16.4%	34,665	-14.5%	29,047
Impact of other tax-exempt revenue and non-tax costs	0.6%	(1,300)	0.3%	(690)
Income tax recognised in the statement of profit or loss	3.3%	(6,902)	4.9%	(9,897)

15.1. Deferred income tax provision

	01.01.2019	Impact on result	Impact on other comprehensive income	31.12.2019
Employee benefits (payroll)	563	7	0	570
Provisions for employee benefits	2,559	324	5	2,888
Other provisions and accruals	127	57	0	184
Write-down of receivables	945	150	0	1,095
Write-down of inventories	696	229	0	925
Write-down of property, plant and equipment	493	(7)	0	486
Currency translation losses on the valuation of FX positions	103	(65)	0	38
Valuation of hedging transactions	752	0	(1,048)	(296)
Interest on loans	61	(31)	0	30
Interest on liabilities	25	18	0	43
Sales adjustments	391	(26)	0	365
Difference between the carrying amount and the tax value of property, plant and equipment, intangible assets, and right-of-use assets	(28,108)	(3,095)	0	(31,203)
Currency translation gains on the valuation of FX positions	(120)	15	0	(105)
Costs adjustment	(47)	(211)	0	(258)
Total	(21,560)	(2,635)	(1,043)	(25,238)

	01.01.2018	Impact on result	Impact on other comprehensive income	31.12.2018
Employee benefits (payroll)	509	54	0	563
Provisions for employee benefits	2,285	294	(20)	2,559
Other provisions and accruals	216	(89)	0	127
Write-down of receivables	871	74	0	945
Write-down of inventories	706	(10)	0	696
Write-down of property, plant and equipment	625	(132)	0	493
Currency translation losses on the valuation of FX positions	243	(140)	0	103
Valuation of hedging transactions	(638)	(2)	1,392	752
Result on hedging transactions	104	(104)	0	0
Interest on loans	49	12	0	61
Interest on liabilities	0	25	0	25
Sales adjustments	474	(83)	0	391

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Difference between the carrying amount and the tax value of property, plant and equipment, and intangible assets	(26,533)	(1,575)	0	(28,108)
Currency translation gains on the valuation of FX positions	(358)	238	0	(120)
Costs adjustment	(18)	(29)	0	(47)
Total	(21,465)	(1,467)	1,372	(21,560)

According to the Company estimates, out of the above items, deferred tax liability related to property, plant and equipment amounting to PLN 31,083,000 (previous year: PLN 28,108,000), and a part of deferred tax asset in the item 'Provisions' amounting to PLN 390,000 (previous year: PLN 321,000) are of long-term nature. Also deferred income tax assets on write-downs of receivables amounting to PLN 945,000 (previous year: PLN 871,000) are of long-term nature. Other items are of short-term nature. As at 31 December 2019, the total amount of deductible temporary differences associated with investments in subsidiaries, for which deferred income tax asset was not recognised, amounted to PLN 0.00 (previous year: PLN 7,043,000), as described in detail in note 21.

	2019	2018
Assets (provision) as at 01.01.2019/ 01.01.2018	(21,560)	(21,465)
Change in the asset (liability) due to the valuation of derivative financial instruments charged to other comprehensive income	(1,048)	1,392
Deferred income tax on actuarial gains/losses	5	(20)
Deferred income tax recognised in profit or loss	(2,635)	(1,467)
Assets (provision) as at 31.12.2019/ 31.12.2018	(25,238)	(21,560)

16. Earnings per share

Basic earnings per share are calculated by dividing net profit for the period assigned to regular shareholders of the Company by the weighted average number of ordinary shares issued and outstanding during the period.

Diluted earnings per share are calculated by dividing net profit for the period assigned to regular shareholders of the Company by the weighted average number of ordinary shares issued and outstanding during the period.

	2019	2018
Net profit	205,027	191,439
Weighted average number of ordinary shares assumed for the calculation of basic earnings per share	9,558,105	9,538,160
Weighted average number of ordinary shares assumed for the calculation of diluted earnings per share	9,574,001	9,546,409
Earnings per ordinary share in PLN	21.45	20.07
Diluted earnings per ordinary share in PLN	21.41	20.05

In 2019, the eligible employees acquired 24,500 shares of Grupa Kęty S.A. (7,000 shares under the 2012 plan and 17,500 shares under the 2012 plan).

In 2018, the eligible employees acquired 23,747 shares of Grupa Kęty S.A. under the 2012 plan.

The said figures were taken into consideration in the calculation of the weighted average number of (taken up) shares and of the weighted average number of potential shares.

The period of exercising the rights to acquire shares will have expired after 36 months from the date of acquiring the rights. See note 24.1 for more information about the options plan.

The average market price for the Company shares in 2019 was PLN 329.72 (PLN 357.32 in 2018).

The potential number of ordinary shares, determined in accordance with IAS 33, associated with the employee options plan increasing the number of shares and assumed for the calculation of diluted earnings per share is 15,896 (previous year: 8,249).

17. Dividends paid and proposed for payment

In 2019 the Company paid dividend in the amount of PLN 229,009,000 (PLN 23.93 per share), and in 2018 – in the amount of PLN 228,521,000 (PLN 23.94 per share).

As at the date of these financial statements publication a formal decision regarding the dividend payment declaration for 2019 has not been taken.

18. Property, plant and equipment

	31.12.2019	31.12.2018
Gross value	824,679	770,304
Land	3,442	11,735
Buildings and structures	218,926	194,145
Plant and machinery	442,014	384,352
Energy-related assets	13,725	13,289
Means of transport	13,620	11,899
Other property, plant and equipment	119,976	104,807
Property, plant and equipment under construction	12,976	50,077
Amortisation	323,559	281,161
Buildings and structures	43,305	38,132
Plant and machinery	172,444	150,395
Energy-related assets	8,302	7,731
Means of transport	6,030	4,879
Other property, plant and equipment	93,478	80,024
Write-downs	2,558	2,596
Buildings and structures	1,994	1,914
Plant and machinery	425	425
Energy-related assets	13	13
Other property, plant and equipment	126	244
Net value	498,562	486,547
Land	3,442	11,735
Buildings and structures	173,627	154,099
Plant and machinery	269,145	233,532
Energy-related assets	5,410	5,545
Means of transport	7,590	7,020
Other property, plant and equipment	26,372	24,539
Property, plant and equipment under construction	12,976	50,077

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	01.01.2019	Adoption of IFRS 16	Increases	Sales	Liquidation	Shifts	31.12.2019
Gross value	770,304	(8,293)	68,528	(496)	(5,364)	0	824,679
Land	11,735	(8,293)	0	0	0	0	3,442
Buildings and structures	194,145	0	0	0	(11)	24,792	218,926
Plant and machinery	384,352	0	0	0	(1,034)	58,696	442,014
Energy-related assets	13,289	0	0	0	(7)	443	13,725
Means of transport	11,899	0	0	(496)	0	2,217	13,620
Other property, plant and equipment	104,807	0	0	0	(4,312)	19,481	119,976
Property, plant and equipment under construction	50,077	0	68,528	0	0	(105,629)	12,976
Amortisation	281,161	0	47,896	(406)	(5,092)	0	323,559
Buildings and structures	38,132	0	5,182	0	(9)	0	43,305
Plant and machinery	150,395	0	23,057	0	(1,008)	0	172,444
Energy-related assets	7,731	0	578	0	(7)	0	8,302
Means of transport	4,879	0	1,557	(406)	0	0	6,030
Other property, plant and equipment	80,024	0	17,522	0	(4,068)	0	93,478
Write-downs	2,596	0	206	0	(244)	0	2,558
Buildings and structures	1,914	0	80	0	0	0	1,994
Plant and machinery	425	0	0	0	0	0	425
Energy-related assets	13	0	0	0	0	0	13
Other property, plant and equipment	244	0	126	0	(244)	0	126
Net value	486,547	(8,293)	20,426	(90)	(28)	0	498,562
Land	11,735	(8,293)	0	0	0	0	3,442
Buildings and structures	154,099	0	(5,262)	0	(2)	24,792	173,627
Plant and machinery	233,532	0	(23,057)	0	(25)	58,696	269,145
Energy-related assets	5,545	0	(578)	0	0	443	5,410
Means of transport	7,020	0	(1,557)	(90)	0	2,217	7,590
Other property, plant and equipment	24,539	0	(17,647)	0	(1)	19,481	26,372
Property, plant and equipment under construction	50,077	0	68,528	0	0	(105,629)	12,976

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	01.01.2018	Increases	Sales	Liquidation	Shifts	31.12.2018
Gross value	649,901	144,624	(1,294)	(22,927)	0	770,304
Land	8,293	0	0	0	3,442	11,735
Buildings and structures	156,613	0	0	(13)	37,545	194,145
Plant and machinery	324,492	0	0	(11,661)	71,521	384,352
Energy-related assets	13,726	0	0	(499)	62	13,289
Means of transport	10,115	0	(1,294)	0	3,078	11,899
Other property, plant and equipment	98,787	0	0	(10,754)	16,774	104,807
Property, plant and equipment under construction	37,875	144,624	0	0	(132,422)	50,077
Amortisation	264,234	39,880	(838)	(22,115)	0	281,161
Buildings and structures	34,361	3,784	0	(13)	0	38,132
Plant and machinery	144,387	17,238	0	(11,230)	0	150,395
Energy-related assets	7,457	754	0	(480)	0	7,731
Means of transport	4,270	1,447	(838)	0	0	4,879
Other property, plant and equipment	73,759	16,657	0	(10,392)	0	80,024
Write-downs	3,285	83	0	(772)	0	2,596
Buildings and structures	1,914	0	0	0	0	1,914
Plant and machinery	896	0	0	(471)	0	425
Energy-related assets	13	0	0	0	0	13
Other property, plant and equipment	462	83	0	(301)	0	244
Net value	382,382	104,661	(456)	(40)	0	486,547
Land	8,293	0	0	0	3,442	11,735
Buildings and structures	120,338	(3,784)	0	0	37,545	154,099
Plant and machinery	179,209	(17,238)	0	40	71,521	233,532
Energy-related assets	6,256	(754)	0	(19)	62	5,545
Means of transport	5,845	(1,447)	(456)	0	3,078	7,020
Other property, plant and equipment	24,566	(16,740)	0	(61)	16,774	24,539
Property, plant and equipment under construction	37,875	144,624	0	0	(132,422)	50,077

18.1. Property, plant and equipment depreciation

All property, plant and equipment are subject to depreciation, except for property, plant and equipment under construction. The depreciation charges for property, plant and equipment are recognised in full in the 'Depreciation' item of operating costs in the statement of profit or loss.

18.2. Changes of estimates concerning useful lives

In 2019 the Company changed the length of the useful life of servers. Therefore, depreciation costs were reduced by PLN 331,000. In 2018 the Company did not change any useful lives of property, plant and equipment. Depreciation charges and liquidation of property, plant and equipment resulted directly from shorter than expected useful life.

18.3. Restrictions on the disposal of property, plant and equipment

As at 31 December 2019 and 31 December 2018 fixed assets within the group of land and buildings/structures were covered with a mortgage up to PLN 312 million to secure the loan at the BNP Paribas Polska S.A.

