



**THE CAPITAL GROUP OF GRUPA KĘTY S.A.**

**CONSOLIDATED 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**

**(PLN '000)**

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	Note	2019	2018
<b>Total operating revenue, including:</b>		<b>3,215,535</b>	<b>3,003,787</b>
Revenue from contracts with customers	13.1	3,203,665	2,993,453
- including from the sales to associates		370	79
Other operating revenue	13.3	11,870	10,334
<b>Share in net profit of entities accounted for using the equity method</b>	22	<b>152</b>	<b>1,114</b>
<b>Change in the level of product inventories and work in progress</b>		<b>(27,086)</b>	<b>26,112</b>
<b>Cost of manufacturing of products for own needs</b>		<b>13,366</b>	<b>13,740</b>
<b>Total operating costs, including:</b>		<b>(2,817,080)</b>	<b>(2,707,086)</b>
Depreciation	17, 18, 20	(138,234)	(125,810)
Consumption of materials, energy and value of goods and materials sold	13.9	(1,933,178)	(1,880,348)
Third-party services		(238,687)	(225,486)
Taxes and fees		(15,637)	(15,970)
Employee benefits		(456,338)	(426,025)
Revaluation of financial assets – IFRS 9	13.4	(3,122)	(2,318)
Other operating costs	13.5	(31,884)	(31,129)
<b>Net profit on operating activities</b>		<b>384,887</b>	<b>337,667</b>
Financial revenue	13.6	1,132	800
Finance costs	13.7	(22,322)	(21,786)
<b>Profit before tax</b>		<b>363,697</b>	<b>316,681</b>
Income tax	14	(68,262)	(48,218)
<b>Net profit on continued operations</b>		<b>295,435</b>	<b>268,463</b>
Attributable to non-controlling interests		541	230
<b>Attributable to owners of the parent</b>		<b>294,894</b>	<b>268,233</b>
Earnings per share attributable to owners of the parent (PLN)	15		
Basic		30.85	28.12
Diluted		30.80	28.09

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Net profit for the period</b>		<b>295,435</b>	<b>268,463</b>
<b>Other comprehensive income recognised in profit or loss</b>		<b>11,011</b>	<b>(10,497)</b>
Cumulative translation adjustment for foreign companies		2,513	3,348
Valuation of cash flow hedging instruments	39.1	10,205	(15,765)
Result on cash flow hedging transactions		228	(1,077)
Income tax related to other comprehensive income recognised in the statement of profit or loss		(1,935)	2,997
<b>Other comprehensive income recognised outside profit or loss</b>		<b>(1,673)</b>	<b>(872)</b>
Actuarial gains (losses)	24.3	(2,008)	(1,250)
Income tax related to other comprehensive income recognised outside profit or loss		335	378
<b>Comprehensive income for the period</b>		<b>304,773</b>	<b>257,094</b>
Comprehensive income attributable to:			
Non-controlling interests		541	230
Owners of the parent		304,232	256,864

**CONSOLIDATED BALANCE SHEET**

<b>ASSETS</b>	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>I. Non-current assets</b>		<b>1,680,333</b>	<b>1,574,739</b>
Property, plant and equipment	17	1,438,981	1,337,054
Right-of-use assets	18	44,587	0
Intangible assets	20	37,244	39,657
Goodwill	13.8	19,867	19,889
Investment properties	19	3,315	3,493
Interests in associates	22	4,978	4,761
Other investments	23	0	11
Long-term receivables	26	5,930	6,801
Advance payments for the purchase of property, plant and equipment	26	10,329	38,409
Deferred tax assets	14.1	115,102	124,664
<b>II. Current assets</b>		<b>1,098,177</b>	<b>1,205,109</b>
Inventories	25	448,810	509,461
Income tax receivables	14.3	1,929	1,883
Trade and other receivables	27	537,151	571,136
Contractual assets	13.2	3,899	21,243
Short-term investments	23	90	99
Derivative financial instruments	38	2,706	606
Cash and cash equivalents	28	103,592	100,681
<b>Total assets</b>		<b>2,778,510</b>	<b>2,779,848</b>
<b>EQUITY/LIABILITIES</b>	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>I. Equity</b>		<b>1,478,505</b>	<b>1,397,042</b>
Share capital	29.1	67,825	67,763
Share premium	29.2	38,018	33,900
Capital from share based payments	29.4	26,392	24,322
Result on cash flow hedging transactions	29.6	(303)	(531)
Capital from the revaluation of hedging instruments	29.5	905	(7,365)
Capital from the revaluation of property, plant and equipment	29.3	2,368	2,841
Retained earnings	29.7	1,369,869	1,305,735
Cumulative translation adjustment for foreign companies	29.8	(27,901)	(30,414)
<b>Equity attributable to owners of the parent</b>		<b>1,477,173</b>	<b>1,396,251</b>
Equity attributable to non-controlling interests		1,332	791
<b>II. Long-term liabilities</b>		<b>560,337</b>	<b>314,663</b>
Liabilities related to loans	30.1	437,360	220,782
Lease liabilities	31	21,419	0
Other liabilities	33.1	1,310	1,130
Provisions	32	721	499
Provisions for employee benefits	24.2	16,807	12,675
Deferred income	34	36,731	37,103
Deferred tax liability	14.1	45,989	42,474
<b>III. Short-term liabilities</b>		<b>739,668</b>	<b>1,068,143</b>
Liabilities related to loans	30.1	369,583	654,274
Lease liabilities	31	4,015	0
Income tax payables	14.3	14,101	10,818
Trade payables and other liabilities	33.2	294,749	345,747
Contractual liabilities	33.3	13,037	10,738
Provisions and accruals	32	40,250	34,883
Derivative financial instruments	38	1,722	9,700
Deferred income	34	2,211	1,983
<b>Total equity/liabilities</b>		<b>2,778,510</b>	<b>2,779,848</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result on cash flow hedging transactions	Capital from the revaluation of hedging instruments	Capital from the revaluation of property, plant and equipment	Retained earnings	Cumulative translation adjustment for foreign companies	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
<b>Equity as at 1 January 2019</b>	<b>67,763</b>	<b>33,900</b>	<b>0</b>	<b>24,322</b>	<b>(531)</b>	<b>(7,365)</b>	<b>2,841</b>	<b>1,305,735</b>	<b>(30,414)</b>	<b>1,396,251</b>	<b>791</b>	<b>1,397,042</b>
Comprehensive income for the period:	0	0	0	0	228	8,270	0	293,221	2,513	<b>304,232</b>	541	<b>304,773</b>
<i>Net profit for the period</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>294,894</i>	<i>0</i>	<b>294,894</b>	<i>541</i>	<b>295,435</b>
<i>Other comprehensive income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>228</i>	<i>8,270</i>	<i>0</i>	<i>(1,673)</i>	<i>2,513</i>	<b>9,338</b>	<i>0</i>	<b>9,338</b>
Valuation of share based payments	0	0	0	2,070	0	0	0	0	0	<b>2,070</b>	0	<b>2,070</b>
Transfer due to depreciation	0	0	0	0	0	0	(473)	473	0	<b>0</b>	0	<b>0</b>
Payment of dividend	0	0	0	0	0	0	0	(229,560)	0	<b>(229,560)</b>	0	<b>(229,560)</b>
Issue of shares	62	4,118	0	0	0	0	0	0	0	<b>4,180</b>	0	<b>4,180</b>
<b>Equity as at 31 December 2019</b>	<b>67,825</b>	<b>38,018</b>	<b>0</b>	<b>26,392</b>	<b>(303)</b>	<b>905</b>	<b>2,368</b>	<b>1,369,869</b>	<b>(27,901)</b>	<b>1,477,173</b>	<b>1,332</b>	<b>1,478,505</b>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result on cash flow hedging transactions	Capital from the revaluation of hedging instruments	Capital from the revaluation of property, plant and equipment	Retained earnings	Cumulative translation adjustment for foreign companies	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
<b>Equity as at 1 January 2018</b>	<b>67,704</b>	<b>31,179</b>	<b>0</b>	<b>21,992</b>	<b>546</b>	<b>5,403</b>	<b>3,314</b>	<b>1,266,441</b>	<b>(33,762)</b>	<b>1,362,817</b>	<b>561</b>	<b>1,363,378</b>
Comprehensive income for the period:	0	0	0	0	(1,077)	(12,768)	0	267,361	3,348	<b>256,864</b>	230	<b>257,094</b>
<i>Net profit for the period</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	268,233	<i>0</i>	<b>268,233</b>	230	<b>268,463</b>
<i>Other comprehensive income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>(1,077)</i>	<i>(12,768)</i>	<i>0</i>	<i>(872)</i>	<i>3,348</i>	<b>(11,369)</b>	<i>0</i>	<b>(11,369)</b>
Valuation of share based payments	0	0	0	2,330	0	0	0	0	0	<b>2,330</b>	0	<b>2,330</b>
Transfer due to depreciation	0	0	0	0	0	0	(473)	473	0	<b>0</b>	0	<b>0</b>
Payment of dividend	0	0	0	0	0	0	0	(228,540)	0	<b>(228,540)</b>	0	<b>(228,540)</b>
Issue of shares	59	2,721	0	0	0	0	0	0	0	<b>2,780</b>	0	<b>2,780</b>
<b>Equity as at 31 December 2018</b>	<b>67,763</b>	<b>33,900</b>	<b>0</b>	<b>24,322</b>	<b>(531)</b>	<b>(7,365)</b>	<b>2,841</b>	<b>1,305,735</b>	<b>(30,414)</b>	<b>1,396,251</b>	<b>791</b>	<b>1,397,042</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Cash flow from operating activities</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>		<b>363,697</b>	<b>316,681</b>
<b>Adjustments:</b>		<b>158,450</b>	<b>145,928</b>
Share in net profit of entities accounted for using the equity method		(152)	(1,114)
Depreciation	17, 18, 20	138,234	125,810
Recognition/(reversal) of write-downs		1,712	456
Profit from net currency translation differences		144	3,901
Change in the valuation of investment properties		265	148
(Profit)/loss from sales of property, plant and equipment		(539)	(13)
Interest		18,169	17,030
Proceeds/(expenses) related to hedging instruments recognised in equity		229	(1,078)
Costs of share based payments		2,070	2,330
Other items (net)		(1,682)	(1,542)
<b>Cash flow from operating activities before the change of working capital and tax payment</b>		<b>522,147</b>	<b>462,609</b>
Change in inventories		60,651	(51,636)
Change in net receivables		52,200	(84,713)
Change in short-term liabilities, except for loans and leases		(26,986)	19,704
Change in provisions		7,713	1,910
Change in deferred income		(144)	2,555
<b>Net cash generated from operating activities before tax payment</b>		<b>615,581</b>	<b>350,429</b>
Tax paid		(52,754)	(57,142)
<b>Net cash from operating activities</b>		<b>562,827</b>	<b>293,287</b>
<i>Cash flow from investing activities</i>			
<b>(+) Proceeds:</b>		<b>1,744</b>	<b>2,338</b>
Sales of intangible assets, and property, plant and equipment		1,735	1,956
Paid loans		9	22
Proceeds from sale of real estate		0	360
<b>(-) Expenses:</b>		<b>(245,590)</b>	<b>(231,047)</b>
Acquisition of intangible assets, and property, plant and equipment		(245,590)	(231,047)
<b>Net cash from investing activities</b>		<b>(243,846)</b>	<b>(228,709)</b>
<i>Cash flow from financing activities</i>			
<b>(+) Proceeds:</b>		<b>243,972</b>	<b>464,202</b>
Net proceeds from the issue of shares		4,180	2,781
Proceeds from loans and credits		239,792	461,421
<b>(-) Expenses:</b>		<b>(560,042)</b>	<b>(507,011)</b>
Dividends to owners of the parent		(229,009)	(228,514)
Dividends to minority shareholders		(473)	(26)
Repayment of loans and borrowings		(306,433)	(260,345)
Payment of lease liabilities		(4,178)	(1,115)
Interest on borrowings		(19,937)	(17,011)
Interest on lease liabilities		(12)	0
<b>Net cash from financing activities</b>		<b>(316,070)</b>	<b>(42,809)</b>
<b>Total net cash flows:</b>		<b>2,911</b>	<b>21,769</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>100,681</b>	<b>78,912</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>28</b>	<b>103,592</b>	<b>100,681</b>

# SUPPLEMENTARY INFORMATION AND EXPLANATORY NOTES

## 1. General information

The Grupa Kęty S.A. Capital Group ('the Group') comprises the parent company, namely Grupa Kęty S.A. ('the parent company', 'the parent', 'the Company') and its subsidiaries (see note 4).