The information on loans secured with property, plant and equipment is available in note 30.

18.4. Capitalisation of finance costs

In 2019 and 2018, the Company capitalised interest amounting to PLN 505,000 and PLN 1,651,000, respectively, in relation to financing the purchase of property, plant and equipment.

18.5. Contractual liabilities related to the purchase of property, plant and equipment

As at 31 December 2019 the contractual liabilities related to the purchase of property, plant and equipment amounted to PLN 10,183,000 and as at 31 December 2018 – to PLN 11,980,000.

At the end of 2019, the most significant items of the above liabilities referred to the Anodising Plant and purchase of minor equipment. At the end of 2018, the most significant items of the said liabilities were related to the purchase of two new profile extrusion presses and the related infrastructure.

18.6. Impairment losses

In 2019 and in 2018, the Company did not carry out impairment tests of property, plant and equipment, as there were no indicators of impairment.

On the basis of an individual assessment of the usefulness of property, plant and equipment, in 2019 the Company recognised write-downs amounting to PLN 206,000 and reversed write-downs amounting to PLN 244,000 due to liquidation. In 2018 the Company recognised write-downs amounting to PLN 244,000 and reversed write-downs amounting to PLN 933,000.

18.7. Property, plant and equipment recognised at revalued amount

The Company holds a licence to transmit and distribute electrical energy. The energy-related assets comprise buildings, structures and systems related to the transmission of electrical energy and power grids with transformers.

Property, plant and equipment used for that purpose are recognised at revalued amount.

The revalued amount was determined with the replacement value method using the cost approach, the replacement value method and index method technique. The valuation was based on nationwide pricing catalogues, having regard for the regional division. The valuation was carried out by an independent appraiser and is classified in the fair value hierarchy at Level 3.

Fair value of energy-related assets is monitored on an ongoing basis and, in the opinion of the Management Board, the accounting policy according to which the revaluation of these assets is carried out every 5 years, presents the value of these assets reliably.

The next valuation of energy-related assets is scheduled on 1 January 2021.

The value of energy-related assets determined at the purchase price, less depreciation charges and impairment losses amounted to PLN 2,487,000 (31 December 2018: PLN 2,037,000).

19. Intangible assets

	31.12.2019	31.12.2018
Gross value	31,298	28,965
Development costs	4,302	3,977
Computer software	25,533	24,196
Intangible assets not put into use	1,463	792
Amortisation	24,305	22,468
Development costs	3,787	3,567
Computer software	20,518	18,901
Net value	6,993	6,497
Development costs	515	410
Computer software	5,015	5,295
Intangible assets not put into use	1,463	792

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2019	01.01.2019	Increases	Shifts	31.12.2019
Gross value	28,965	2,333	0	31,298
Development costs	3,977	0	325	4,302
Computer software	24,196	0	1,337	25,533
Intangible assets not put into use	792	2,333	(1,662)	1,463
Amortisation	22,468	1,837	0	24,305
Development costs	3,567	220	0	3,787
Computer software	18,901	1,617	0	20,518
Net value	6,497	496	0	6,993
Development costs	410	(220)	325	515
Computer software	5,295	(1,617)	1,337	5,015
Intangible assets not put into use	792	2,333	(1,662)	1,463

2018	01.01.2018	Increases	Liquidation	Shifts	31.12.2018
Gross value	26,940	2,055	(30)	0	28,965
Development costs	3,744	0	0	233	3,977
Computer software	22,368	0	(30)	1,858	24,196
Intangible assets not put into use	828	2,055	0	(2,091)	792
Amortisation	20,509	1,989	(30)	0	22,468
Development costs	3,373	194	0	0	3,567
Computer software	17,136	1,795	(30)	0	18,901
Net value	6,431	66	0	0	6,497
Development costs	371	(194)	0	233	410
Computer software	5,232	(1,795)	0	1,858	5,295
Intangible assets not put into use	828	2,055	0	(2,091)	792

Contractual liabilities

As at the presented balance-sheet dates, the Company did not have any contractual liabilities related to the purchase of intangible assets.

Major intangible assets

Intangible assets comprise primarily the computer software purchased.

There are no significant intangible assets.

Impairment losses

In 2019 and in 2018, the Company did not carry out impairment tests for intangible assets as there were no indicators of impairment. In 2019 and in 2018, the Company did not recognise or reverse write-downs of intangible assets.

Restricted disposal

There are no material restrictions on the disposal of intangible assets by the Company.

20. Right-of-use assets

The Company has lease contacts acquired free-of-charge, related to the right of perpetual usufruct of land, concluded for limited term ending 2079.

Below presented are the carrying amounts of the right-of-use assets and their change in the reporting period.

	31.12.2019	01.01.2019
Gross value	12,057	12,057
Land	12,057	12,057
Amortisation	169	0
Land	169	0

Supplementary information and explanatory notes to the financial statements form an integral part of the statements

Net value	11,888	12,057
Land	11,888	12,057

20.1. Company as a lessee

Change in the balance of the right-of-use assets

	Land
Gross value as at 01.01.2019 (IFRS 16 impact)	12,057
Increases (decreases)	0
Depreciation	(169)
Total increases (decreases)	(169)
Gross book value	12,057
Accumulated amortisation	(169)
Total net value as at 31.12.2019	11,888

The weighted average incremental borrowing for the Company lease is 4.5%.

Costs of lease contracts recognised in the statement of comprehensive income:

Costs on account of		
Lease interest	Finance costs	(169)
Depreciation	Operating costs (depreciation)	(169)
Short-term lease and low-value lease	Operating costs (third-party services)	(536)
Total		(874)

	31.12.2019	01.01.2019
Value of future lease payments, including:	12,401	12,578
within up to 1 year	177	177
from 2 to 5 years	885	885
more than 5 years	11,339	11,516
Discount	(8,645)	(8,814)
Present value of lease liabilities	3,756	3,764
including short-term lease	177	177

20.2. Company as a lessor

The Company is a party to an office space rental agreement for a subsidiary. The agreement was concluded for unlimited term with one-month notice period. The income on the agreement was PLN 269,000 in 2019 (2018: PLN 201,000). Apart from the agreement, the Company as a lessor was not party to any major agreements of that kind in the reporting period.

21. Interests and shares

	31.12.2019	31.12.2018
Gross value of long-term investments, including:	370,280	376,150
Interests or shares in subsidiaries	369,440	375,310
Interests or shares in other entities	840	840
Write-down of long-term investments, including:	840	7,043
Interests or shares in subsidiaries	0	6,203
Interests or shares in other entities	840	840

Supplementary information and explanatory notes to the financial statements form an integral part of the statements

Net value of long-term investments, including:	369,440	369,107
Interests or shares in subsidiaries	369,440	369,107
Interests or shares in other entities	0	0

Investments in subsidiaries by net carrying amounts:

Name of company	31.12.2019	31.12.2018
Alupol Packaging S.A.	179,510	179,035
Aluprof S.A., Bielsko	150,422	149,901
Dekret Centrum Rachunkowe Sp. z o.o.	981	862
Alu Trans System Sp. z o.o.	0	782
Aluform Sp. z o.o.	38,485	38,485
Grupa Kęty Italia SRL	42	42
Total	369,440	369,107

In 2019 and 2018 the value of share options granted to the employees of the subsidiaries within the Management Options Plan increased the value of interests and shares in the companies for PLN 1,116,000 and 1,174,000, respectively – a description of the Management Options Plan is provided in note 24.1.

As at 31 December 2019 and 31 December 2018, interests and shares in subsidiaries were not used as a security for the Company liabilities.

Write-downs for other companies refer to interests in other companies acquired at the end of the 1990s on account of unpaid debts.

Write-downs of shares in subsidiaries	31.12.2019	31.12.2018
Alu Trans System Sp. z o.o., Kęty*	0	6,203
TOTAL WRITE-DOWNS OF SHARES IN SUBSIDIARIES	0	6,203

*Alu Trans System Sp. z o.o. did not run any activities in 2019 and 2018, its liquidation was completed in October 2019.

22. Acquisitions of other entities and changes in the organisational structure

In 2019 and 2018, the Company did not acquire other entities and did not make any changes in the organisational structure.

23. Advance payments for property, plant and equipment

Advance payments for property, plant and equipment amounting to PLN 1,331,000 (previous year: PLN 15,357,000) include advance payments to suppliers for property, plant and equipment under construction.

24. Employee benefits

24.1. Employee share plans

The Group has two option plans open for the management staff.

Each plan is divided into three parts. Vesting periods for options under the first part start in the launch year of the plan, and for the subsequent parts – in the subsequent years. Each part is divided into 4 sub-parts: A, B, C, D.

24.1.1 Basic information regarding share option plans

	2015 plan, 2017 part	2015 plan, 2016 part	2015 plan, 2015 part
Number of share options under the plan	60,000	60,000	60,000
Number of shares in sub-part A	9,000	9,000	9,000
Number of shares in sub-part B	15,000	15,000	15,000
Number of shares in sub-part C	18,000	18,000	18,000
Number of shares in sub-part D	18,000	18,000	18,000
Sub-part A – return on shares	=WIG	=WIG	=WIG
Sub-part B – return on shares	WIG+15%	WIG+15%	WIG+15%
Sub-part C – EBITDA increase	29%-33%	29%-33%	29%-33%
Sub-part D – net earnings increase	39%-44%	39%-44%	39%-44%

Three-year employment period at the Capital Group calculated separately for each sub-part from the launch date of a given part is the common condition for all the aforementioned programmes.

The 'return on shares' for a given part of the plan is understood as the quotient of the average price of Grupa Kęty S.A. shares in the first quarter of the third year following the launch year of a given part increased for the value of dividends paid by the Company in the period of three years from 1 April of the launch year and the average share price of the Company at the Warsaw Stock Exchange in the first quarter of the part launch year.

'EBITDA per share increase' for a given part of a programme means the quotient of consolidated EBITDA per share attained by the KĘTY Capital Group in the second year following the launch year of a given part and consolidated EBITDA per share attained by the KĘTY Capital Group in the year directly preceding the part launch year.

'Net earnings per share increase' for a given part mean the quotient of consolidated net earnings per share attained by the KĘTY Capital Group in the second year following the launch year of a given part and consolidated net earnings per share attained by the KĘTY Capital Group in the year directly preceding the part launch year.

The right to acquire share options will arise following the satisfaction of the programme conditions.

The purchase price of the shares from a given programme equals the average price of the shares of Grupa Kęty S.A. for the period of three months preceding the General Meeting that adopts the resolution concerning a given programme.

Stronger motivation of a larger group of employees to increase the shareholder value and the introduction of a factor making it possible to retain the KĘTY Capital Group key employees for a longer time are the main objectives of the share option plans.

24.1.2 Fair value of share options

	2015 plan, 2017 part	2015 plan, 2016 part	2015 plan, 2015 part
Date of granting options	19 September 2017	19 September 2016	11 September 2015
Expected dividends	PLN 135	PLN 114.05	PLN 69.53
Assumed volatility index for the underlying instrument	15%	16%	16%
Historical volatility index (%)	27%	28%	28%
Risk-free interest rate (%)	2.80%	2.30%	2.50%
Expected period of options validity (in months)	68 months	68 months	68 months
Weighted average share price (PLN)	306.10	306.10	306.10
Plan fair values at launch date in PLN '000	3,435	6,017	3,272
Parameter A accomplishment	YES*	YES	YES
Parameter B base	NO	NO	YES
Parameter C accomplishment	67%*	100%	100%
Parameter D base	0%*	0%	0%

*Management Board estimations

The fair value of employee share schemes is estimated as of the options granting day based on a binominal model.

The expected period of options validity is determined on the basis of historical data and does not need to explicitly imply the possible ways of exercising them. The assumed volatility index reflects the assumption that the historical volatility index indicates future trends which, naturally, may be completely different in reality.

Upon the measurement of the fair value, no other characteristics concerning the granting of options were taken into consideration.

The Company monitors the probability of attaining the non-market parameters on an ongoing basis and takes them into account in the number of share options assumed for the valuation of the particular parts as at the balance-sheet date.

The Company recognises the scheme costs proportionally to the vesting period for options granted to the Company employees.

The share options costs in the period are presented in the table below.

Options costs in the period	2019	2018
First part of the 2015 plan	0	(114)
Second part of the 2015 plan	494	1,049
Third part of the 2015 plan	460	221
Total options costs in the period	954	1,156

The above amounts increased the remuneration costs in the period as well as the Company equity.

The table below presents the value of share options granted to the employees of the subsidiaries:

The value of options allocated in subsidiaries (incrementing)	2019	2018
Aluprof S.A.	5,560	5,039
Alupol Packaging S.A.	4,024	3,548
Dekret Centrum Rachunkowe Sp. z o.o.	799	680
Total	10,383	9,267

Future costs of option plans are as follows:

Future costs of the option plans	2020
Third part of the 2015 plan	222
Total	222

The expected period of options validity is determined on the basis of historical data and does not need to explicitly imply the possible ways of exercising them. The assumed volatility index reflects the assumption that the historical volatility index is the measure indicating future trends which may be different in reality.

Upon the measurement of the fair value, no other characteristics concerning the granting of options were taken into consideration.

Tabular compilation of the information about managerial options of the Company employees:

As at 31.12.2018	First part 2015 plan	Second part 2015 plan	Third part 2015 plan
Number of granted options	60,000	60,000	60,000
Number of options expired due to the failure to comply with the condition of being employed for three years from the plan launch date	6,000	4,000	8,000
Number of options which do not meet non-market parameters: C and D	16,200	16,800	20,748
Number of options assumed for valuation	37,800	39,200	31,252
Programme launch date	11 September 2015	19 September 2016	19 September 2017
Date of acquiring rights to options	10 September 2018	18 September 2019	18 September 2020
Plan termination date	30 September 2021	30 September 2022	30 September 2023
Total plan period	36 months	36 months	36 months
The remaining period to acquire rights	Period ended	9 months	21 months
Option exercise price	PLN 306.10 per share	PLN 306.10 per share	PLN 306.10 per share

24.2. Long-term employee benefits

Long-term provision for employee benefits	31.12.2019	31.12.2018
Balance as at 01.01.2019/ 01.01.2018	1,691	1,737
Increases	256	0
Decreases	0	(46)
Balance as at 31.12.2019/ 31.12.2018	1,947	1,691

24.2.1 Basic actuarial estimates as at the balance-sheet date

	2019	2018
Discount rate as at 31 December	2.01%	2.77%

Assumptions concerning the increase in future remuneration as at 31 December 2019:

3% – increase in the bases of retirement benefits in 2020–2021,

2.5% – increase in the bases of retirement and disability benefits in subsequent years.

The average age of the Company employees is 41 years: 45 years for employees with fixed-term employment contracts and 35 years for employees with non-fixed term employment contracts.

The projected employee turnover rate:

- for the average age of employees with non-fixed-term employment contracts – 2.3%;

- for the average age of employees with fixed-term employment contracts – 6.4%.

In both employee groups, the turnover rate declines with age to zero.

Assumptions concerning the increase in future remuneration as at 31 December 2018:

4% – increase in the bases of retirement benefits in 2019,

3% – increase in the bases of retirement benefits in 2020,

2.5% – increase in the bases of retirement and disability benefits in subsequent years.

The average age of the Company employees is 42 years: 43 years for employees with fixed-term employment contracts and 35 years for employees with non-fixed term employment contracts.

The projected employee turnover rate:

- for the average age of employees with non-fixed-term employment contracts – 2.00%;

- for the average age of employees with fixed-term employment contracts – 5.60%.

In both employee groups, the turnover rate declines with age to zero.

The provisions for retirement benefits, disability benefits, and death in service benefits were calculated using an individual method, for each employee separately. The provision is calculated using the present value of the Company future long-term liabilities due to retirement benefits, disability benefits, and death in service benefits. The provision calculated in such a way is discounted in accordance with actuarial methodology. The actuarial discount is the product of the financial discount and the probability for a given Company employee to reach the retirement age. The aforementioned probability was determined using the Multiple Decrement Model, where the following three risks were taken into account:

- the possibility of dismissal;
- the risk of the total inability to work;
- the risk of death.

The financial discount rate was determined on the basis of market rates of return on government bonds, whose currency and maturity dates are the same as the currency and the estimated maturity of obligations related to employee benefits.

24.2.2 Actuarial gains/losses and sensitivity analysis

The table below presents the statement of actuarial gains and losses and the sensitivity analysis by particular items:

2019	Retirement benefits	Disability benefits	Death in service benefits	Total
1 January 2019	1,913	77	37	2,027

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Current employment cost	123	12	7	142
Interest costs	45	2	1	48
Actuarial gains/(losses) recognised in other comprehensive income	1	14	11	26
(Payments)	(108)	(10)	0	(118)
31 December 2019	1,974	95	56	2,125
<i>Long-term</i>	<i>1,808</i>	<i>85</i>	<i>54</i>	<i>1,947</i>
<i>Short-term</i>	<i>166</i>	<i>10</i>	<i>2</i>	<i>178</i>

2018	Retirement benefits	Disability benefits	Death in service benefits	Total
1 January 2018	1,994	82	36	2,112
Current employment cost	127	13	8	148
Interest costs	54	3	1	58
Actuarial gains/(losses) recognised in other comprehensive income	(83)	(12)	(8)	(103)
(Payments)	(179)	(9)	0	(188)
31 December 2018	1,913	77	37	2,027
<i>Long-term</i>	<i>1,588</i>	<i>68</i>	<i>36</i>	<i>1,692</i>
<i>Short-term</i>	<i>325</i>	<i>9</i>	<i>1</i>	<i>335</i>

The table below presents the analysis of the sensitivity of the valuation results to the change of basic actuarial assumptions.

2019	Financial discount rate		Planned increases in the bases	
Change	-1 p.p.	+ 1 p.p.	-1 p.p.	+ 1 p.p.
Retirement benefits	290	(236)	(217)	262
Disability benefits	9	(7)	(7)	7
Death in service benefits	7	(6)	(4)	5
Total change in provisions	306	(249)	(228)	274

2018	Financial discount rate		Planned increases in the bases	
Change	-1 p.p.	+ 1 p.p.	-1 p.p.	+ 1 p.p.
Retirement benefits	226	(186)	(169)	200
Disability benefits	7	(7)	(7)	7
Death in service benefits	4	(3)	(3)	4
Total change in provisions	237	(196)	(179)	211

25. Inventories

	31.12.2019	31.12.2018
Materials	37,410	56,642
Work in progress	28,029	51,156
Finished products	30,773	27,089
Total	96,212	134,887

In 2019 the Company reversed write-downs of inventories for materials amounting to PLN 136,000 and recognised PLN 1,341,000 of write-downs of finished products and semi-products (reflected as an adjustment in the balance of products). In 2018 the Company recognised write-downs of inventories for materials amounting to PLN 233,000 and reversed PLN 286,000 of write-downs of finished products and semi-products (reflected as an adjustment in the balance of products).

Write-downs	31.12.2019	31.12.2018
Materials	741	877
Work in progress	2,108	950
Finished products	2,020	1,837
Total	4,869	3,664

No security was imposed on the Company inventories either in the 2019 and in 2018.

Below presented is the information on inventories recognised as cost upon their sale:

	2019	2018
Value of products sold	1,017,750	944,553
Value of materials resold	8,548	8,862
Total	1,026,298	953,415

26. Income tax receivables (payables)

Income tax receivables (payables) constitute the difference between the advance payments paid by the Company and the current tax liabilities resulting from the CIT-8 tax return.

Item	2019	2018
Tax (liability) for the period:	(4,267)	(8,430)
Paid income tax advances for the period	5,765	6,074
Tax receivables/(payables)	1,498	(2,356)
Paid tax (received refunds for previous years)	2,356	3,979
Tax paid (refunded) recognised in the statement of cash flows	8,121	10,053

27. Trade and other receivables

Short-term receivables	31.12.2019	31.12.2018
Gross receivables	186,864	205,251
Trade receivables from related parties	57,754	62,405
Trade receivables from other entities	125,512	132,657
Public law receivables (except for income tax)	435	1,244
Prepayments (trade-related) for suppliers – other entities	135	317
Receivables from employees	14	6

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Receivables related to transactions hedging the aluminium price	0	2,485
Settlements on account of sale of shares	0	3,064
Prepaid expenses	1,819	1,797
Other	1,195	1,276
Write-downs	10,540	10,794
Receivables from other entities	9,438	9,692
Other	1,102	1,102
Net receivables	176,324	194,457
Trade receivables from related parties	57,754	62,405
Trade receivables from other entities	116,074	122,965
Public law receivables (except for income tax)	435	1,244
Prepayments (trade-related) for suppliers – other entities	135	317
Receivables from employees	14	6
Receivables related to transactions hedging the aluminium price	0	2,485
Settlements on account of sale of shares	0	3,064
Prepaid expenses	1,819	1,797
Other	93	174

The conditions of intercompany transactions are presented in note 37.2 of the supplementary information and explanatory notes. Trade receivables do not bear interest and usually have 30 to 90 days maturity. The Company has implemented an appropriate policy related to sales only to verified customers and applies receivables insurance taken out at specialised companies. Consequently, according to the management's opinion, there is no additional credit risk exceeding the level established by the write-down of uncollectible receivables applicable to the Company trade receivables.

Changes in the write-downs of receivables:

	31.12.2019	31.12.2018
At the beginning of the period	10,794	10,424
Increase	968	486
Reversal	(1,222)	(116)
At the end of the period	10,540	10,794

Analysis of trade receivables and write-downs by time intervals:

Gross value of written down receivables	31.12.2019	31.12.2018
Gross receivables	186,864	205,251
Not overdue	150,678	171,591
Overdue:		
up to 3 months	27,138	23,352
up to 6 months	328	346
up to 12 months	252	86
over 12 months	8,468	9,876
Write-down of receivables	10,540	10,794
Not overdue	664	468
Overdue:		
up to 3 months	994	59
up to 6 months	162	305
up to 12 months	252	86
over 12 months	8,468	9,876

Net receivables	176,324	194,457
Not overdue	150,014	171,123
Overdue:		
up to 3 months	26,144	23,293
up to 6 months	166	41
up to 12 months	0	0
over 12 months	0	0

Non-impaired overdue receivables are related mainly to receivables from related parties whose activities are controlled by the Company and, thus, their credit quality is assumed to be good.