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, 12<sup>th</sup> 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 lifetime of the parent company as well as of the Group companies is unlimited.

The core business of the Group includes:

- production, trade and services related to the processing of aluminium and its alloys;
- manufacturing of plastic and paper packaging materials;
- production, trade and services related to aluminium façade systems and window and door systems, special systems (fire-resistant doors and partition walls, smoke-resistant partitions), roller-shutter systems and roll-up gates for the construction industry.

In addition, the Group is involved in the provision of speciality construction services associated with the preparation and assembly of aluminium systems, trade intermediation, supplies, marketing and other activities.

## 2. The Management Board of the parent company

The parent company Management Board, as at the balance-sheet date, 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.

From the balance-sheet date to the date of preparing these consolidated financial statements there were no change in the membership of the parent company Management Board.

## 3. Financial statements approval

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

## 4. Capital Group composition

As at the balance-sheet date, the Group consists of Grupa Kęty S.A. and the following subsidiaries:

Consolidated financial statements for the period from 01.01.2019 to 31.12.2019

Supplementary information (PLN '000)

Company name	Registered office	Core business	Parent's name	Percentage in share capital 31.12.2019	Percentage in share capital 31.12.2018	Date of control take-over	Operating segment
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	Sales of aluminium façade systems and roller shutters for the construction industry	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	Sales of aluminium systems	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 aluminium systems	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 in plastic packaging	Alupol Packaging 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	Sales of aluminium 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 Kety Italia SRL	Milan, Italy	Commercial intermediation	Grupa Kęty S.A.	100.00%	100.00%	5/2014	EPS
Marius Hansen Facader A/S	Viborg, Denmark	Sales of aluminium systems	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 in plastic packaging	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 B.V.	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

In 2019 the liquidation of Alu Trans System sp. z o.o. was completed. The company did not run any operations since 2015.

## **5. Basis for the consolidated financial statements preparation**

The consolidated financial statements were prepared on the basis of the historical cost concept, except for investment properties and 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 consolidated financial statements were prepared assuming that the Group companies 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 consolidated financial statements for publication, there were no circumstances implying that the Group companies would not continue as a going concern. The going concern assessment takes into account the post-balance-sheet event described in note 43.

### **5.1. Statement of compliance**

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

### **5.2. Statement concerning the true and fair preparation of the consolidated financial statements**

The Management Board of Grupa Kęty S.A. hereby declares that, according to their best knowledge, these consolidated financial statements and comparative data were prepared in accordance with the accounting principles applicable at Grupa Kęty S.A. (presented in these financial statements) and they present a true and fair view of the assets, the financial standing and the financial result of Grupa Kęty S.A., whereas the Management Board report presents a true view of the standing of Grupa Kęty S.A., including the description of basic risks and threats.

### **5.3. Functional and presentation currency of these financial statements**

The Polish zloty (PLN) is the functional currency of the parent as well as other companies based in Poland included in these consolidated financial statements. It is at the same time the presentation currency for these consolidated financial statements.

The subsidiaries based outside the Polish territory use functional currencies other than the Polish zloty. Depending on the country of their respective registered offices, these are: EUR – euro, GBP – British pound, CZK – Czech koruna, HUF – Hungarian forint, UHR – Ukrainian hryvnia, RON – Romanian leu, DKK – Danish krone, USD – US dollar.

## **6. Major professional judgements and estimates**

### **6.1. Professional judgement**

In the process of accounting principles (policy) application, apart from the accounting estimates, the professional judgement of the management was most significant.

### **6.2. Uncertainty of estimates**

The preparation of the financial statements in accordance with IFRS requires the adoption of specific estimates and assumptions, which affect the amounts disclosed in these financial statements. The majority of estimates are based on analyses and the best knowledge of the Management Board. Although the adopted estimates and assumptions are based on the Management Board's best knowledge of the current events and developments, the actual results may differ from the estimates.

The change of accounting estimates is recognised in the period in which an estimate was changed or in current and future periods if a change in the estimate is related both to the current period and future periods.

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 a significant risk of considerable adjustment of the carrying amounts of assets and liabilities in the subsequent financial year.

#### ***Assessment of control or influence over other entities***

Determining whether the parent company controls an entity requires an assessment whether it has rights to direct the relevant activities of the company. Determining what constitutes the relevant activities of a company and which investor controls the company requires a judgement. The following factors are taken into consideration when assessing the situation and determining the nature of relationships: voting rights, relative voting power, dilution of voting rights of other investors and the scope of their participation in the process of appointing key management personnel or members of the Supervisory Board.

#### ***Impairment of assets***

Impairment tests carried out by the Group in the current and in the previous year under IAS 36 did not show any need to recognise write-downs of goodwill and intangible assets with an indefinite useful life.

Impairment tests are developed on the basis of macro- and microeconomic assumptions as well as financial projections for the subsequent years, whose realisation is not certain and is often beyond the Group's control. The test assumptions, susceptibility analysis and recognised write-downs are presented in note 13.8.

As regards other non-current assets, i.e. property, plant and equipment, intangible assets subject to depreciation, and right-of-use assets, the Group did not carry out impairment tests as there were no indicators of impairment.

#### ***Valuation of provisions for employee benefits***

The provisions for employee benefits comprise only jubilee bonuses, retirement and disability benefits, and death in service 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 analysis of the provisions for employee benefits sensitivity to a change in key assumptions is presented in note 24.3.

#### ***Valuation of other provisions and accruals***

The valuation of other provisions and accruals, including provisions for annual bonuses, unused employee holiday and warranty repairs is based on the estimates of the Management Board. If the effect of the change of money in time is material, the provision amount corresponds to the present value of expenditure which, as expected, will be necessary to satisfy the obligation.

#### ***Deferred income tax asset***

The Group 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. An improvement of the generated tax results because of carrying out business in special economic zones may cause an increase in the related recognised asset in the future. Details concerning deferred income tax assets related to the tax abatement associated with the operations in special economic zones are presented in notes 14.1 and 14.2.

#### ***Fair value of 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 Group is guided by a professional opinion. The method of fair value determination for individual financial instruments is specified in notes 10.4, 10.21 and 38.

#### ***Fair value of investment property***

The fair value of investment property is determined on the basis of the valuation carried out by a professional appraiser. The method of determining the fair value of investment property is described in note 19.

#### ***Fair value of energy-related assets***

The fair value of energy-related assets is determined on the basis of the valuation carried out by a professional appraiser. The method of determining the fair value of energy-related assets is described in note 17.

#### ***Write-down of inventories***

The Group assesses the value and the probability of obtaining future economic benefits in relation to the possessed inventories of tangible current assets held by it. In the case of circumstances substantiating that the amount obtained will be lower than the value of the said tangible assets, the Group recognises write-downs of inventories up to the realisable value. The information about the method of determining the value of inventories is presented in notes 10.2 and 10.13.

#### ***Write-down of receivables***

The Group 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 Group uses its historical data regarding credit losses, adjusted in the respective cases on the basis of information regarding the future. The information about the method of determining the value of receivables is presented in note 10.16.

#### ***Fair value of the share option plan for the management staff***

The Group 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 a licensed actuary with the use of actuarial methodology. In addition, as at each balance-sheet date, the Group 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.

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

Professional judgement is described in note 7.

### **Revenue recognition**

The Group applies the percentage-of-completion method for the settlement of long-term contracts. The method requires the Group to estimate the proportion of the costs of the works already completed to the total budgeted costs. If the percentage of completion were higher by 1% than the percentage estimated by the Company, the revenue would increase by PLN 1,159,000 (previous year: PLN 609,000). If the actual costs of construction contracts in progress as at the balance-sheet date at the time of their completion were higher than the budgeted costs by 1%, the gross result would decrease by PLN 1,197,000 (previous year: PLN 594,000).

### **Depreciation rates**

Depreciation rates are determined on the basis of the projected useful lives of property, plant and equipment and intangible assets. The assumptions adopted for that purpose are specified in notes 10.6, 10.11 and 7. For a majority of the acquired trademarks, the Group determined the useful life as indefinite. When determining the useful life for trademarks, the Group took into account the following factors:

- the anticipated period of generating economic benefits from the utilisation of the trademarks;
- the anticipated period of having control over the trademarks;
- the level of future benefits from the utilisation of the trademarks;
- the anticipated activities of competitors and potential competitors.

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

### **Uncertainty related to tax settlements**

Regulations concerning VAT tax, corporate income tax and social security contributions are subject to frequent changes. The binding regulations are also unclear, which results in different opinions as to the 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 any additional liabilities resulting from such inspections may be immediately payable.

Consequently, the amounts recognised and disclosed in financial statements may change in the future as a result of the 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 Group 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. Changes in the applied accounting policies and changes in presentations**

### **7.1. 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 the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors 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 expedients. The Group assumed the modified approach.

The Group avails of lease contracts for office and warehouse space and lease contracts for some machines, vehicles and means of transport.

Additionally, the Group avails of free-of-charge or acquired land perpetual usufruct rights, which have been classified by the Group as lease contracts in accordance with IFRS 16. In accordance with the previous accounting policies, the Group recognised the rights as land.

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 in fixed assets, increased for the value of the liability as at 1 January 2019, and presented the same in a separate balance-sheet item as the 'right-of-use assets'. On the other hand, in a separate balance-sheet item of 'lease liabilities' the discounted amounts of lease payables were presented. Moreover, assets which were previously recognised in property, plant and equipment, used based on lease contracts as at 1 January 2019, were shifted from the property, plant and equipment item to the right-of-use assets item, whereas lease payables recognised in the borrowings and lease payables item were shifted to the lease liabilities item.

As regards the IFRS 16 adoption, starting from 2019 the Group introduced the following changes in the opening balance of 2019:

Balance sheet item	31.12.2018	Adjustment for IFRS 16	01.01.2019
<b>ASSETS, including:</b>	<b>2,779,848</b>	<b>21,730</b>	<b>2,801,578</b>
Property, plant and equipment, including:	1,337,054	(20,808)	1,316,246
land, including land perpetual usufruct rights	49,458	(19,179)	30,279
plant and machinery	606,661	(687)	605,974
vehicles	28,571	(942)	27,629
Right-of-use assets, including:	0	42,538	42,538
land use rights (land perpetual usufruct rights)	0	32,767	32,767
buildings use rights	0	7,353	7,353
plant and machinery use rights	0	687	687
vehicles use rights	0	1,731	1,731
<b>EQUITY/LIABILITIES, including:</b>	<b>2,779,848</b>	<b>21,731</b>	<b>2,801, 579</b>
long-term borrowings and lease payments	220,782	(875)	219,907
short-term borrowings and lease payments	654,274	(561)	653,713
long-term lease liabilities	0	19,851	19,851
short-term lease liabilities	0	3,316	3,316

## Group as a lessee

### *Lease identification*

The Group 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 the contracts concluded before 1 January 2019, the Group applied a practical expedient provided for in IFRS 16, in accordance with which a company is not obliged to reassess an arrangement as to whether it is a lease or contains a lease on the first adoption date. The Group 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 Group 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 Group 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 Group 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 Group recognises a right-of-use asset and a lease liability at the date of the lease commencement.

At the commencement date, the Group 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 in 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 Group will exercise the purchase option;
- payments of penalties for terminating the lease, unless it is reasonably certain that the Group 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 Group does not discount lease liabilities with the use of interest rates implicit in the lease, because 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 rate maturity date and the respective base rate for the given currency, and credit risk premium of the particular Group companies (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 a 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 Group to be payable under residual value guarantee;
- or if the Group 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 Group 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 Group 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 Group avails of lease contracts which are mainly related to:

- the right of perpetual usufruct of land concluded for limited term ending 2079;
- buildings, mainly office and warehouse space concluded for limited time between 5 and 7 years;
- plant and machinery for limited time of up to 10 years;
- vehicles, i.e. passenger cars for limited time of up to 3 years.

### ***Impairment***

The Group applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset lost its value.

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

#### ***Eliminations***

The following contracts of the Group 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 Group 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 Group 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 Group 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, 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 Group makes a professional judgement in consideration of the potential costs related 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.

## **PROFESSIONAL JUDGEMENT**

### ***Separating non-lease components***

The Group 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. the service of assets being the object of the contract.

However, if a contract comprises non-lease components which are considered by the Group to be insignificant in the context of the whole contract, the Group 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 Group 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.

## **7.2. Other IFRS amendments**

### ***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. An approach must be followed which better foresees the uncertainty clarification.

The interpretation has no significant impact on the consolidated financial statements of the Group.

### ***Amendments to IFRS 9 Prepayment Features with Negative Compensation***

In accordance with IFRS 9, a debt instrument may be measured at amortised cost or fair value through other comprehensive income, providing that the contractual cash flows comprise solely payments of principal and interest on the outstanding principal amount ('SPPI criterion'), and the instrument is kept within a proper business model for such classification. The Amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments have no significant impact on the financial statements of the Group.

### ***Amendments to IAS 19 Plan Amendment, Curtailment or Settlement***

The Amendments to IAS 19 clarify that on amendment, curtailment or settlement of a plan, an entity has to determine the current service cost for the remaining part of the period post the plan amendment, curtailment or settlement, with the use of the actuarial assumptions applied in the net liability (asset) remeasurement on account of specific consideration reflecting the benefits offered under the plan and the plan assets post the event. An entity is also obliged to determine net interest for the remaining part of the period post the plan amendment, curtailment or settlement, with the use of net liability (asset) on account of the specific consideration reflecting the benefits offered under the plan and the plan assets post the event, as well as the discount rate applied in the net liability (asset) remeasurement on account of the specific consideration.

The amendments have no significant impact on the financial statements of the Group.

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

The amendments clarify that an entity applies IFRS 9 to long-term interest in associates and joint-ventures to which the equity method does not apply, but as to the principle they are part of the net investment of an entity in an associate or joint venture (long-term interests). The clarification is important as it suggests that the expected model of credit losses under IFRS 9 applies to such long-term interests. The amendments also clarify that when applying IFRS 9 an entity does not take into account the losses of the associate or joint venture or any impairment loss with respect to the net investment in the associate or joint venture, which result from the application of IAS 28 *Investments in Associates*.

The amendments have no significant impact on the financial statements of the Group.

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

**IFRS 3 Business Combinations**

The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements for business combination performed by stages, which includes remeasurement at fair value of the previously held interests in that joint operation. In that way, the taking-over entity remeasures all of its previous interests in the joint operation.

**IFRS 11 Joint Arrangements**

The amendments clarify that an entity which participates in a joint operation but has no joint control over it may obtain joint control of the joint operation, within which the joint operation is a business within the meaning of IFRS 3. In such cases the previously held interests in the joint operation are not subject to remeasurement.

**IAS 12 Income Taxes**

The amendments clarify that the tax consequences of dividend payment are more directly related to former transactions or events that generated distributable profits than to payables to owners. Therefore, an entity recognises the tax consequences of dividend payment in profit or loss, other comprehensive income, or equity, depending on where the entity recognised the former transactions or events.

**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.

The above amendments have no significant impact on the financial statements of the Group.

## **8. New standards and interpretations issued, but not yet effective**

The Group 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.

- 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 16 *Leases* (issued on 13 January 2016) – effective for annual periods beginning on or after 1 January 2019;
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017) – effective for annual periods beginning on or after 1 January 2021;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017) – effective for annual periods beginning on or after 1 January 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on 12 October 2017) – effective for annual periods beginning on or after 1 January 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017) – effective for annual periods beginning on or after 1 January 2019;
- *Annual Improvements to IFRS Standards: 2015–2017 Cycle* (issued on 12 December 2017) – effective for annual periods beginning on or after 1 January 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018) – effective for annual periods beginning on or after 1 January 2019;
- 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;

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.

## **9. Error correction**

These consolidated financial statements do not contain error corrections.

## **10. Significant accounting principles**

Except for those described in clause 7, the adopted accounting principles were applied in a continuous manner in all presented periods.

### **10.1. Consolidation principles**

The consolidated financial statements cover the financial statements of Grupa KĘTY S.A. and the financial statements of its subsidiaries prepared for the current year. Financial statements of subsidiaries are prepared for the same reporting period as the ones of the parent, with the use of coherent accounting principles applied to transactions and economic events of similar nature.

The financial figures of all Group companies are prepared in accordance with the Group accounting policies consistent with IFRS. All significant intercompany balances and transactions, including unrealised profits on transactions within the Group, are eliminated. Unrealised losses are eliminated, unless they are evidence of impairment.

Subsidiaries are fully consolidated from the date of taking control over them by the Group. The consolidation is abandoned on the date the control is no longer exercised.

The transactions of taking over the control of entities are settled with the purchase method. The remuneration paid for the acquisition of a subsidiary is determined as the fair value of transferred assets and incurred liabilities or equity instruments issued by the Group. The remuneration paid comprises the fair value of assets or liabilities resulting from the determination of the conditional element of the contractual remuneration. The costs related to the acquisition are recognised in the profit or loss at the time they are incurred. Identifiable assets acquired and liabilities assumed in the process of the business entities merger are measured initially at their fair value as at the acquisition date. For each acquisition, the Group recognises non-controlling interests in the acquiree at the fair value or proportional value of the part of net assets of the acquiree applicable to non-controlling interests.

The surplus of the paid remuneration, the fair value of any possible, previously held interests in the equity of the acquiree as at the acquisition date and of the non-controlling interests over the fair value of identifiable net assets acquired, is recognised as goodwill. If the value is lower than the fair value of net assets of the subsidiary, the differences are recognised directly in other operating income of the statement of profit or loss.

The consolidated financial statements are prepared with the use of the full consolidation method. The consolidation covers all of the Group companies (the composition of the Group is presented in note 4).

In order to carry out the consolidation with the full method, the Group applies the following procedures:

- adding up all items of assets, equity and liabilities, revenue and expenses from financial statements of the parent company and of the subsidiaries;
- excluding, as at the acquisition date, the book value of the parent company's investment in each subsidiary and the part of equity which corresponds to the parent company's interest;
- determining the non-controlling interests in the net profit or loss of subsidiaries for the respective reporting period;
- determining and presenting, separately from the equity of the parent, the non-controlling interests in net assets of subsidiaries;
- excluding the balance of intercompany transactions;
- excluding all unrealised gains or losses on transactions within the Group;
- excluding revenue and costs related to transactions within the Group.

Changes in the ownership interest of the parent company which do not result in the loss of control over a subsidiary are recognised as equity transactions. In such cases, in order to reflect the changes in relative interests in a subsidiary, the Group adjusts the carrying amount of non-controlling interests. Any differences between the amount of the adjustment of the non-controlling interests and the fair value of the amount paid or received are recognised in equity and attributed to the owners of the parent.

### **10.2. Investments in associates and joint ventures**

Associates are entities in which the parent company has significant influence directly or through subsidiaries, and which are neither its subsidiaries nor joint ventures.

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

The financial year of associates, joint ventures, and the parent company is the same. Associates and joint ventures apply accounting principles consistent with the Group principles.

The Group investments in associates and joint ventures are recognised in the consolidated financial statements using the equity method. According to the equity method, the investment in an associate or joint venture is initially recognised at cost and then adjusted to reflect the Group's share in the financial result and other comprehensive income of the

associate or joint venture. If the Group's share in losses of the associate or joint venture exceeds the value of its shares in that entity, the Group discontinues recognising its share in further losses. Additional losses are recognised only to the extent corresponding to legal or customary obligations adopted by the Group or payments made on behalf of the associate or joint venture.

The investment in an associate or joint venture is recognised using the equity method from the date on which the entity acquired the status of a joint venture or associate. On the date of making the investment in an associate or joint venture, the amount by which the investment costs exceed the Group's share in the net fair value of identifiable assets and liabilities of that entity is recognised as goodwill and recognised in the carrying amount of the investment. The amount by which the Group's share in net fair value of identifiable assets and liabilities exceeds the cost of the investment is directly recognised in profit or loss in the period in which the investment was made.

When assessing the need for the recognition of the impairment of the Group's investment in an associate or joint venture, IFRS 9 applies. If necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of Assets* as an individual asset, comparing its recoverable amount with the carrying amount.

The Group ceases to apply the equity method on the day when the investment is no longer an associate or joint venture and when it is classified as held for sale. The difference between the carrying amount of an associate or joint venture at the date of cessation of the use of the equity method and the fair value of the retained shares and profits from the partial sale of shares in the entity is taken into account when calculating the profit or loss on the sales of the associate or joint venture.

If the Group reduces its interest in an associate or joint venture, but it still accounts for it using the equity method, it transfers to profit or loss a part of profit or loss recognised previously in other comprehensive income, corresponding to the decrease in the interest, if the profit or loss is subject to reclassification to profit or loss at the time of the sales of related assets or liabilities.