28. Cash and cash equivalents

Cash at bank bears interest at variable rates, the value of which depends on the interest rate on overnight bank deposits. Short-term term deposits are made for periods of various lengths from one day to one month depending on the Company current demand for cash and bear interest at the applicable interest rates.

The fair value of cash and cash equivalents is presented in the table below.

For the purpose of the statement of cash flows, cash and cash equivalents are composed of the following items:

	31.12.2019	31.12.2018
Bank deposits (current accounts) and short-term deposits	6,647	15,857
Cash recognised in the balance sheet and the statement of cash flows	6,647	15,857

As at 31 December 2019, the Company had PLN 3,166,000 of restricted availability cash in its VAT accounts (31 December 2018: PLN 14,000). The cash may be used only for the purpose of output VAT, CIT, PIT and ZUS [social security] payments to authorities or as VAT payments to the Company suppliers.

As at 31 December 2019, Grupa Kęty S.A. had undrawn credit funds granted amounting to PLN 137,216,000 with regard to which all conditions precedent had been complied with (31 December 2018: PLN 72,311,000).

29. Share capital and reserve capitals

29.1. Share capital

	31.12.2019	31.12.2018
Share capital, including:	67,825	67,763
Value registered at the KRS (National Court Register)	23,925	23,863
Revaluation under IAS 29	43,900	43,900
<i>Number of KRS registered shares</i>	<i>9,569,947</i>	<i>9,545,447</i>

29.1.1 Nominal value of shares

All issued shares have the nominal value of PLN 2.50 and were fully paid. Due to the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies*, the Company share capital was subject to revaluation as of the date of the first adoption of the IFRS. The increase in the share capital due to the revaluation as at the balance-sheet date amounted to PLN 43,900,000.

On 15 February 2005, the court registered the decrease in the Company share capital through the redemption of 1,575,117 shares with the value at cost of PLN 71,108,000 acquired by the Company with the purpose of redeeming them by way of a public notice in 2002. The redemption took place by decreasing the share capital by PLN 13,965,000, share premium by PLN 43,453,000 and retained earnings by PLN 13,690,000.

On 30 May 2005, the court registered an increase in the Company share capital through the issue of 300,000 shares of D series, taken up by eligible persons in August 2004 under the Company incentive plan initiated in 2003.

After these changes, the nominal value of the registered share capital amounted to PLN 23,064,000. Share capital was divided into 9,225,663 shares with the nominal value of 2.50 PLN each.

In 2019, the National Court Register registered a capital increase due to the take up by the management staff of 17,500 shares of G and 7,000 shares of F series.

In 2018, the National Court Register registered a capital increase due to the take up of 23,747 shares of G series by the management staff.

The Company shareholders are entitled to dividend in the declared amount, if such amount is declared. A single ordinary share entitles its holder to one vote at the Company General Meeting.

29.1.2 Rights of shareholders

All shareholders have equal rights and there are no preference shares.

The Company shareholders are entitled to dividend in the declared amount, if such amount is declared. A single ordinary share entitles its holder to one vote at the Company General Meeting.

29.2. Share premium

	31.12.2019	31.12.2018
Share premium	38,018	33,900
Total	38,018	33,900

In 2019, 24,500 shares of the nominal value of PLN 62,000 and the issue value of PLN 4,180,000 were registered by the National Court Register.

In 2018, 23,747 shares of the nominal value of PLN 59,000 and the issue value of PLN 2,781,000 were registered by the National Court Register.

29.3. Capital from the revaluation of property, plant and equipment

	31.12.2019	31.12.2018
Fair value of property, plant and equipment sold	2,925	3,508
Deferred tax liability	(556)	(666)
Total	2,369	2,842

29.4. Capital from the valuation of share based payments

	31.12.2019	31.12.2018
Capital at the beginning of the period	24,322	21,992
Costs of the period	954	1,156
Value of share options granted in the period to the employees of the subsidiaries, as increasing the carrying amount of investments in subsidiaries	1,116	1,174
Total	26,392	24,322

The Company has implemented plans of granting share options under which certain members of the management staff and of senior management of the Company and its subsidiaries were granted options to take up the Company shares (see note 24.1 in the supplementary information and explanatory notes).

The capital reflects the fair value of the options granted to the Company employees and the employees of the subsidiaries, proportionally to the vesting period.

29.5. Capital from the revaluation of hedging instruments

	31.12.2019	31.12.2018
Futures contracts hedging cash flows due to the purchase of aluminium	1,554	(3,940)
Forward contracts hedging cash flows due to exchange rate changes	0	(20)
Deferred tax	(295)	752
Total	1,259	(3,208)

29.6. Result on cash flow hedging transactions

The Company applies hedge accounting to transactions hedging future cash flows due to the purchase of aluminium. The result on such transactions constitutes a separate item of equity as long as the item being hedged influences the result.

The balance of the capital is presented in the table below.

	31.12.2019	31.12.2018
Result realised on futures contracts hedging cash flows due to the purchase of aluminium	(303)	(532)
Total	(303)	(532)

29.7. Retained earnings

	31.12.2019	31.12.2018
Previous years profit	332,611	370,178
Transfer of capital from the revaluation of non-current assets carried at revalued amount	3,274	2,802
Net actuarial gains (losses)	(21)	84
Financial result for the period	205,027	191,439
Total	540,891	564,503

Long-term loans

Lender	Currency	Security	31.12.2019	31.12.2018
Bank PKO BP	PLN	First capped mortgage on real properties of Grupa Kęty S.A. and Aluform sp. z o.o., up to the amount of 312 million, along with the assignment of rights under the property insurance policies. Joint and several liability of Grupa KĘTY S.A. and Aluform Sp. z o.o., plus blank promissory notes of Grupa KĘTY S.A. and Aluform Sp. z o.o. and promissory note declaration.	135,025	105,829
BNP Paribas Polska	PLN, EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 200 million), Alupol Packaging S.A. (up to PLN 35 million), Aluprof S.A. (up to PLN 60 million), ROMB S.A. (up to PLN 20 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 45 million), Alupol Films Sp. z o.o. (up to PLN 55 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	78,500	0
Total			213,525	105,829

Short-term loans

Lender	Currency	Security	31.12.2019	31.12.2018
Bank PKO BP	PLN	First capped mortgage on real properties of Grupa Kęty S.A. and Aluform Sp. z o.o., up to the amount of 312 million, along with the assignment of rights under the property insurance policies. Joint and several liability of Grupa KĘTY S.A. and Aluform Sp. z o.o., plus blank promissory notes of Grupa KĘTY S.A. and Aluform Sp. z o.o. and promissory note declaration.	46,490	20,117
ING Bank Polska	EUR, PLN	Joint and several liability of Grupa KĘTY S.A. and Aluprof S.A.	1,651	825
BNP Paribas Polska	PLN, EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 200 million), Alupol Packaging S.A. (up to PLN 35 million), Aluprof S.A. (up to PLN 60 million), ROMB S.A. (up to PLN 20 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 45 million), Alupol Films Sp. z o.o. (up to PLN 55 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	161	151,208
Bank Pekao S.A.	PLN, EUR, USD,	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 300 million), Alupol Packaging S.A. (up to PLN 60 million), Aluprof S.A. (up to PLN 160 million), Aluform Sp. z o.o. (up to PLN 29.5 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 60 million), Alupol Films Sp. z o.o. (up to PLN 60 million), and Aluminium Kęty EMMI d.o.o. (up to PLN 50 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	63,424	61,859
Bank Societe Generale	EUR, PLN	Security bond by Aluprof S.A. up to PLN 40 million.	11,543	17,813
Bank PKO BP	PLN, EUR,	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 80 million), Alupol Packaging S.A. (up to PLN 25 million), Aluprof S.A. (up to PLN 60 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 30 million), ROMB S.A. (up to PLN 15 million), plus blank promissory notes and promissory note declarations.	0	285
Total			123,269	252,107

30. Bank loans

Maturity date	31.12.2019	31.12.2018
Up to 1 year	123,269	252,107
From 1 to 2 years	124,990	31,864
From 2 to 5 years	88,535	73,965
Total	336,794	357,936

The Company loans bear interest at variable rates determined on arm's length basis in reference to WIBOR/EURIBOR/LIBOR plus the bank margin.

In 2019 and 2018, the Company complied with all credit/loan covenants.

Standard agreements on working capital loans listed above are concluded for a period of one year with maturity dates falling in the second half of the next subsequent year. Each year, before the end of a given period, the Company negotiates agreements/annexes with the banks to extend the agreements for the subsequent 12-month periods.

31. Lease liabilities

The table below presents changes in the balance of the particular discounted values of lease liabilities.

Characteristics	Type	Loan currency	31.12.2018	Increase (decrease)	31.12.2019
Long-term loan	Payments on account of land perpetual usufruct rights	PLN	3,587	(8)	3,579
Short-term loan	Payments on account of land perpetual usufruct rights	PLN	177	0	177
Total			3,764	(8)	3,756

The above liabilities comprise payments for the use of land (land perpetual usufruct rights).

Maturity date of lease liabilities	31.12.2019	01.01.2019
Up to 1 year	8	8
From 1 to 2 years	17	17
From 2 to 5 years	29	28
More than 5 years	3,702	3,711
Total	3,756	3,764

32. Subsidies

	31.12.2019	31.12.2018
Long-term deferred income		
Subsidies	28,258	29,246
Total	28,258	29,246
Short-term deferred income		
Subsidies	1,020	1,020
Total	1,020	1,020

The subsidies received are related to the projects co-financed under assistance programmes of the European Union and to the co-financing of the costs of development works carried out by the Company.

Below presented is the information on the main projects subsidised by the European Union.

The Company implemented two projects related to the purchase and construction of property, plant and equipment. The first of the projects was related to the co-financing under Measure 4.5. 'Support for investment of considerable importance to the economy'; Priority Axis 4 'Investments in innovative undertakings' under the Innovative Economy Operational Programme. The project implementation period was 2009-2011.

Eligible costs: PLN 12,900,000. Under the programme, the Company received subsidies amounting to PLN 6,389,000. The Company fulfilled all of the subsidy conditions.

The second of the projects was related to the co-financing under Measure 4.5. 'New investments of high innovation potential'; Priority Axis 4 'Investments in innovative undertakings' under the Innovative Economy Operational Programme. The project implementation period was 2009-2011.

Eligible costs: 69,609,000. Under the programme, the Company received subsidies amounting to PLN 33,942,000. The Company fulfilled all of the subsidy conditions.

33. Provisions and accruals

33.1. Long-term provisions

	01.01.2019	Increases	31.12.2019
Long-term provisions	0	107	107
Competition ban provision	0	107	107

33.2. Short-term provisions and accruals

	31.12.2019	31.12.2018
Provisions	3,882	4,040
For retirement and disability benefits	178	336
Indemnities	3,704	3,704
Accruals	11,078	11,662
Costs of unused holiday	1,991	2,003
Costs of annual bonus	8,864	9,435
Cogeneration fees	0	182
Costs of warranty repairs	10	10
Marketing costs	160	0
Other	53	32
Total	14,960	15,702

	01.01.2019	Increases	Utilisation	31.12.2019
Short-term provisions and accruals	15,702	11,068	(11,810)	14,960
For retirement and disability benefits	336	0	(158)	178
Indemnities	3,704	0	0	3,704
Costs of unused holiday	2,003	1,991	(2,003)	1,991
Costs of annual bonus	9,435	8,864	(9,435)	8,864
Cogeneration fees	182	0	(182)	0
Costs of warranty repairs	10	0	0	10
Marketing costs	0	160	0	160
Other	32	53	(32)	53

	01.01.2018	Increases	Utilisation	Reversal	31.12.2018
Short-term provisions and accruals	14,684	11,800	(10,352)	(430)	15,702
For retirement and disability benefits	375	148	(187)	0	336
Indemnities	4,134	0	0	(430)	3,704
Costs of unused holiday	2,397	2,003	(2,397)	0	2,003
Costs of annual bonus	7,527	9,435	(7,527)	0	9,435
Cogeneration fees	196	182	(196)	0	182
Costs of warranty repairs	24	0	(14)	0	10
Other	31	32	(31)	0	32

34. Liabilities

34.1. Trade payables and other liabilities

	31.12.2019	31.12.2018
Trade liabilities to related parties	5,470	11,331
Trade liabilities to non-related companies	51,018	46,557
Public law payables (except for income tax payables)	7,433	7,888
Payroll payables	5,008	4,793
Securities	4	4
On account of property, plant and equipment purchase	11,086	27,100
On account of completed term contracts	113	0
Other	947	772
Total	81,079	98,445

The conditions of intercompany transactions are presented in note 37.2 of the supplementary information and explanatory notes. Trade payables do not bear interest and are usually settled within 30–60 days. Other liabilities do not bear interest and their average payment period is 30 days.

The said liabilities are not secured with the Company assets.

34.2. Contractual liabilities

	31.12.2019	31.12.2018
Prepayments from customers (trade-related)	705	1 203

The contracts with the customers provide that the above amounts should be realised within up to 12 months.

35. Off-balance-sheet receivables and liabilities

The Company received or granted guarantees and security bonds presented in the table below. According to the Company present estimates, the guarantees and security bonds presented below will not be realised.

Guarantees and security bonds granted to subsidiaries

For:	Purpose	Amount	Validity
Aluprof S.A.	Revolving credit collateral	40,000	30.09.2020
Aluprof S.A.	Security bond for Euler Hermes guarantee	1,373	28.02.2023
Alupol Films sp. z o.o.	Security bond for term contracts	5,500	Unlimited
Alupol Packaging Kęty sp. z o.o.	Security bond for term contracts	5,500	Unlimited
Alupol Packaging S.A.	Security bond for term contracts	5,500	Unlimited
Aluprof S.A.	Security bond for term contracts	27,500	Unlimited

Guarantees and security bonds received from subsidiaries

From:	Purpose	Amount	Validity
Aluprof S.A.	Credit collateral	40 000	30.09.2020
Alupol Packaging SA, Alupol Packaging Kęty sp. z o.o., Alupol Films sp. z o.o.	Security bond for term contracts	5.500	Unlimited

Additionally:

- Grupa Kęty S.A., Alupol Packaging S.A., Aluprof S.A., Alupol Packaging Kęty sp. z o.o. and Romb S.A. entered into an agreement with PKO BP S.A. for an overdraft facility up to the total amount of PLN 80 million. All the companies being parties to the agreement are jointly and severally liable for the liabilities related to that loan. The amounts of the said loan drawn by other companies as at the balance-sheet date amounted to PLN 27,787,000. The agreement is valid until 30 September 2020.
- Grupa Kęty S.A., Alupol Packaging S.A., Aluprof S.A., Alupol Packaging Kęty sp. z o.o., Alupol Films sp. z o.o., Aluform sp. z o.o. and Aluminium Kety Emmi d.o.o. entered into an agreement with Pekao S.A. for an overdraft facility up to the total amount of PLN 300 million. All the companies being parties to the agreement are jointly and severally liable for the liabilities related to that loan. The amounts of the said loan drawn by other companies as at the balance-sheet date amounted to PLN 171,840,000. The agreement is valid until 31 October 2020.
- Grupa Kęty S.A. and Aluprof S.A. entered into an agreement with ING S.A. for an overdraft facility up to the total amount of PLN 65 million. All the companies being parties to the agreement are jointly and severally liable for the liabilities related to that loan. As at the balance-sheet date, Aluprof S.A. was not indebted on account of the aforementioned agreement. The agreement is valid until 31 August 2020.
- Grupa Kęty S.A., Aluprof S.A., Alupol Packaging S.A., Alupol Packaging Kęty Sp. z o.o., Alupol Films Sp. z o.o. and ROMB S.A. entered into an agreement with BNP Paribas Polska S.A. for an overdraft facility up to the total amount of PLN 300 million. All the companies being parties to the agreement are jointly and severally liable for the liabilities related to that loan. The amount of the said loan drawn by the companies as at the balance sheet date amounted to PLN 63,521,000. The agreement is valid until 5 July 2021.
- Grupa Kęty S.A. and Aluform sp. z o.o. entered into a loan agreement with PKO BP up to the total amount of PLN 260 million. All the companies being parties to the agreement are jointly and severally liable for the liabilities related to that loan. As at the balance sheet date, Aluform sp. z o.o. did not have any debt under the aforementioned agreement. The agreement is valid until 31 March 2024.

35.1. Tax accounts

As at the date of these statements preparing, there were no proceedings or tax control procedures pending in reference to the Company.

36. Shareholding structure

Entity	Number of shares 31.12.2019	Percentage of capital	Number of shares 31.12.2018	Percentage of capital
Nationale Nederlanden OFE	1,829,832	19.12%	1,836,002	19.23%
OFE AVIVA Santander	1,735,302	18.13%	1,762,985	18.47%
OFE PZU ZŁOTA JESIEŃ	943,654	9.86%	946,571	9.92%
AEGON PTE	694,474	7.26%	688,823	7.22%
MetLife OFE	534,584	5.58%	509,873	5.34%
PTE Allianz Polska	489,576	5.12%	491,227	5.15%
Other	3,342,525	34.93%	3,309,966	34.68%
Total	9,569,947	100.00%	9,545,447	100.00%

37. Information on intercompany transactions

The table below presents the total amounts of commercial transactions made with related companies. The sales transactions referred mainly to products, whereas purchases referred mainly to services.

Subsidiary		Sales	Purchases	Dividends	Receivables	Liabilities
Aluprof S.A.	2019	282,741	2,483	140,000	51,659	302
	2018	254,538	4,166	95,000	55,512	336
Alupol Packaging S.A.	2019	1,720	0	20,000	467	0
	2018	1,612	0	40,000	313	0
Alu Trans System Sp. z o.o. under liquidation*	2019	3	0	0	0	0
	2018	3	0	0	0	0
Dekret Centrum Rachunkowe Sp. z o.o.	2019	980	1,986	447	199	203
	2018	802	1,915	357	57	189
Aluprof Węgry Kft.	2019	200	312	0	93	200
	2018	417	380	0	36	153
Alupol LLC	2019	13,700	8,557	0	541	342
	2018	3,894	9,920	0	158	3,964
ROMB S.A.	2019	12,547	59	0	2,979	0
	2018	14,462	101	0	3,810	66
Aluform Sp. z o.o.	2019	1,263	56,516	22,000	223	3,583
	2018	1,444	59,708	17,520	3,335	6,024
Alupol Packaging Kęty Sp. z o.o.	2019	4,397	28	0	745	13
	2018	7,265	15	0	1,290	11
Alupol Films Sp. z o.o.	2019	521	0	0	129	0
	2018	421	0	0	44	0
Aluprof System Czech Ltd.	2019	1	0	0	0	0
	2018	2	0	0	0	0
Aluprof Belgium NV	2019	67	0	0	5	0
	2018	69	0	0	11	0
Grupa Kety Italia SRL	2019	0	1,656	0	0	401
	2018	3	1,566	0	0	197
Aluminium Kety EMMI d.o.o.	2019	6,265	3,286	0	709	185
	2018	4,432	3,870	0	886	139
Aluminium Kety Deutschland GmbH	2019	0	1,385	0	0	200
	2018	19	1,293	0	1	210
Aluprof UK	2019	66	0	0	4	0
	2018	67	0	0	15	0
Aluprof Rumunia	2019	13	0	0	1	0
	2018	12	0	0	1	0
Aluminium Kety Czechy s.r.o.	2019	0	623	0	0	41
	2018	0	618	0	0	42
Total	2019	324,484	76,891	182,447	57,754	5,470
Total	2018	289,462	83,552	152,877	65,469	11,331

*Company liquidated in October 2019. The revenue on liquidation amounted to PLN 736,000.

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In the reporting period, the Company did not pay any donation to the 'Grupa Kęty for the Children of the Podbeskidzie Region' (previous year: PLN 15,000). The Foundation was established by Grupa Kęty S.A. in 2011. The Company contributed PLN 50,000 as the founder's capital. The Foundation is a non-profit organisation accomplishing social objectives.

Apart from the above mentioned transactions and those described in notes 35 (Guarantees and security bonds) and 37.2, the Group did not enter into any other intercompany transactions.

The transactions with the Management Board and the Supervisory Board are described in note 37.3 to the financial statements.

37.1. Capital Group composition

The Company is the parent of the Grupa Kęty S.A. Capital Group.

As at 31 December 2019, the Capital Group consisted of:

Company name	Registered office	Core business	Parent's name	Percentage of share capital as at 31.12.2019	Percentage of share capital as at 31.12.2018	Date of control take-over	Reporting segment
Grupa Kęty S.A.	Kęty, Poland	Production and trade services	N/A	N/A	N/A	N/A	EPS
Alupol Packaging S.A.	Tychy, Poland	Production and trade in plastic packaging	Grupa Kęty S.A.	100.00%	100.00%	04/1998	FPS
Aluprof S.A.	Bielsko-Biała, Poland	Production of construction joinery	Grupa Kęty S.A.	100.00%	100.00%	06/1998	ASS
Dekret Centrum Rachunkowe Sp. z o.o.	Kęty, Poland	Accounting and bookkeeping services	Grupa Kęty S.A.	100.00%	100.00%	09/1999	Other
Aluprof Hungary Kft.	Dunakeszi, Hungary	Trade and provision of services	Aluprof S.A.	100.00%	100.00%	07/2000	ASS
Alupol LLC	Borodianka, Ukraine	Production of aluminium profiles	Aluform Sp. z o.o.	100.00%	100.00%	12/2004	EPS
Aluprof Deutschland GmbH	Schwanewede, Germany	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	02/2005	ASS
Aluprof System Romania SRL	Bucharest, Romania	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	05/2005	ASS
Aluprof System Czech s.r.o.	Ostrava, Czech Republic	Sales of window and door joinery made of aluminium and PVC	Aluprof S.A.	100.00%	100.00%	05/2005	ASS
Aluprof UK Ltd.	Altrincham, UK	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	05/2006	ASS
ROMB S.A.	Złotów, Poland	Production and provision of services	Aluprof S.A.	100.00%	100.00%	04/2007	ASS
Alupol Packaging Kęty Sp. z o.o.	Kęty, Poland	Production and trade services	Grupa Kęty S.A.	100.00%	100.00%	05/2009	FPS
Aluform Sp. z o.o.	Tychy, Poland	Production and trade services	Grupa Kęty S.A.	100.00%	100.00%	06/2009	EPS
Aluprof System Ukraina Sp. z o.o.	Kiev, Ukraine	Trade – sales of steel systems	Aluprof S.A.	100.00%	100.00%	11/2009	ASS
Aluprof Serwis Sp. z o.o.	Bielsko-Biała, Poland	Scientific research and development works	Aluprof S.A.	100.00%	100.00%	1/2012	ASS
Grupa Kęty Italia SRL	Milan, Italy	Commercial intermediation	Grupa Kęty S.A.	100.00%	100.00%	5/2014	EPS
Marius Hansen Facader A/S	Viborg, Denmark	Production and assembly of construction joinery	Aluprof S.A.	100.00%	100.00%	6/2014	ASS
Aluprof System USA Inc	Wilmington, USA	Distribution of aluminium systems for the construction industry	Aluprof S.A.	100.00%	100.00%	7/2014	ASS
Alupol Films Sp. z o.o.	Oświęcim, Poland	Production and trade services	Alupol Packaging Kęty Sp. z o.o.	100.00%	100.00%	12/2014	FPS
Aluprof Belgium N.V.	Dendermonde, Belgium	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	6/2015	ASS
Aluminium Kety EMMI d.o.o.	Slovenska Bistrica, Slovenia	Processing of aluminium profiles	Aluform Sp. z o.o.	100.00%	100.00%	6/2016	EPS
Aluminium Kety Deutschland GmbH	Dortmund, Germany	Trade and marketing services	Aluform Sp. z o.o.	100.00%	100.00%	6/2016	EPS
Aluprof Netherlands BV	Rotterdam, Netherlands	Sales of aluminium systems	Aluprof S.A.	55.00%	55.00%	4/2017	ASS
Aluminium Kety CSE s.r.l.	Ostrava, Czech Republic	Trade and marketing services	Aluform Sp. z o.o.	100.00%	100.00%	7/2017	EPS

37.2. Terms of intercompany transactions

Any intercompany transactions were made at arm's length basis and referred to current operating activities.

37.3. Other transactions with members of the Management Board and the Supervisory Board

The Company did not enter into any transactions with the Management Board or Supervisory Board members, except for those described in notes 37.4 and 37.5.

37.4. Remuneration of the key management staff

The key management staff of the Company include members of the Supervisory Board and of the Management Board.

Management Board:	2019	2018
Remuneration at the parent company	2,303	2,566
Provisions for annual bonuses and other benefits at the parent company	4,387	4,830
Costs of treasury share options at the parent company*	637	1,039
Total costs of the Management Board remuneration at Grupa Kęty S.A.	7,327	8,435
Remuneration at other Group companies	628	871
Provisions for annual bonuses and other benefits at other Group companies	425	313
Costs of share options for work at other Group companies*	476	1,002
Total costs of remuneration of the Management Board of Grupa Kęty at other Group companies	1,529	2,186
Total consideration for the Management Board members	8,856	10,621

*The details of the plan are described in note 24.1. If the market conditions for the allocation of options are not fulfilled, despite the recognition of the costs of the plan, eligible persons will not acquire the right to take up shares.

Moreover, there are no agreements between Grupa Kęty S.A. and the managing persons which would provide for any compensation in the case of their resignation or dismissal from their positions for no important reason or where their dismissal would be related to the Issuer's merger by acquisition, except for the conditions included in the term of notice or non-competition agreements.

The table below presents the costs of remuneration of the Company Supervisory Board, recognised as cost in the statement of profit or loss.

	2019	2018
Supervisory Board	836	789
Total	836	789

37.5. Participation of the Management Board in the employee share plan

As described in details in note 24.1, the Company has implemented an options plan for the management staff.

In the reporting period, the Management Board took up 17,500 shares of Grupa Kęty S.A. from the third part of the 2012 plan.

Under the plan, the Management Board members hold options entitling them to take up 14,700 shares from the first part of the 2015 plan, and 9,450 shares from the second part of the 2015 plan.

In addition, the members of the Management Board hold the rights to the following number of share options. The final number of share options that the Management Board will be able to exercise will depend on the satisfaction of the plan conditions.

Number of share options in the vesting period granted to members of the Management Board	Number of granted options	End date of the vesting period	Estimated number of options meeting the vesting conditions
Share options from the third part of the 2015 plan	21,000	30.09.2020	7,371

The details of the share options plan are described in note 24.1.

Apart from the transactions and balances referred to above, there were no other significant intercompany transactions.

38. Objectives and principles of financial risk management

The basic risk factors which may affect the financial result of the Company include: the risk of changes in the prices of basic raw materials, interest rate risk, currency risk, credit risk, liquidity risk, and risk related to extraordinary and operating events.

The Management Board verifies and agrees on the principles of the management of each of the aforementioned risks. The Company also monitors the risk of market prices applicable to all financial instruments managed by it. The extent of the risk in the period is discussed in note 38.1 of supplementary information and explanatory notes.

The basic objectives of the Company financial risk management process are as follows:

- ensuring financial liquidity;
- limiting the direct impact of interest rates, exchange rates and the primary aluminium prices on the Company results;
- limiting the negative consequences of extraordinary and operating events.

Management strategies as regards:

- the risk of changes in the prices of basic raw materials – natural hedge strategy, i.e. offering variable prices to the customers based, for example, on LME quoting of raw materials and conclusion of futures contracts to hedge the raw material prices;
- interest rate risk – strategy of diversification of short-term base rates and acceptance of risk up to the limit of the costs of finance determined in internal procedures;
- currency risk – natural hedge strategy, i.e. offering variable prices to the customers based on the current exchange rates, adjustment of the raw materials purchase currency to the currencies applied in sales, and entering into forward transactions with the financing banks, plus use of loans in foreign currencies in order to eliminate the consequences of different dates of currency inflows and payables;
- credit risk – internal verification supported with business intelligence information, plus receivables insurance, and application of legal collaterals in reference to liabilities;
- liquidity risk – diversification of lenders, adjustment of loans repayment periods to the capabilities of the Company, use of umbrella agreements within the Capital Group, with the possibility of fast change of debt sub-limits for the particular borrowers, and application of long-term loans as regard project finance;
- risk of exceptional occurrences and operating risk – limitation strategies by way of risk transfer (insurance), technical audits aimed at risk mitigation, and diversification of the places of operation and sales.

Risk-management objectives of the Company:

- a. The interest rate risk and currency risk are managed in order to limit the impact of short-term market fluctuations on the Company profit.
- b. Managing the risk of changes in basic raw materials prices is aimed at the elimination of the impact of raw materials prices fluctuation on the Company results, specifically when the transfer of costs to the customer is not possible.
- c. Credit risk management is to reduce the possible financial losses on account of unpaid receivables and ensure the required financial liquidity.
- d. Liquidity risk management is to ensure the possibility of timely payment of liabilities by all of the Capital Group companies.
- e. Managing the risk of exceptional occurrences is to develop the methods of conduct which will ensure safety to the employees and compliance with laws in exceptional situations, as well as proper supervision of the reasons and places of such risk occurrence, plus obtaining indemnities under insurance policies.
- f. Managing the risk of operating events, including for example the risk related to economic downturn on the main markets, the risk of key staff loss, the risk of damage to the environment, reputational risk, the risk of claims related to the quality of the manufactured products, or the risk of non-compliance, is to follow the changes in legal environment and introduce adjustments on a current basis.

38.1. Risk related to changes in the prices of basic materials

38.1.1 Aluminium, aluminium scrap

Primary aluminium and aluminium scrap are the basic raw materials used in the operations of the Company. Primary aluminium is mainly purchased on the basis of annual contracts and the price is determined on a monthly basis individually for each delivery. The prices of aluminium scrap purchased on the market are not based on the price formulas directly related to the aluminium quotations at the London Metal Exchange; however, there is a significant correlation of the scrap prices with metals price changes at the LME. Information on instruments hedging the price risk is provided in note 39.1.1

38.2. Interest rate risk

Interest on bank term deposits and loans depends on the interest rates on the interbank market, such as WIBOR (for loans in PLN) and EURIBOR (for foreign currency loans). As a result, the Company is exposed to the interest rate risk, which may result in lower rate of return from financial investments or higher costs of borrowed loans.

As estimated by the Company, the following items are exposed to the interest rate risk:

- cash,
- borrowings and lease liabilities,
- provisions for retirement benefits,
- fair value of shares and interests.

Interest rate risk refers to the following balance sheet items as regards cash and loans

Variable interest			
31.12.2019	< 1 year	1–2 years	More than 3 years
Cash	6,647	0	0
Bank loans in PLN	(92,763)	(113,772)	(88,535)
Bank loans in EUR	(30,040)	(11,218)	0
Bank loans in USD	(466)	0	0
Total	(116,622)	(124,990)	(88,535)

Variable interest			
31.12.2018	< 1 year	1–2 years	More than 3 years
Cash	15,857	0	0
Bank loans in PLN	(171,134)	(31,864)	(73,965)
Bank loans in EUR	(80,549)	0	0
Bank loans in USD	(424)	0	0
Total	(236,250)	(31,864)	(73,965)

Susceptibility analysis

The tables below present the estimates of the Company risks related to changes in interest rates and exchange rates of the main currencies.

For **borrowings and lease** items affecting the statement of profit or loss

Risk	Change	31.12.2019	31.12.2018
Increase in interest rates	1%	(3,406)	(2,673)
Higher EUR/PLN exchange rates	5%	(57)	(1,365)
Higher USD/PLN exchange rates	5%	(42)	(443)
Higher GBP/PLN exchange rates	5%	55	77

For **borrowings and lease** items affecting the equity

Risk	Change	31.12.2019	31.12.2018
Higher EUR/PLN exchange rates for hedging instruments	5%	0	120
Higher aluminium price for hedging instruments	5%	3,477	3,011

Interest rate risk refers to the following balance sheet items as regards fair value:

Below presented is the detailed information concerning fair values of financial instruments that can be estimated.

- Cash and cash equivalents, short-term bank term deposits, financial receivables and financial liabilities. The fair value of the said instruments is close to their carrying amounts due to their short-term nature.
- Long-term interest-bearing borrowings. The fair value of the said instruments is close to their carrying amounts due to the fluctuating nature of their interest rates as well as the market level of the margin.

Financial assets	Under IFRS 9	31.12.2019	31.12.2018
Financial receivables	FAatAC	173,934	192,343
Cash	FAatAC	6,647	15,857
Hedging instruments*		1,554	347

Financial liabilities	Under IFRS 9	31.12.2019	31.12.2018
Financial liabilities	OFLatAC	81,079	98,445
Bank loans	OFLatAC	336,794	357,936
Lease liabilities	OFLatAC	3,756	0
Hedging instruments*		134	4,307

*Hedging derivatives meeting the requirements of hedge accounting.

Abbreviations:

FAatAC – Financial assets measured at amortised cost

OFLatAC – Other financial liabilities measured at amortised cost

The fair values of all of the above presented financial assets and liabilities are close to their carrying amounts.