### **10.3. Interests in joint operations**

Joint operation is a type of a joint arrangement whereby the parties that have joint control have rights to net assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

If an entity being a part of the Group participates in a joint operation, the Group, as a party to such operation, recognises the following in connection with its interest in such operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its share of the revenue from the sale of the output by the joint operation;
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenue and expenses relating to its interests in joint operations in accordance with the relevant IFRS related to individual components of the assets, liabilities, revenue and expenses.

If a Group company enters into transactions with a joint operation to which a different entity not being part of the Group is a party, it is deemed that the Group entered into transactions with other parties to the joint operation, and gains and losses arising from the transactions are recognised in the Group's consolidated financial statements only to the extent related to the interest of the other party in the joint operation.

If a Group company enters into a transaction involving joint operation to which a different Group company is a party, the Group does not recognise its share of profits or losses until the resale of those assets to a third party.

### **10.4. Measurement at fair value**

The Group 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:

- on the principal market for the asset or liability; or
- 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 Group.

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.

The 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 Group 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 Group 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, energy-related assets or acquisition transactions.

For the purpose of fair value disclosures, the Group 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.

### **10.5. Translation of items expressed in foreign currencies**

As of the balance sheet date, monetary assets and liabilities expressed in foreign currencies are translated into the functional currency at the exchange rate of a given currency applicable as at the end of the reporting period. Currency translation differences resulting from the settlement of items and from the translation are recognised in finance income or costs or, in the cases provided for in the accounting principles (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. Non-monetary assets and liabilities recognised at fair value expressed in a foreign currency are revalued to the fair value at the exchange rate binding on the valuation date.

As at the balance-sheet date, the assets and liabilities of foreign subsidiaries are translated into the Group statements currency at the exchange rate binding on the balance-sheet date, whereas the statements of profit or loss and statements of other comprehensive income are translated at the weighted average exchange rate for a given reporting period. Currency translation differences resulting from such a translation are recognised in other comprehensive income and accumulated in a separate item of equity. At the moment of disposal of a given foreign company, the deferred currency translation differences accumulated in the equity corresponding to a given foreign entity are recognised in the income statement. Goodwill originating at the acquisition of a foreign company and any adjustments on account of fair value measurement of assets and liabilities at such acquisition are treated as the assets and liabilities of such foreign company and translated at the mean exchange rate of the given currency determined by the National Bank of Poland as at the balance-sheet date.

The table below presents the applied exchange rates:

Currency	Exchange rate at the end of the reporting period		Average exchange rate in the reporting period	
	31.12.2019	31.12.2018	2019	2018
EUR	4.2585	4.3000	4.3016	4.2669
100 HUF	1.2885	1.3394	1.3200	1.3300
UAH	0.1602	0.1357	0.1491	0.1330
RON	0.8901	0.9229	0.9066	0.9165
CZK	0.1676	0.1673	0.1676	0.1663
GBP	4.9971	4.7895	4.9012	4.8142
USD	3.7977	3.7597	3.8375	3.6227
DKK	0.5700	0.5759	0.5761	0.5725

## 10.6. Property, plant and equipment

Property, plant and equipment are recognised at purchase price/generation cost less amortisation 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 amortisation and any possible impairment losses. The Group's 'energy-related assets' are property, plant and equipment related to the transmission and distribution of electric 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. Each time, when making overhauls, their costs 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.

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	25–100 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

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 time when they become available for use.

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 the beginning of the next financial year.

## 10.7. Lease

### 10.7.1 Accounting policy valid till 31 December 2018

Finance lease agreements, that as a rule transfer to the Group 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 commencement 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.

### 10.7.2 Accounting policy applied starting from 1 January 2019

#### *Group as a lessee*

At the moment of concluding a contract, the Group 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 Group 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 Group recognises a right-of-use asset and a lease liability.

#### *Right-of-use assets*

The Group 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 assets 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 Group 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 over 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 Group measures the 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 Group 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 Group. 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 Group 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 Group 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 Group 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.

#### *Group as a lessor*

Leases under which the Group retains substantially all the risks and rewards of ownership of the leased item are operating leases. 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.

### **10.8. Impairment of non-financial non-current assets**

As at each balance-sheet date, the Group 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 Group estimates the recoverable amount for a given asset or a cash-generating unit the asset is allocated to. Disregarding the existence of the indicators, each year, the Group 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-generating unit reflects the fair value of this asset or cash-generating unit less the costs of sale or value in use, whichever is higher. That recoverable 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 a separate item of 'Other operating costs'.

As at each balance-sheet date, the Group assesses whether there are indicators implying that the impairment loss of an assets other than goodwill, disclosed in the previous periods with regard to a given asset, is unnecessary, or whether it should be decreased. Should such indicators occur, the Group 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 have been determined (after amortisation deduction), had no impairment been reflected in the previous years 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. 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. The impairment loss recognised for goodwill is not reversed in further periods.

## **10.9. Borrowing costs**

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. Other borrowing costs are recognised as costs in the income statement in the period in which they were incurred. Borrowing costs include interest calculated using the effective interest rate, financial charges in respect of 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 loans, credits and leases 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 Group would incur in its functional currency and the cost incurred for the foreign currency borrowings.

## **10.10. Investment properties**

The initial recognition of investment properties is based on the purchase price including the transaction costs. The carrying amount of an asset includes costs of the replacement of a component of an investment property on the date of its incurrence, provided that the applicable recognition criteria have been met, and does not include the costs related to the current maintenance of these properties.

After the initial recognition, investment properties are recognised at their fair value. Gains and losses resulting from the changes of the fair value of investment properties are recognised in the income statement in the period in which they occurred.

Investment properties are derecognised from the balance sheet in the event of their disposal or a permanent withdrawal of a given investment property from use if no future benefits resulting from the sale are expected. All gains or losses resulting from the derecognition of an investment property from the balance sheet are recognised in the income statement in the period of such a derecognition.

Assets are transferred to investment properties only if a change of their utilisation method took place, which must be confirmed with the termination of the proprietor's use of a given asset or conclusion of an operating lease.

If an asset is utilised by the Group, it becomes an investment property and the Group applies the principles specified in the part *Property, plant and equipment* until the day of changing the manner of the property utilisation. In the event of transferring assets from inventories to investment properties, the difference between the fair value of the property as of the transfer date and its previous carrying amount is recognised in the income statement. In the event of a transfer of investment properties to the assets utilised by the proprietor or to inventories, the alleged cost of such an asset assumed for the disclosure in another category equals the fair value of the property determined as at the date of the change of its utilisation.

## **10.11. 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 Group 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 are recognised through a change of the period or amortisation method, respectively, effective from the beginning of the next financial year. The amortisation charge for intangible assets with definite useful lives is recognised in profit or loss under the 'Depreciation/Amortisation' item. 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.

### ***Costs of research and development works***

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

The Group 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 Group 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.

### ***Other***

Other intangible assets (including software) acquired by the Group 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***

Intangible assets are subject to amortisation on a straight-line basis taking into account their useful life unless it is indefinite. Intangible assets other than intangible assets with indefinite useful lives are amortised from the day they become available for use. The estimated useful life is as follows:

Software	5–10 years
Capitalised development costs	5–10 years
Database of customers	15 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.

## **10.11.1 Goodwill**

Goodwill from the acquisition of an entity is initially recognised at the amount of the surplus of the total of:

- (i) the payment made,
  - (ii) the amount of all non-controlling interests in the acquired entity, and
  - (iii) in the case of a business combination achieved in stages, of the fair value as at the date of the acquisition of the interest in the capital of the acquired entity which previously belonged to the acquiring entity,
- over the net amount determined as at the date of the acquisition of the amounts of the identifiable assets acquired and the liabilities assumed.

After the initial recognition, goodwill is recognised at the initial value less accumulated impairment losses. The impairment test is conducted once a year or more frequently, if any indicators of impairment occur. Goodwill is not subject to depreciation.

As of the date of the acquisition, the acquired goodwill is allocated to each of the cash-generating units which may take advantage of the merger synergy. Each unit or a group of units the goodwill has been allocated to:

- corresponds to the lowest level in the Group at which the goodwill is monitored due to internal managing needs, and
- is not larger than one operating segment defined pursuant to IFRS 8 *Operating Segments*.

The impairment loss is determined through the valuation of the recoverable amount of the cash-generating unit to which the respective goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than the carrying amount, impairment loss is recognised. If goodwill constitutes a part of a cash-generating unit and part of the business within that unit is sold, for the determination of gains or losses from the sale of such business, the goodwill related to the business sold is included in its carrying amount. In such circumstances, the goodwill sold is determined based on the relative value of the business sold and the value of the retained part of the cash-generating unit.

## **10.12. Advance payments for the purchase of property, plant and equipment**

The period for the completion of the deliveries for which advance payments were made is usually shorter than 12 months; however, due to the nature of the acquired asset, they are recognised as long-term receivables. The advance payments, as non-monetary assets, are measured at their historical cost less any possible impairment losses.

### **10.13. 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.

### **10.14. Financial assets**

#### **Financial assets classification**

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 Group classifies a financial asset based on the Group business model as regards managing financial assets and characteristics resulting from contractual cash flows for the financial asset ('SPPI criterion'). The Group 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 Group 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 are transferred, and the Group 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 Group assigns:

- trade receivables,
- 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 item of finance income.

#### **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 item of finance income.

In the presented period, the Group did not classify any items in the category of debt instruments measured at fair value through other comprehensive income.

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

At the moment of initial recognition, the Group 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 period, the Group did not classify any items in the category of equity 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 investments measured at fair value is recognised in the statement of profit or loss.

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

If the Group:

- 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.

In the presented periods, the Group did not classify any items in the categories of: debt instruments – financial assets measured at fair value through other comprehensive income; and equity instruments – financial assets measured at fair value through other comprehensive income

### **10.15. Impairment of financial assets**

The Group 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 within the EPS and FPS portfolios, the Group 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 Group uses its historical data regarding credit losses, adjusted in the respective cases on the basis of information regarding the future.

With regard to trade receivables within the ASS portfolio, due to its significant fragmentation and higher risk profile compared to the EPS and FPS segments, it is expected that the historical repayment rates of receivables may not represent the full image of the expected credit losses, to which the Group may be exposed. The risk of counterparty insolvency within the ASS segment is assessed based on the counterparty ratings assigned in accordance with the receivables insurance agreements availed of by the Group, or – if a respective counterparty is not covered by an insurance agreement as at the balance-sheet date – with the use of an internal scoring model. Based on such rating, the identified credit risk is transformed into a probability of default. In accordance with IFRS 9 *Financial Instruments*, the expected credit loss is calculated in consideration of the estimates of potential refunds from the collaterals established (mainly receivables insurance agreements signed by the Company).

With regard to other financial assets, the Group 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 Group 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.

The Group assesses that the credit risk related to the specific financial instrument is much higher from the date of its initial recognition, if the delay in payment exceeds 90 days.

At the same time, the Group assesses, that default of a debtor takes place when the delay in payment exceeds 180 days.

## **10.16. 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 in the interest item of finance income.

Other receivables include, in particular, advance payments for the future purchase of inventories. 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.

## **10.17. 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 Group 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 Group 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 Group 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.

## **10.18. Contractual liabilities**

These are liabilities due to received advance payments, which will be settled through the delivery of trade goods, services or property, plant and equipment.

## **10.19. Bank loans**

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

After the initial recognition, interest bearing loans 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.

## **10.20. Embedded derivatives**

If a hybrid (combined) instrument comprises a host contract which is an asset under the IFRS 9, the Group 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 Group at the time of its initial recognition.

## **10.21. Derivative financial instruments and hedging**

Derivative instruments are recognised in the balance sheet as financial assets or financial liabilities and measured at fair value. The Group uses forward and futures contracts.

The main purpose of concluding forward contracts on the FX market is to hedge future cash flows against the currency risk resulting from operating, investing and financing activities.

The main purpose of concluding futures contracts for the purchase of aluminium is to hedge future cash flows related to future expenditures on the purchase of aluminium.

The purpose of hedging the price of aluminium is to minimise the risk of business activities as a result of changes occurring in the macroeconomic environment related to the fluctuations in the main raw material prices.

The forward/futures contracts and derivative instruments are accounted for at the purchase price and measured as at the balance sheet date at fair value and recognised in the consolidated financial statements as financial assets or financial liabilities. Gains and losses from the measurement at fair value of the financial instruments which do not comply with the hedge accounting principles are recognised directly in profit or loss. The fair value of future or forwards contracts is calculated on the basis of the present net value of future cash flows related to these contracts, quoted market prices of forward contracts calculated with the application of the present interest rates. Forward/futures contracts and derivative instruments which cannot be classified as hedging instruments are recognised as instruments held for trading.

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

The valuation is based on market valuations of identical transactions at commercial banks.

Currency risk hedge for a probable future liability is recognised as cash flow hedge.

Upon the establishment of the hedge, the Group 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 Group holds the following hedging instruments:**

#### ***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 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 the statement of 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 non-financial liability affects profit or loss.

Gains and losses resulting from the change of the fair value of derivative instruments which do not meet the conditions enabling the application of hedge accounting principles are recognised directly in the statement of profit or loss.

The Group ceases to apply the hedge accounting principles when the hedging instrument expired or was sold, its utilisation ended or it was exercised, or when the hedging ceased to meet the conditions enabling the application of hedge accounting principles with regard to it. In such a case, total profit or loss on a hedging instrument recognised in other comprehensive income and accumulated in equity are still recognised in equity until the forecast transaction occurs. If the Group no longer expects the forecast transaction to take place, total net profit or loss accumulated in equity are charged to the statement of profit or loss.

## **10.22. 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 Group does not have any overdraft facilities which would be related to cash management.

## **10.23. Equity**

Until the end of 1996, the parent company operated in the conditions of hyperinflation. Upon the transition to IFRS, i.e. on 1 January 2004, in accordance with the requirements of IAS 29, the parent company restated the equity components except for retained earnings from the previous years with the application of the general price index starting from the dates when the given equity items were contributed or otherwise emerged until 31 December 1996.

### **Share capital**

Share capital is recognised at the value resulting from the restatement of the nominal value in accordance with the requirements of IAS 29 described above.

### **Share premium**

Differences between the fair value of the payment received and the nominal value of shares are recognised in the share premium.

### **Capital from the revaluation of property, plant and equipment**

As regards the valuation of property, plant and equipment classified as 'energy-related assets', the Group 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 the difference in the value of depreciation charges after revaluation and before revaluation, as well as impairment losses.

### **Non-registered capital from the issue of shares**

The capital covers funds obtained from the issue of shares until the date of the registration of the increase in share capital by the National Court Register.

### **Dividends**

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

### **Capital from share based payments**

The Group key employees are entitled to subscribe for the parent 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**

The Group is a party to forward/futures contracts hedging the future cash flows. The portion of gains or losses on a hedging instrument being an effective hedge is recognised directly 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 equity from the result of cash-flow hedging transactions until the hedged item or transaction influences the profit or loss, and then the result in question is charged to profit or loss.

### **Retained earnings**

In this item, the Group presents retained earnings (loss), the profits which according to the owners' decision are retained at the Group, and actuarial gains (losses) related to post-employment benefits.

### **Currency translation differences for subsidiaries**

The item comprises foreign exchange gains and losses on translation of the data of consolidated subsidiaries for which the functional currency is other than PLN. The Group translates the data in accordance with the following procedures:

- assets and liabilities – at the exchange rate as at the balance-sheet date;
- revenue and costs – at the average weighted exchange rate from a given period.

## **10.24. Accruals**

Accruals are amounts due payable for goods or services which were received or provided, but have not been paid for, invoiced or formally agreed with a supplier yet, including amounts due to employees.

Accruals comprise, for example, remuneration with add-ons paid once, related to annual periods, and short-term provisions for unused holiday.

## **10.25. Subsidies**

Subsidies comprise cash obtained to finance the acquisition or generation of property, plant and equipment under construction and development works. They are settled similarly to depreciation charges for property, plant and equipment financed from these sources.

## **10.26. Provisions**

Provisions are recognised only when the Group has a current liability 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 Group 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. If a discounting method has been applied, the increase in provisions related to the lapse of time is recognised in the interest item of finance costs.

### **10.27. Provisions for warranty repairs**

The Group recognises a provision for the costs of expected warranty repairs related to the construction services rendered by the Group. The assumptions made for the calculation of the provision for warranty repairs are based on the current levels of sale and available up-to-date information concerning the risk and costs of warranty repairs.

### **10.28. Provisions for employee benefits**

In accordance with the corporate remuneration systems, the Group 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. Depending on the operating segment, the value of the benefits is equal either to one-month remuneration or a multiple of minimum remuneration as at the respective day. The Group 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. Net interest cost on net defined benefit liability is recognised in finance costs.

### **10.29. Contingent liabilities and other liabilities not recognised in the balance sheet**

A contingent liability is:

- a possible obligation that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events beyond the Group control;
- a present obligation that arises from past events but is not recognised in the consolidated financial statements because it is not probable that spending cash to satisfy the obligation is necessary.

### **10.30. Statement of profit or loss**

The natural classification is the basic reporting classification of costs in the statement of profit or loss. Profit or loss is the aggregate amount resulting from the deduction of costs from revenue after adjustment with the change in the level of products and adjustment with the costs of the production of benefits for own needs, except for the components of other comprehensive income. Change in the level of products comprises the balance-sheet change of the level of finished goods and work in progress adjusted with write-downs.

### **10.31. Statement of comprehensive income**

The statement of comprehensive income comprises net profit from the statement of profit or loss and other comprehensive income in breakdown into other comprehensive income which can be recognised in profit or loss and other comprehensive income which will be recognised outside profit or loss.

### **10.32. Statement of cash flows**

The statement of cash flows from operating activities is prepared with indirect method.

### **10.33. Capital management**

Capital management takes place at the level of the Group and aims at preserving the ability to continue the operations having regard for the accomplishment of investment plans, so that the Group can generate return for shareholders and benefits to other stakeholders.

### **10.34. Share based payments**

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

#### **10.34.1 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 expert as at the date of vesting the rights on the basis of the binominal model discussed further herein, in supplementary information and explanatory notes. The valuation of

equity-settled transactions takes into account market conditions of acquiring the rights (related to the price of the parent 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 the provision of work are met, ending on the date when the particular employees become fully entitled to the given benefits ('vesting date'). 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 awards, the rights to which – in the opinion of Group Management Board as of that day, based on the best possible estimates of the number of equity instruments – are finally acquired.

No costs are recognised for not finally qualified awards, except for those awards for which the qualification depends on market conditions and which are treated as qualified regardless of the fact of meeting the market conditions, provided, however, that all other non-market conditions are met.

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. 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 share options is considered when determining the diluted earnings per share.

## 10.35. Revenue

### 10.35.1 Revenue from contracts with customers

The Group 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 *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 Group 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 Group reflects a contract with the 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 Group is able to identify the rights of each of the parties regarding the goods or services which are to be transferred;
- the Group 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 Group will change); and
- it is probable that the Group 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 Group 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 Group may be lower than the price determined in the contract, if the consideration is variable, because the Group may offer a price discount to the customer.

### **Identification of performance obligation**

At the moment of entering into contract, the Group 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 Group 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 Group 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 Group expectation will be due to the Group 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 Group 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 Group 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 Group concludes a large number of similar contracts;
- most probable value, which is the 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 Group either receives a performance bonus or not).

The Group 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.

### **Allocation of the transaction price to the particular performance obligation**

The Group 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 Group is due to the Group in exchange for the committed goods or services.

### **Performance obligation fulfilment**

The Group 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 Group 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 Group recognises revenue in the amount due as at the moment of invoice issue.

### **Consideration for the contractor vs consideration for the intermediary**

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

The group is a contractor if it controls the committed goods or services before they are handed-over to the customer. The Group does not have to act as the contractor, if it obtains the legal title to the product only on temporary basis, before it is transferred to the customer. The Group acting in a contract as the contractor 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 Group 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 Group acts as an intermediary, if its performance obligation consists in ensuring the delivery of goods or services by another entity. In such situation the Group recognises revenue in the amount of any fee or commission to which –

according to the Group 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 Group assesses that the contracts include a significant financing component. For the purpose of determining the transaction price, the Group 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 Group and its customer at the moment of entering into contract.

The Group 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.

As regards contracts in which the customer committed to pay consideration otherwise than in monetary form, in order to determine the transaction price, the Group measures the in-kind consideration (or promise of in-kind consideration) at fair value. If the Group cannot reasonably measure the fair value of the in-kind contribution, 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 Group 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 Group 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 Group recognises additional costs of arranging the conclusion of a contract with a customer as an asset, if the Group expects to regain the costs. Additional costs of arranging contract conclusion include costs incurred by the Group for the purpose of arranging the conclusion of a contract with a customer, which would not have been incurred by the Group 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 Group 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 Group, 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 Group 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 Group 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 Group). The Group 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 the receivables the Group 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 Group 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 Group as cost (impairment loss).

### **Contractual liabilities**

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

### **Assets resulting from the right to refund**

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

### **Consideration refund commitment**

The Group 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 Group 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.

#### **10.35.2 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.

#### **10.35.3 Rental income**

The income from the rental of investment properties 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.

#### **10.35.4 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.

#### **10.35.5 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.

#### **10.35.6 Financial revenue**

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

### **10.36. 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.

#### **10.36.1 Operating costs**

They comprise costs directly and indirectly related to the operations of the Group in breakdown into particular types of costs.

#### **10.36.2 Revaluation of financial assets**

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

#### **10.36.3 Other operating costs**

These are costs indirectly related to the operations of the Group, 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;

#### **10.36.4 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.

### **10.37. Taxes**

#### **10.37.1 Current tax**

Current 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.

#### **10.37.2 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 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 Group 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.

#### **Tax exemptions related to operations in Special Economic Zones**

Alupol Packaging S.A. and Alupol Films sp. z o.o. subsidiaries, carry out business activities in Special Economic Zones pursuant to appropriate authorisations.

The Group recognises the benefits resulting from the obtained public assistance in accordance with IAS 12 *Income Taxes*. The Group recognises deferred income tax assets in the amount of the available public assistance granted to the Group as at the particular balance sheet dates.