38.3. Liquidity risk

The table below presents the Company financial liabilities by maturity periods on the basis of contractual non-discounted payments.

31.12.2019	Validity				
	On demand	Below 3 months	From 3 to 12 months	From 1 to 2 years	More than 2 years
Bank loans	0	11,622	111,647	124,990	88,535
Other financial liabilities	0	81,079	0	0	0
Cash flow hedging derivatives	0	134	0	0	0
Off-balance-sheet liabilities	0	40,000	199,730	64,792	0
Total	0	132,835	311,377	189,782	88,535

31.12.2018	Validity				
	On demand	Below 3 months	From 3 to 12 months	From 1 to 2 years	More than 2 years
Bank loans	0	516	257,954	33,266	79,108
Other financial liabilities	0	98,446	0	0	0
Cash flow hedging derivatives	0	4,307	0	0	0
Off-balance-sheet liabilities	0	0	370,897	0	49,500
Total	0	103,269	628,851	33,266	128,608

The Company monitors the liquidity risk with the use of periodical liquidity planning tool. The tool takes into account the maturity dates both for investments and financial assets (e.g. accounts of receivables and other financial assets) and projected cash flows from operating activities.

The Company aims to maintain the balance between the continuity and flexibility of financing using various financing sources such as overdraft facilities or long-term bank loans.

38.4. Currency risk

The Company records revenue and expenses mainly in three basic currencies (PLN, EUR, GBP and USD). The revenue and expenses in other currencies do not exert significant influence on the Company currency risk. The balance of revenue and expenses in foreign currencies is usually positive for EUR and negative for USD. It results in an exposure to changes in EUR/PLN, USD/PLN and GBP/PLN exchange rates.

According to the Company estimations, in the period covered by the statements, over 90% of the Company sales were made directly or indirectly based on prices expressed in EUR (exports in EUR and denominated sales), with only 4% settled in USD or GBP. On the cost side, approximately 53% of costs were incurred or denominated in EUR, 41% paid in PLN and 6% paid in USD. Taking the above into account, EUR/PLN exchange rates will have a significant impact on the Company results, as they will influence both exports profitability and competitiveness on the Polish market as compared to imported goods. The risk results from the lack of possibility to adjust the costs incurred in PLN to the possible drop of sales value resulting from the appreciation of PLN towards EUR.

For the purpose of currency risk limitation, in 2019 Grupa KĘTY S.A. applied natural hedge, including replacement of settlements on account of raw materials purchased in USD with the purchases of raw materials in EUR, or by way of maintaining a part of debt in foreign currencies.

The Company exposure to the currency risk as at the balance sheet date is presented in the table below.

	31.12.2019		31.12.2018	
	Amount in foreign currency	Amount translated to PLN '000	Amount in foreign currency	Amount translated to PLN '000
Cash in EUR	16	69	0	0
Cash in USD	29	109	701	2,637
Cash in GBP	22	109	16	77
Receivables in EUR	18,264	77,779	17,549	75,460
Receivables in USD	200	758	422	1,587
Receivables in GBP	229	1,146	305	1,463
Bank loans in EUR	(9,688)	(41,258)	(18,732)	(80,549)
Bank loans in USD	(123)	(466)	(113)	(424)
Liabilities in EUR	(8,859)	(37,724)	(5,165)	(22,210)
Liabilities in USD	(519)	(1,969)	(3,365)	(12,651)
Total exposure to change in EUR exchange rates	(267)	(1,134)	(6,348)	(27,299)
Total exposure to change in USD exchange rates	(413)	(1,568)	(2,355)	(8,851)
Total exposure to change in GBP exchange rates	251	1,255	321	1,540

Information about the hedging of the Company exchange position is presented in note 39.1.1

38.5. Credit risk

Trade credit

In cooperation with the customers, the Company applies deferred payment terms with payment periods from a few to 20 days (trade credit). The credit is usually not secured by the borrower in a manner ensuring 100% guarantee of obtaining the funds. Consequently, the Company is exposed to the risk of complete or partial insolvency of a given customer or a delay of the liabilities payment.

Sale to reliable, tested customers helps minimise the risk. In addition, the Company insures the trade credit in professional companies providing such types of services. The Company does not insure receivables from related parties.

The level of insured trade receivables is presented below:

	31.12.2019	31.12.2018
Net trade receivables from non-related parties	116,074	122,965
Insured trade receivables	(104,467)	(107,728)
Exposure to trade credit risk	11,607	15,237

There is no counterparty among non-related parties to exceed the level of 10% of trade receivables. The concentration level of 10% of trade receivables has been exceeded by the Aluprof S.A. subsidiary. As at 31 December 2019, the receivables from the company accounted for 29.7% of total trade receivables (31 December 2018: 29.9%).

Cash

The Company cooperates with banks of high capital adequacy ratio. To minimise the risk of the loss of liquidity, the Company uses the services of several banks; in addition, the Company monitors the financial positions of the banks providing services to the Company on an ongoing basis.

38.6. Exceptional occurrences risk

38.6.1 Property damage risk

The Company is in possession of industrial property of considerable value. The property in question is exposed to a number of risks related to exceptional occurrences such as fire, deluge, flooding, construction and assembly risk related to projects. The Company production assets are insured.

38.6.2 Profit loss risk

Exceptional occurrences may significantly limit the capacity of the Company to generate profit. Such a situation can occur in the case of excluding the whole or a part of any of the Company production plants from the production process. The property insurance policy taken out comprises a business interruption (BI) clause (profit loss insurance).

38.6.3 Risk of damage to third parties

Business activities are associated with the risk of causing damage to third parties. Such a case may occur as a result of direct damage done to a third party during their visit at the Company production facilities as well as a result of defective operation of products manufactured by the Company. The shares of Grupa Kęty S.A. are quoted at Warsaw Stock Exchange, therefore, a damage caused to the Company due to any wrong decisions of the Management Board (and consequently, a possible decrease in the share price) may result in the shareholders' claims to remedy the damage or reimburse the profits lost by shareholders. The Company has taken out civil liability insurance on account of its business operations, with multiple extensions covering, among other things, product liability insurance.

38.6.4 Geopolitical risk in the countries of the Company operation

The activities and main assets of the Company are located in Poland.

The Company cooperates, however, with multiple partners from other countries as regards the purchase and sale of trade goods. Geopolitical risk related to the unstable political situation in certain countries may have adverse impact on the Company by breaking the supply chain for raw materials (mainly aluminium) or due to the loss of some contractors or loss of assets (receivables) value.

39. Derivative financial instruments

Financial assets	31.12.2019	31.12.2018
Currency forward contracts hedging cash flows	0	12
Futures contracts hedging cash flows for the purchase of aluminium	1,554	335
Total	1,554	347
Financial liabilities	31.12.2019	31.12.2018
Currency forward contracts hedging cash flows	0	32
Futures contracts hedging cash flows for the purchase of aluminium	134	4,275
Total	134	4,307

Currency forward and futures contracts are measured either on the basis of the stock exchange quotations or, in the absence of stock exchange quotations, by discounting values based on the forward rate resulting from the contract and deduction of the amount in the given currency translated at the current exchange rate.

In the event of the application of the discounted cash flows method, the estimated future cash flows are based on the most reliable Management Board estimations, whereas the market interest rate for a similar instrument is applied as the discount rate as at the balance-sheet date. In the event of the application of other valuation models, the output data are based on the market data as at the balance-sheet date.

39.1. Cash flow hedge

The Company applies the principles of hedge accounting to mitigate the adverse impact of the currency risk and of the risk related to a change in aluminium prices. The Company recognised in equity:

	31.12.2019	31.12.2018
Open currency forward contracts	0	(20)
Open futures contracts for the purchase of aluminium	1,420	(3,941)
Exercised futures contracts for the purchase of aluminium	(303)	(532)
Total	1,117	(4,493)

The aforementioned items will affect the Company result in 2020.

39.1.1 Futures contract hedging aluminium prices reflected in hedge accounting

As at 31 December 2019, the Company availed of the following hedging contracts:

Futures contracts for the purchase of aluminium in PLN (after translation)				
Exercise date	Fair value	Number of tonnes	Nominal value in PLN	Average PLN price
Q.1, 2020	790	5,475	32,569	5,948.69
Q.2, 2020	474	3,250	19,440	5,981.67
Q.3, 2020	95	1,000	6,057	6,057.33
Q.4, 2020	61	650	3,950	6,076.32
Total	1,420	10,375	62,016	5,977.46

The Company hedges itself against commodity risk using futures contracts, with the prices of aluminium at the London Metal Exchange as the underlying asset. These futures contracts are standardised and provide for 25 tonnes of aluminium, and are settled on the third Wednesday of each month.

Hedge accounting:

At the Company, the risk results from the purchase of raw materials, i.e. primary aluminium, the price of which depends on the quoting at the London Metal Exchange.

In 2019 the hedge of the risk of raw materials prices fluctuation was applied.

Managing the risk of aluminium prices fluctuations refers to the area of raw materials purchases and products sales.

In order to hedge the aluminium prices the Company enters into futures purchase contracts denominated in EUR, at the amounts equivalent to the orders filed, with the maximum limit of unhedged commercial transactions specified as 1,000 tonnes of aluminium and the maximum limit of transactions hedging non-confirmed orders of 1,000 tonnes.

The effectiveness of the concluded transactions is measured by the comparison of the potential change in the value of the future liabilities on account of aluminium purchases at variable prices and the potential change in the value of hedging transactions. Owing to the fact that the settlement base is the same in both cases, the effectiveness ex ante is 100%.

39.1.2 Forward contracts securing currency exchange rates

As regards foreign currency risk, in 2019 the Company did not enter into any new hedge transactions. Natural hedge was applied, i.e. compensating for the risk on the income side by taking out liabilities in the same currency.

Hedge accounting:

The currency risk at the Company originates from the purchase of raw materials and sales of products in foreign currencies, as well as in relation to the purchase of property, plant and equipment in foreign currencies.

Currency risk management at the Company covers the areas of raw materials purchases, sales of products, and purchase of property, plant and equipment.

The risk is mutually compensated by proper management of the receivables and liabilities/bank loans currency structure.

39.2. Impact of derivative transactions on items of the statement of profit or loss and the statement of comprehensive income

Statement of profit or loss	2019	2018
Sales revenue (result on forward contracts)	0	1,397
Costs of materials consumption (result on futures contracts)	(5,260)	(8,136)
Impact on gross result	(5,260)	(6,739)

Other comprehensive income	2019	2018
Impact of valuation	5,518	(7,324)
Shift to financial result	229	(1,078)
Tax	(1,048)	1,391
Impact on comprehensive income	4,696	(7,011)

40. Revenue, costs and losses by categories of financial instruments

2019	Shares and interests	Hedging instruments	Financial assets	Financial liabilities measured at amortised cost	Total financial instruments
Write-downs	(47)	0	(644)	0	(691)
Dividends and share in profits	182,475	0	0	0	182,475
Interest income (costs)	0	0	185	(8,143)	(7,958)
Profit (loss) from currency translation differences	0	0	(874)	(72)	(946)
Profit (loss) on sale of financial instruments	0	(5,260)	0	0	(5,260)
Total profit (loss)	182,428	(5,260)	(1,333)	(8,215)	167,620

2018	Shares and interests	Hedging instruments	Financial assets	Financial liabilities measured at amortised cost	Total financial instruments
Write-downs	(45)	0	(460)	0	(505)
Dividends and share in profits	152,877	0	0	0	152,877
Interest income (costs)	0	0	194	(4,103)	(3,909)
Profit (loss) from currency translation differences	0	0	2,851	(4,395)	(1,544)
Profit (loss) on sale of financial instruments	3,064	(6,739)	0	0	(3,675)
Total profit (loss)	155,896	(6,739)	2,585	(8,498)	143,244

41. Methods of measurement at fair value

The fair value of futures and forwards is calculated with the use of the present net value of the future cash flows related to these contracts, based on quoted market prices of forward contracts determined with the application of the present interest rates.