### **10.37.3 VAT**

Revenue, costs and assets 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.

### **10.38. Measurement at fair value**

The Group measures financial instruments such as available-for-sale instruments and derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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 sale conditions of a component of assets between market participants at the valuation date in the current market conditions. The fair value measurement is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs:

- on the principal market for the asset or liability; or
- 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 Group.

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 Group 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 Group 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.

The Management Board determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

Independent appraisers are engaged to measure significant assets such as properties or available-for-sale assets.

For the purpose of fair value disclosures, the Group 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.

## **11. 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.

The Group calculates diluted net earnings per share including potential shares. Potential shares are related to the options plan run by the Group. See note 24.1 for more information about the share options plan.

## **12. Information on operating segments**

The Management Board determined business segments on the basis of reports they read, which are used when making decisions. The Group management reporting is based on operating segments. The organisation and management of the Group are based on the segment division having regard for the type of products and services offered. Each of the segments constitutes a business unit or a set of business units offering different products and handling different markets. The Group settles transactions between individual segments as if they referred to non-related entities, namely with the application of the present market prices.

An operating segment is a part of the Group:

- which is engaged in business activities from which it may generate revenue and incur costs;
- whose business results are regularly reviewed by the Group management staff in order to make decisions about the resources allocated to a given segment and to assess the activities of the segment; and
- for which separate financial information is available.

Operating segments presented by the Group are identical with the reporting segments presented in these consolidated financial statements.

The Group operations comprise four basic operating areas and are divided into:

- Extruded Products Segment (EPS);
- Aluminium Systems Segment (ASS);
- Flexible Packaging Segment (FPS);
- The item 'Other' contains figures of the so-called Centres, i.e. units of Grupa Kęty S.A. responsible for the centrally managed areas (IT, finance, PR and IR, risk management, capital investments, HR) and figures of Dekret Centrum Rachunkowe Sp. z o.o. which provides accounting and HR services for the Capital Group companies.

**The particular segments are engaged in the following activities:**

- EPS – production and sale of aluminium profiles;
- ASS – production and sales of systems for the construction industry and the provision of construction services related to their assembly;
- FPS – production and sale of packaging for the food industry.

Note 4 presents the assignment of particular subsidiaries to business segments.

## 12.1. Financial results of the segments

The operating segments results are assessed mainly on the basis of revenue, operating profit (EBIT), operating profit plus depreciation and amortisation (EBITDA), and capital expenditure.

The tables below present revenue and profits as well as assets and liabilities of the particular operating segments of the Group.

### Year 2019

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
<b>Statement of profit or loss</b>						
Sales	<b>785,347</b>	<b>1,251,184</b>	<b>1,462,668</b>	<b>17,132</b>	<b>(312,666)</b>	<b>3,203,665</b>
- outside the Group	785,273	958,311	1,459,425	286	0	3,203,295
- to related parties	74	292,873	3,243	16,846	(312,666)	370
Write-down of inventories	(163)	(330)	(218)	0	0	(711)
Write-down of receivables	(158)	(447)	(2,513)	0	(4)	(3,122)
Write-downs of property, plant and equipment, and intangible assets	0	330	(113)	0	0	217
<b>Operating profit (EBIT)</b>	<b>118,095</b>	<b>85,674</b>	<b>198,431</b>	<b>167,260</b>	<b>(184,573)</b>	<b>384,887</b>
Depreciation	29,468	66,542	39,017	3,162	45	138,234
<b>EBITDA</b>	<b>147,563</b>	<b>152,216</b>	<b>237,448</b>	<b>170,422</b>	<b>(184,528)</b>	<b>523,121</b>
Interest income	159	259	604	104	0	1,126
Interest costs	(5,092)	(7,168)	(5,535)	(825)	0	(18,620)
<b>Profit before tax</b>	<b>112,278</b>	<b>78,059</b>	<b>192,009</b>	<b>165,790</b>	<b>(184,439)</b>	<b>363,697</b>
Income tax	(17,934)	(16,452)	(37,299)	3,049	374	(68,262)
<b>Net profit</b>	<b>94,344</b>	<b>61,607</b>	<b>154,710</b>	<b>168,839</b>	<b>(184,065)</b>	<b>295,435</b>
<b>Balance sheet</b>						
Total assets	980,751	976,295	886,072	363,449	(428,057)	2,778,510
Liabilities	355,181	457,064	464,374	116,523	(93,137)	1,300,005
<b>Other data</b>						
Expenditures on property, plant and equipment	96,258	83,603	69,320	1,996	0	251,177



## Year 2018

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
<b>Statement of profit or loss</b>						
Sales	<b>706,509</b>	<b>1,269,817</b>	<b>1,292,120</b>	<b>15,477</b>	<b>(290,470)</b>	<b>2,993,453</b>
- outside the Group	706,449	999,257	1,287,393	275	0	2,993,374
- to related parties	60	270,560	4,727	15,202	(290,470)	79
Write-down of inventories	(77)	(517)	1,438	0	0	844
Write-down of receivables	(133)	(512)	(1,674)	0	0	(2,319)
Write-downs of property, plant and equipment, and intangible assets	0	(604)	0	0	0	(604)
<b>Operating profit (EBIT)</b>	<b>90,265</b>	<b>104,147</b>	<b>154,390</b>	<b>142,737</b>	<b>(153,872)</b>	<b>337,667</b>
Depreciation	28,558	58,532	35,449	3,237	34	125,810
<b>EBITDA</b>	<b>118,823</b>	<b>162,679</b>	<b>189,839</b>	<b>145,974</b>	<b>(153,838)</b>	<b>463,477</b>
Interest income	124	222	297	124	0	767
Interest costs	(5,968)	(3,666)	(5,011)	(697)	0	(15,342)
<b>Profit before tax</b>	<b>80,272</b>	<b>98,223</b>	<b>150,845</b>	<b>141,213</b>	<b>(153,872)</b>	<b>316,681</b>
Income tax	956	(18,926)	(32,368)	2,518	(398)	(48,218)
<b>Net profit</b>	<b>81,228</b>	<b>79,297</b>	<b>118,477</b>	<b>143,731</b>	<b>(154,270)</b>	<b>268,463</b>
<b>Balance sheet</b>						
Total assets	946,936	1,072,456	873,212	308,696	(421,452)	2,779,848
Liabilities	396,233	550,398	468,354	52,035	(84,214)	1,382,806
<b>Other data</b>						
Expenditures on property, plant and equipment	17,795	163,149	69,629	4,431	(34)	254,970

- The column 'Eliminations' contains inter-segment transactions and consolidation adjustments. In the statement of profit or loss, it is mainly related to the sale of aluminium profiles by the EPS to the ASS. As regards assets and liabilities, eliminations comprise mainly investments in financial assets (shares and interests) and inter-segment settlements.

All of the transactions are concluded on arm's length basis.

## 12.2. Geographical structure of non-current assets

Non-current assets by territories	31.12.2019	31.12.2018
Poland	1,465,717	1,329,321
EU (without Poland)	65,278	60,181
Ukraine	12,999	10,591
USA*	4,978	4,772
<b>Total</b>	<b>1,548,972</b>	<b>1,404,865</b>

\*Refers to the value of investments in an associated company, information in note 22.

The above fixed assets comprise property, plant and equipment, intangible assets, right-of-use assets, goodwill, investment properties and investments in associates.

## 13. Revenue and costs

### 13.1. Geographical and item structure of revenue from contracts with customers

Geographic structure of revenue from contracts with customers	2019	2018
Poland	1,692,668	1,609,018
EU (without Poland)	1,304,906	1,153,753
Other European countries	151,460	143,638
Other countries	54,631	87,044
including to related parties*	370	79
<b>Total</b>	<b>3,203,665</b>	<b>2,993,453</b>
<b>including to related parties*</b>	<b>370</b>	<b>79</b>

\*Refers to an associate, information in note 22.

The sales in the table above are recognised for the country of the counterparty within a sale transaction.

In the current year and the previous year there was no sales concentration above 10% to one recipient.

<b>Item structure of revenue from contracts with customers</b>	<b>2019</b>	<b>2018</b>
<b>Products, including:</b>	<b>2,676,589</b>	<b>2,489,214</b>
- aluminium products of the EPS	1,222,669	1,236,682
- plastic packaging of the FPS	747,573	643,506
- aluminium systems of the ASS	993,423	870,500
Consolidation adjustments**	(287,076)	(261,474)
including to related parties*	332	76
<b>Services, including:</b>	<b>25,106</b>	<b>32,481</b>
- services of the EPS	15,038	18,154
- services of the FPS	10,095	10,036
- services of the ASS	6,760	15,636
- services of the central units	17,131	15,476
Consolidation adjustments***	(23,918)	(26,821)
including to related parties*	30	1
<b>Construction services of the ASS</b>	<b>62,866</b>	<b>62,317</b>
<b>Materials and trade goods, including:</b>	<b>439,104</b>	<b>409,441</b>
- materials sold by the EPS	13,477	14,981
- materials sold by the FPS	27,679	52,967
- materials sold by the ASS	399,620	343,669
Consolidation adjustments****	(1,672)	(2,176)
including to related parties*	8	2
<b>Total</b>	<b>3,203,665</b>	<b>2,993,453</b>
<b>including from related parties</b>	<b>370</b>	<b>79</b>

\*Refers to an associate, information in note 22.

\*\*Refers mainly to aluminium profiles sale by EPS to ASS.

\*\*\*Refers mainly to the cooperation between ASS and EPS, and services of the central units provided to the segments.

\*\*\*\*Refers mainly to aluminium scrap sale by ASS to EPS.

### 13.2. Revenue from construction contracts as well as assets and liabilities due to the contracts

Long-term construction contracts are one of the main sources of sales revenue. The tables below present the impact of construction contracts on the presented revenue and financial result of the Group.

	<b>2019</b>	<b>2018</b>
Costs incurred	60,234	40,108
<b>Revenue in the statement of profit or loss, including:</b>	<b>55,061</b>	<b>39,663</b>
Invoiced revenue	72,359	18,844
Revenue estimated based on the percentage of completion	(17,298)	20,819

The table below presents the effects of the valuation of construction services contracts in progress as at the balance-sheet date (including contracts in progress from previous periods):

	<b>31.12.2019</b>	<b>31.12.2018</b>
Sales revenue calculated with the percentage of completion method as at the balance-sheet date	115,912	60,851
Costs of contract incurred or recognised losses on open contracts as at the balance-sheet date	119,660	59,426
<b>Assets/liabilities related to construction contracts</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Contractual assets	3,899	21,243
Liabilities related to construction contracts	83	129

In accordance with the Group estimations, the above contractual assets and liabilities will be realised within up to 12 months.

### 13.3. Other operating revenue

	2019	2018
Reversed provisions	0	430
Reversed write-downs of materials	0	844
Reversed write-downs of property, plant and equipment	217	0
Gains from the disposal of property, plant and equipment	604	2
Subsidies	1,690	1,969
Penalties and damages	2,978	1,611
Inventory-taking surpluses	2,243	2,227
Past due liabilities	157	106
Received free-of-charge deliveries	441	1,243
Received bonuses from suppliers	286	336
Other	3,254	1,566
<b>Total</b>	<b>11,870</b>	<b>10,334</b>

### 13.4. Revaluation of financial assets

	2019	2018
Revaluation of trade receivables	(3,122)	(2,318)

### 13.5. Other operating costs

	2019	2018
Provisions for indemnities	(1,666)	0
Write-down of property, plant and equipment	0	(604)
Write-down of materials	(711)	0
Promotion and publicity	(12,599)	(14,367)
Business trips	(4,738)	(4,582)
Waste disposal	(879)	(663)
Liquidation of property, plant and equipment	(372)	(1,727)
Inventory shortages	(2,202)	(1,996)
Complaints	(1,847)	(447)
Property damage	(450)	(394)
Penalties and damages	(766)	(2,041)
Donations	(646)	(477)
Court costs related to receivables litigation	(293)	(292)
Revaluation of investment properties	(265)	(220)
Other	(4,450)	(3,319)
<b>Total</b>	<b>(31,884)</b>	<b>(31,129)</b>

### 13.6. Financial revenue

	2019	2018
Interest	1,126	767
Discounts	6	33
<b>Total</b>	<b>1,132</b>	<b>800</b>

### 13.7. Finance costs

	2019	2018
Interest on leases and loans	(18,139)	(14,867)
Discount of provisions for employee benefits	(273)	(265)
Other interest	(208)	(210)
Surplus of currency translation losses over currency translation gains	(803)	(3,582)
Discounts	(240)	(327)
Bank commissions	(2,608)	(2,497)
Other	(51)	(38)
<b>Total</b>	<b>(22,322)</b>	<b>(21,786)</b>

### 13.8. Impairment

Due to the nature of business, the majority of single non-current assets of the Group do not generate cash inflows which would be independent of inflows generated by other assets. Individual cash-generating units are the companies belonging to the particular operating segments.

The table below presents the allocation of goodwill:

	31.12.2019	31.12.2018
Aluprof S.A. – Aluminium Systems Segment	17,102	17,102
Other companies of the Aluminium Systems Segment*	2,354	2,376
Extruded Products Segment	61	61
Flexible Packaging Segment	350	350
<b>Total</b>	<b>19,867</b>	<b>19,889</b>

\*Change in goodwill in other companies stems from currency translation differences.

#### Write-downs of goodwill

Company name	Operating segment	31.12.2019	31.12.2018
Aluprof S.A.	ASS	650	650
Aluprof System Hungary Kft.	ASS	121	121
ROMB S.A.	ASS	185	185
<b>Total</b>		<b>956</b>	<b>956</b>

In the presented periods, the Group performed annual impairment tests for units to which goodwill and intangible assets with indefinite useful lives were assigned.

Impairment tests carried out in the presented years did not indicate any need to recognise write-downs.

In 2019 and 2018 there were no goodwill write-downs made.

Below presented are impairment tests in breakdown into companies belonging to particular operating segments.

Recognised write-downs are presented in the table below:

Cash-generating units	Aluprof Belgium N.V. (part of the Aluminium Systems Segment)	Aluprof S.A. (part of the Aluminium Systems Segment)	Other companies of the Aluminium Systems Segment*	Other segments*
Basis of recoverable amount	Value in use	Value in use	Value in use	Value in use
Goodwill	2,306	17,102	48	411
Intangible assets with indefinite useful lives (trademarks)	0	22,500	0	0
Intangible assets with definite useful lives (trademarks)	0	0	0	0
Valuation amount	21,215	Many times exceeding the tested values	Immaterial	Immaterial
Impairment	Not determined	Not determined	Not determined	Not determined
Source of data	Projection	Projection	Projection	Projection
Valuation basis	5-year cash flows projection	5-year cash flows projection	5-year cash flows projection	5-year cash flows projection
Incremental rate	0%	0%	0%	0%
Discount rate applied <sup>1)</sup>	1.82%	6.22%	6.22%	6.22%
Susceptibility analysis:				
Interest rate +1%	(7,492)	No impact on test result	Immaterial	Immaterial
Cash-flows -1%	(213)	No impact on test result	Immaterial	Immaterial

<sup>1)</sup> The discount rate applied is based on the discount rate prior to inclusion of the effects of taxation, as defined by IAS 36.

\*Collective data for FPS and EPS, tests were made separately for each segment.

### 13.9. Costs of materials and energy, and the value of goods and materials sold

	2019	2018
Materials consumption	(1,563,355)	(1,537,154)
Energy consumption	(82,094)	(70,090)
Value of resold materials and trade goods	(279,133)	(276,294)
Result on hedging transactions	(8,596)	3,190
<b>Total</b>	<b>(1,933,178)</b>	<b>(1,880,348)</b>

## 14. Income tax

	2019	2018
Current tax	(57,049)	(49,086)
Deferred tax	(11,213)	868
<b>Income tax recognised in the statement of profit or loss</b>	<b>(68,262)</b>	<b>(48,218)</b>

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

Effective tax rate	%	2019	%	2018
<b>Gross financial result</b>		<b>363,697</b>		<b>316,681</b>
Tax at the state rate of 19%	19%	(69,102)	19%	(60,169)
Effect of differences in tax rates of subsidiaries operating in other countries	0%	1,476	0%	86
Change in the estimate of deferred income tax asset related to the operations in the SEZ	-1%	3,272	-5%	16,944
Impact of tax-exempt revenue and non-tax costs	1%	(3,908)	2%	(5,479)
<b>Income tax recognised in the statement of profit or loss</b>	<b>19%</b>	<b>(68,262)</b>	<b>15%</b>	<b>(48,218)</b>

## 14.1. Deferred income tax provision

	01.01.2019	Deferred income tax in the statement of profit or loss	Deferred income tax in other comprehensive income	Cumulative translation adjustment for subsidiaries	31.12.2019
<b>Assets</b>	<b>147,269</b>	<b>(9,000)</b>	<b>(1,201)</b>	<b>(1)</b>	<b>137,067</b>
Employee benefits (payroll)	1,637	110	0	0	1,747
Provisions for employee benefits (holidays, bonuses, retirement benefits or disability benefits)	4,752	608	335	(1)	5,694
Other provisions and accruals	4,060	1,811	0	0	5,871
Write-downs of receivables	7,515	(368)	0	0	7,147
Write-downs of inventories	3,157	212	0	0	3,369
Unrealised profits on inventories	1,858	754	0	0	2,612
Write-downs of non-current assets	3,902	(68)	0	0	3,834
Currency translation differences from the revaluation of items in foreign currencies (receivables, liabilities, loans)	736	(67)	0	0	669
CIT abatement due to the operations in SEZ	100,166	(13,915)	0	0	86,251
Derivative financial instruments	1,536	0	(1,536)	0	0
Difference between the carrying amount and the tax value of property, plant and equipment	17,544	2,215	0	0	19,759
Interest on loans	193	(79)	0	0	114
Other	213	(213)	0	0	0
<i>Set-off for presentation purposes</i>	<i>(22,605)</i>				<i>(21,965)</i>
<b>Deferred tax assets</b>	<b>124,664</b>				<b>115,102</b>
<b>Provision</b>	<b>65,079</b>	<b>2,213</b>	<b>399</b>	<b>263</b>	<b>67,954</b>
Difference between the carrying amount and the tax value of property, plant and equipment	57,072	4,630	0	265	61,967
Valuation of investment properties	1,863	(50)	0	0	1,813
Derivative financial instruments	0	0	399	0	399
Other	6,144	(2,367)	0	(2)	3,775
<i>Set-off for presentation purposes</i>	<i>(22,605)</i>				<i>(21,965)</i>
<b>Deferred tax provision</b>	<b>42,474</b>				<b>45,989</b>

	01.01.2018	Deferred income tax in the statement of profit or loss	Deferred income tax in other comprehensive income	Cumulative translation adjustment for subsidiaries	31.12.2018
<b>Assets</b>	<b>143,191</b>	<b>2,524</b>	<b>1,555</b>	<b>(1)</b>	<b>147 269</b>
Employee benefits (payroll)	1,849	(212)	0	0	1 637
Provisions for employee benefits (holidays, bonuses, retirement benefits or disability benefits)	4,330	45	378	(1)	4 752
Other provisions and accruals	4,618	(558)	0	0	4 060
Write-downs of receivables	7,659	(144)	0	0	7 515
Write-downs of inventories	3,151	6	0	0	3 157
Unrealised profits on inventories	2,244	(386)	0	0	1,858
Write-downs of non-current assets	4,010	(108)	0	0	3 902
Currency translation differences from the revaluation of items in foreign currencies	467	269	0	0	736

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(receivables, liabilities, loans)					
CIT abatement due to the operations in SEZ	98,931	1,235	0	0	100 166
Tax loss to be deducted in the future (realised)	221	(221)	0	0	0
Derivative financial instruments	464	(105)	1,177	0	1 536
Difference between the carrying amount and the tax value of property, plant and equipment	14,717	2,827	0	0	17 544
Interest on loans	90	103	0	0	193
Other	440	(227)	0	0	213
<i>Set-off for presentation purposes</i>	<i>(21,814)</i>				<i>(22 605)</i>
<b>Deferred tax assets</b>	<b>121,377</b>				<b>124 664</b>
<b>Provision</b>	<b>64,987</b>	<b>1,656</b>	<b>(1,775)</b>	<b>211</b>	<b>65 079</b>
Difference between the carrying amount and the tax value of property, plant and equipment	55,758	1,152	0	162	57 072
Valuation of investment properties	1,632	186	0	45	1 863
Derivative financial instruments	1,775	0	(1,775)	0	0
Other	5,822	318	0	4	6 144
<i>Set-off for presentation purposes</i>	<i>(21,814)</i>				<i>(22 605)</i>
<b>Deferred tax provision</b>	<b>43,173</b>				<b>42 474</b>

According to the Group estimates, the following amounts recognised above were of long-term nature:

	<b>31.12.2019</b>	<b>31.12.2018</b>
Deferred tax assets related to tax exemptions for the operations in SEZ	68,974	84,065
Deferred tax assets related to provisions and accruals	3,193	2,503
Deferred tax provision related to investment property	(1,813)	(1,632)
Deferred tax provision related to property, plant and equipment	(55,302)	(55,758)
<b>Total long-term assets (provisions)</b>	<b>15,052</b>	<b>29,178</b>

The deferred tax assets and provisions items, except for the ones listed above, are short-term.

The table below presents the dates and amounts of settling tax losses, for which the Group did not recognise deferred tax assets:

<b>Titles on which no deferred tax assets were recognised</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
CIT exemption due to the operations in SEZ valid till 31 December 2026	21,954	1,364
Tax losses of foreign companies	0	2,276
<b>Total non-recognised deferred income tax assets</b>	<b>21,954</b>	<b>3,640</b>

The companies of the Group have unsettled tax losses from previous years. Due to uncertainty regarding the possibility of their deduction in subsequent years, no deferred income tax assets were recognised for such losses. The period for the settlement of tax losses in Poland is 5 years from the year of suffering the loss; however, not more than 50% of the loss in a given year (for other countries, in accordance with the law of a given country).