The Company evaluates energy-related assets at a revalued amount, i.e. at the fair value as at the valuation date adjusted for depreciation.

The detailed principles for determining the fair value of energy-related assets as at the revaluation date are described in note 18.8. Detailed information about the valuation of derivative financial instruments is available in note 39.

The fair value of currency forward contracts is determined by reference to the present forward rates of contracts with similar maturity.

As compared to the previous financial year, the Company did not change the method of measuring derivatives. Derivatives are recognised as assets when their measurement is positive, and as liabilities when their measurement is negative. Gains and losses due to changes in the fair value of derivatives which do not meet the principles of hedge accounting are recognised in profit or loss for the reporting year.

Fair value hierarchy	Hierarchy	31.12.2019	31.12.2018
Assets			
Energy-related assets	3	5,410	5,545
Hedging derivatives	2	1,554	347
Liabilities			
Hedging derivatives	2	134	4,307

42. Capital management

The basic objective of capital management is to maximise the return on equity (ROE) while maintaining a secure and flexible structure of finance. When preparing the specific guidelines, the division into operating segments is taken into account as well as the necessity of maintaining current operating liquidity by the companies within the segments, and development objectives financing in accordance with the assumed plans.

In the reporting periods, no changes were introduced to objectives, principles and processes binding in this area.

The Company monitors the return on equity using the ROE ratio, which is calculated as net profit to total equity. The finance structure is monitored by the leverage ratio, which is calculated as net debt to total equity, as well as the net debt to EBITDA ratio, whereas EBITDA is understood as operating profit plus depreciation and amortisation.

The Company net debt includes interest-bearing loans and borrowings, less cash and cash equivalents.

	31.12.2019	31.12.2018
EBITDA (operating profit plus depreciation and amortisation)	271,276	250,684
Net profit	205,027	191,439
Interest-bearing borrowings and lease liabilities	340,550	357,936
Cash and cash equivalents	(6,647)	(15,857)
Net debt	333,903	342,079
Equity	676,451	689,590
Leverage ratio	49.4%	49.6%
Net debt to EBITDA ratio	1.23	1.36
ROE	30%	28%

43. Headcount structure

The average headcount at the Company was as follows:

	2019	2018
Company Management Board	4	5
Management staff	44	42
White-collar workers	299	288
Blue-collar workers	1,045	1,018
Total	1,392	1,353

44. Reasons for differences between balance-sheet changes of some items and changes in the statement of cash flows

In the presented periods, the balance-sheet changes in the balance of receivables, inventories and subsidies comply with their changes reflected in the statement of cash flows.

Differences in the balance-sheet change of the balance of liabilities and provisions compared to their change reflected in the statement of cash flows are presented and explained in the tables below.

Change in the balance of liabilities	2019	2018
Balance-sheet change in the balance of liabilities (-decrease +increase)	(17,864)	(2,509)
Change in the balance of liabilities reflected in cash flows	(2,369)	(12,987)
Difference	(15,495)	10,478
- including payment of liabilities on account of property, plant and equipment purchase	(15,495)	10,478

Change in the balance of provisions	2019	2018
Balance-sheet change in the balance of provisions (-decrease +increase)	(379)	972
Change in the balance of provisions reflected in cash flows	(405)	1,075
Difference	26	(103)
- including the change in provisions on account of actuarial losses charged to other comprehensive income	26	(103)

45. Statutory auditor's remuneration

	2019	2018
Remuneration for the audit of annual separate and consolidated financial statements	96	108
Remuneration for semi-annual reviews	20	20
Remuneration for open training	4	13
Total	120	141

46. The Company as a power company

Pursuant to the Energy Law, Grupa Kęty S.A. holds:

- a) a licence to trade in gaseous fuels;
- b) a licence to distribute gaseous fuels;
- c) a licence to distribute electricity;
- d) a licence to trade in electricity.

As regards the assessment of the Company activities as well as its financial standing and assets, the scope and scale of the Company activities as a power company are immaterial and do not exert any significant influence on the figures disclosed in the financial statements.

However, pursuant to Article 44.2 of the Energy Law, the Company must prepare a separate balance sheet and a separate statement of profit or loss for each of the aforementioned licensed activities. The presented disclosure aims at ensuring equal treatment of customers and the elimination of cross-subsidy.

The Company is in possession of technical infrastructure and purchases electrical energy and gas both to satisfy its own needs and the needs related to their further resale.

Some of the costs are directly allocated to the particular types of the licensed activities, however, there are also common costs for the areas of operation. To allocate common costs to own needs and to the licensed activities, the Company applies allocation keys.

The table below presents the types of the applied allocation keys.

Percentage of shared costs allocated to licensed activities	2019	2018
Gas – allocation by contracted capacity	14%	27%
Energy – allocation by quantitative key	17.7%	13%

The figures for the allocation of the particular activities to the statement of profit or loss and the balance sheet were separated on the basis of:

- figures from the accounts allocated directly to the particular activities;
- Cost Centre numbers allocated directly to the particular activities or allocated to the items of total costs related to all activities;
- separate items recognised in accounts and on the basis of additional statements allocated directly or indirectly with the use of keys to the particular activities.

The application of the keys does not have a significant effect on the true and fair presentation of the assets and financial standing as well as of the results of the particular activities. Allocation keys are applied to allocate items classified as general items. Revenue-based key (revenue net of excise duty). Assigning allocation keys to the items of the balance sheet and of the statement of profit or loss

Balance sheet

Intangible assets and property, plant and equipment

The items not allocated directly to the particular activities were divided on the basis of the key in reference to the average value resulting from revenue-based keys.

Short-term receivables

As the origination of short-term trade receivables is associated with the revenue generated by the Company, items of short-term receivables related to the licensed activities were identified and allocated directly to the particular types of activities.

Cash

The Company has more loans than cash; as a result, due to the necessity of financing licensed activities, the Company assumed that the said activities require incurring debts. The amount needed to finance the aforementioned activities is disclosed in 'equity and liabilities' of the balance sheet under the item 'Internal settlements'.

Equity

Presents net assets allocated to licensed activities.

Liabilities and provisions for liabilities

Trade payables and deferred income tax liabilities were allocated according to the detailed identification of items and using the allocation keys defined in the table above. Due to immateriality of the amounts, the allocation of other liabilities was not carried out.

Statement of profit or loss

Net sales revenue

Net sales revenue is allocated directly to the particular activities.

Costs of operating activities

The allocation key applied to allocate items not allocated directly to the particular activities was determined on the basis of the keys described in the table above.

Finance costs

Finance costs as interest costs were determined by calculating the average share of the Company in net assets of licensed activities and the interest rate of loans in PLN.

Income tax

The allocation of income tax to the particular activities is proportional to gross profit of the given activities taking into account the tax calculated for the activities.

STATEMENT OF PROFIT OR LOSS	Trade in and distribution of natural gas		Distribution of electricity		Trade in electricity	
	2019	2018	2019	2018	2019	2018
Total operating revenue, including:	1,613	1,934	1,245	1,407	7	2,327
Total operating costs, including:	(1,549)	(1,752)	(1,213)	(1,285)	(252)	(2,171)
Depreciation	(2)	(4)	(162)	(134)	0	0
Gas/energy	(1,481)	(1,631)	(767)	(900)	(6)	(1,766)
Materials	(1)	(1)	(13)	(10)	0	0
Employee benefits	(59)	(102)	(132)	(111)	0	0
Taxes and fees	(2)	(3)	(16)	(14)	(235)	(397)
Third-party services	0	(2)	(39)	(25)	(11)	(8)
Other costs	(4)	(9)	(84)	(91)	0	0
Profit on operating activities	64	182	32	122	(245)	156
Finance costs	(8)	(9)	(44)	(29)	0	0
Profit before tax	56	173	(12)	93	(245)	156
Income tax	(11)	(33)	2	(23)	47	(30)
Net profit on continued operations	45	140	(10)	70	(198)	126

BALANCE SHEET	Transmission and distribution of natural gas		Transmission of electricity		Trade in electricity	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets						
I. Non-current assets	51	102	1,515	1,193	0	0
Property, plant and equipment	51	102	1,515	1,193	0	0
II. Current assets	217	209	106	129	0	194
Receivables	217	209	106	129	0	194
Total assets	268	311	1,621	1,322	0	194
Equity/liabilities						
I. Equity	265	307	1,457	1,113	0	194
Internal settlements	265	307	1,457	1,113	0	194
II. Long-term liabilities	3	4	164	209	0	0
Deferred tax liability	3	4	164	209	0	0
III. Short-term liabilities	0	0	0	0	0	0
Total equity/liabilities	268	311	1,621	1,322	0	194

47. Post-balance-sheet events

On 11 March 2020 the World Health Organization (WHO) announced a pandemic of SARS-Cov-2 virus causing the COVID-19 disease ("coronavirus"), and subsequently, on 12 March, the Polish government introduced the state of epidemic emergency in Poland. Further, in accordance with the Act on Preventing and Combating Infections and Infectious Diseases in People, the Polish government announced an epidemic.

In the current opinion of the Company, the major issues affecting the nearest future include the hard-to-foresee decisions of our business partners, depending on the fast changing market situation and the key element being the availability of the Company staff.

As at the date of these statements publication, Grupa Kęty S.A. has not felt any direct influence of the pandemic on its operations and financial standings, and thanks to several implemented steps has not limited the scale of its operations. As at the date of these statements, the Company has not identified any limitations in making current payments. Moreover, it avails of various sources of finance ensuring financial liquidity.

The COVID-19 threat circumstances represent a post-balance-sheet event which does not require reflection in the financial figures as at 31 December 2019. Therefore, it has not been included in the major assumptions (identification of impairment indicators, impairment tests, valuation of the expected credit losses).

Apart for the discussed matters, there were no significant post-balance-sheet events which should be included in the consolidated financial statements for 2019.

Owing to the impossibility of estimating the duration of the current situation and its further development, as well as the unpredictability of external factors, including legal and regulatory changes, the Management Board of Grupa Kęty S.A. does not exclude the origination of adverse effects of the pandemic on the Capital Group in the coming months.

Signatures of all Members of the Management Board

Dariusz Mańko
*President of the
Management Board*

Rafał Warpechowski
*Member of the
Management Board*

Piotr Wysocki
*Member of the
Management Board*

Tomasz Grela
*Member of the
Management Board*

Signature of the person entrusted with bookkeeping

Andrzej Stempak
*President of the Management Board
Dekret Centrum Rachunkowe Sp. z o.o.*