In addition, some companies of the Group operate on the basis of authorisations in special economic zones and, according to the law, taxable income of such companies due to the operations in such zones is exempt from income tax in the validity period of a given authorisation. The exemption limit depends on the capital expenditure made under the particular authorisations. Taking into account limited validity periods of authorisations and the forecasts of profits to be generated by these companies, the estimated deferred income tax asset due to operations in special economic zones is lower than the maximum level of available public assistance.

Reconciliation of a change in deferred income tax asset (liability) charged to net profit and other comprehensive income.

	2019	2018
Assets (provision) as at 01.01.2019/ 01.01.2018	82,190	78,204
Change in the asset (liability) due to the valuation of derivative financial instruments recognised in other comprehensive income	(1,935)	2,952
Actuarial valuation recognised in other comprehensive income	335	378
Deferred income tax recognised in profit or loss	(11,213)	868
Cumulative translation adjustment for subsidiaries recognised in other comprehensive income	(264)	(212)
Assets (provision) as at 31.12.2019/ 31.12.2018	69,113	82,190

## 14.2. Tax exemptions related to operations in Special Economic Zones

Alupol Packaging S.A. and Alupol Films sp. z o.o. (Flexible Packaging Segment) operate in Special Economic Zones on the basis of authorisations. As a result, the companies, as regards their income from the operations defined in the respective authorisations, may take advantage of corporate income tax exemptions. The maximum level of exemptions (public assistance limit) depends on the amount of eligible capital expenditure made under each authorisation to operate in an economic zone. The SEZ operation permits held by the Group and the periods of tax exemptions availing expire on 31 December 2026.

The table below presents the amounts of available discounted public assistance (public assistance limit):

The amounts of available discounted public assistance (public assistance limit)	31.12.2019	31.12.2018
Permits expiring on 31 December 2026 – assistance limit of 40%	48,893	48,994
Permits expiring on 31 December 2026 – assistance limit of 35%	68,559	56,050
<b>Total</b>	<b>117,452</b>	<b>105,044</b>

In accordance with the applicable regulations, the public assistance limit is determined based on discounted expenditures on the purchase of property, plant and equipment under the permits obtained. The discount is made as at the date of the permit issue, based on the discount rate announced by the Office for Competition and Consumer Protection.

The table below presents the amounts of the discounted public assistance utilised starting from the permit issue date:

The amounts of the discounted public assistance availed of	31.12.2019	31.12.2018
Permits expiring on 31 December 2026 – assistance limit of 40%	27,914	18,188
Permits expiring on 31 December 2026 – assistance limit of 35%	13,039	8,377
<b>Total</b>	<b>40,953</b>	<b>26,565</b>

In accordance with the applicable regulations, the nominal amounts of tax exemptions obtained are discounted as at the date of the permit issue, under which the settlement is made, with the use of the discount rate announced by the Office for Competition and Consumer Protection. Such discounted amounts may not exceed the public assistance limits.

The table below presents the nominal value of public assistance availed of:

The nominal value of public assistance availed of (value of the utilised tax exemptions)	31.12.2019	31.12.2018
Permits expiring on 31 December 2026 – assistance limit of 40%	36,044	23,866
Permits expiring on 31 December 2026 – assistance limit of 35%	14,781	9,319
<b>Total</b>	<b>50,825</b>	<b>33,185</b>

## 14.3. Income tax receivables (payables)

Income tax receivables (liabilities) comprise the differences between tax advances paid and the current income tax for the given year.



	31.12.2019	31.12.2018
Income tax receivables	1,929	1,883
Income tax payables	(14,101)	(10,818)

## 15. Earnings/(loss) per share

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

	2019	2018
<b>Net profit attributable to owners of the parent</b>	<b>294,894</b>	<b>268,233</b>
Weighted average number of ordinary shares assumed for the calculation of 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	9,549,409
Basic earnings per share from the basic profit for the period attributable to owners of the parent (in PLN)	30.85	28.12
Diluted earnings per share from the basic profit for the period attributable to owners of the parent (in PLN)	30.80	28.09

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 expires 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 of the Grupa Kęty S.A. shares in 2019 was PLN 329.72 (2018: (PLN 357.32)).

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 (2018: 8,249).

## 16. Dividends paid and proposed for payment

In 2019, the parent company paid dividend amounting to PLN 229,009,000 (PLN 23.93 per share). In 2018, the parent company paid dividend amounting to PLN 228,518,000 (PLN 23.94 per share).

Moreover, Aluprof Netherlands B.V. paid dividend to its minority shareholders amounting to PLN 473,000 (previous year: PLN 22,000).

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

## 17. Property, plant and equipment

	31.12.2019	31.12.2018
<b>Gross value</b>	<b>2,444,349</b>	<b>2,241,161</b>
Land	29,674	49,458
Buildings and structures	709,268	605,937
Plant and machinery	1,289,364	1,132,592
Energy-related assets	13,726	13,289
Means of transport	60,121	56,862
Other property, plant and equipment	316,774	293,075
Property, plant and equipment under construction	25,422	89,948
<b>Depreciation</b>	<b>(984,652)</b>	<b>(882,889)</b>
Buildings and structures	(145,774)	(127,489)
Plant and machinery	(569,059)	(512,961)
Energy-related assets	(8,302)	(7,731)
Means of transport	(31,660)	(28,291)
Other property, plant and equipment	(229,857)	(206,417)
<b>Write-downs</b>	<b>(20,716)</b>	<b>(21,218)</b>
Buildings and structures	(7,475)	(7,665)
Plant and machinery	(12,727)	(12,970)
Energy-related assets	(13)	(13)
Means of transport	(122)	0
Other property, plant and equipment	(379)	(570)
<b>Net value</b>	<b>1,438,981</b>	<b>1,337,054</b>
Land	29,674	49,458
Buildings and structures	556,019	470,783
Plant and machinery	707,578	606,661
Energy-related assets	5,411	5,545
Means of transport	28,339	28,571
Other property, plant and equipment	86,538	86,088
Property, plant and equipment under construction	25,422	89,948

Property, plant and equipment	01.01.2019	Adoption of IFRS 16	Increases	Decreases	Shifts	Currency translation differences	31.12.2019
<b>Gross value</b>	<b>2,241,161</b>	<b>(21,152)</b>	<b>251,177</b>	<b>(29,790)</b>	<b>0</b>	<b>2,953</b>	<b>2,444,349</b>
Land	49,458	(19,179)	0	0	(462)	(143)	29,674
Buildings and structures	605,937	0	0	(208)	102,681	858	709,268
Plant and machinery	1,132,592	(938)	0	(13,254)	168,993	1,971	1,289,364
Energy-related assets	13,289	0	0	(7)	444	0	13,726
Means of transport	56,862	(1,035)	0	(3,979)	8,184	89	60,121
Other property, plant and equipment	293,075	0	0	(12,342)	35,884	157	316,774
Property, plant and equipment under construction	89,948	0	251,177	0	(315,724)	21	25,422
<b>Depreciation</b>	<b>(882,889)</b>	<b>345</b>	<b>(127,773)</b>	<b>27,330</b>	<b>0</b>	<b>(1,665)</b>	<b>(984,652)</b>
Buildings and structures	(127,489)	0	(17,822)	7	0	(470)	(145,774)
Plant and machinery	(512,961)	251	(68,209)	12,930	0	(1,070)	(569,059)
Energy-related assets	(7,731)	0	(578)	7	0	0	(8,302)
Means of transport	(28,291)	94	(6,660)	3,247	0	(50)	(31,660)
Other property, plant and equipment	(206,417)		(34,504)	11,139	0	(75)	(229,857)

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<b>Write-downs</b>	<b>(21,218)</b>	<b>0</b>	<b>(407)</b>	<b>909</b>	<b>0</b>	<b>0</b>	<b>(20,716)</b>
Buildings and structures	(7,665)	0	(79)	269	0	0	(7,475)
Plant and machinery	(12,970)	0	(24)	267	0	0	(12,727)
Energy-related assets	(13)	0	0	0	0	0	(13)
Means of transport	0	0	(122)	0	0	0	(122)
Other property, plant and equipment	(570)	0	(182)	373	0	0	(379)
<b>Net value</b>	<b>1,337,054</b>	<b>(20,807)</b>	<b>122,997</b>	<b>(1,551)</b>	<b>0</b>	<b>1,288</b>	<b>1,438,981</b>
Land	49,458	(19,179)	0	0	(462)	(143)	29,674
Buildings and structures	470,783	0	(17,901)	68	102,681	388	556,019
Plant and machinery	606,661	(687)	(68,233)	(57)	168,993	901	707,578
Energy-related assets	5,545	0	(578)	0	444	0	5,411
Means of transport	28,571	(941)	(6,782)	(732)	8,184	39	28,339
Other property, plant and equipment	86,088	0	(34,686)	(830)	35,884	82	86,538
Property, plant and equipment under construction	89,948	0	251,177	0	(315,724)	21	25,422

**Property, plant and equipment**

	<b>01.01.2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Shifts</b>	<b>Currency translation differences</b>	<b>31.12.2018</b>
<b>Gross value</b>	<b>2,046,333</b>	<b>252,332</b>	<b>(62,987)</b>	<b>0</b>	<b>5,483</b>	<b>2,241,161</b>
Land	40,379	0	0	8,774	305	49,458
Buildings and structures	563,765	0	(16,090)	56,614	1,648	605,937
Plant and machinery	1,056,555	0	(26,508)	99,520	3,025	1,132,592
Energy-related assets	13,726	0	(499)	62	0	13,289
Means of transport	48,892	0	(3,657)	11,435	192	56,862
Other property, plant and equipment	272,684	0	(16,233)	36,313	311	293,075
Property, plant and equipment under construction	50,332	252,332	0	(212,718)	2	89,948
<b>Depreciation</b>	<b>(823,278)</b>	<b>(117,376)</b>	<b>60,177</b>	<b>0</b>	<b>(2,412)</b>	<b>(882,889)</b>
Buildings and structures	(127,971)	(15,187)	16,098	0	(429)	(127,489)
Plant and machinery	(474,830)	(61,606)	24,939	0	(1,464)	(512,961)
Energy-related assets	(7,457)	(754)	480	0	0	(7,731)
Means of transport	(23,995)	(6,285)	2,314	0	(325)	(28,291)
Other property, plant and equipment	(189,025)	(33,544)	16,346	0	(194)	(206,417)
<b>Write-downs</b>	<b>(21,789)</b>	<b>(382)</b>	<b>1,177</b>	<b>0</b>	<b>(224)</b>	<b>(21,218)</b>
Buildings and structures	(7,903)	0	238	0	0	(7,665)
Plant and machinery	(13,179)	(43)	476	0	(224)	(12,970)
Energy-related assets	(13)	0	0	0	0	(13)
Other property, plant and equipment	(694)	(339)	463	0	0	(570)
<b>Net value</b>	<b>1,201,266</b>	<b>134,574</b>	<b>(1,633)</b>	<b>0</b>	<b>2,847</b>	<b>1,337,054</b>
Land	40,379	0	0	8,774	305	49,458
Buildings and structures	427,891	(15,187)	246	56,614	1,219	470,783
Plant and machinery	568,546	(61,649)	(1,093)	99,520	1,337	606,661
Energy-related assets	6,256	(754)	(19)	62	0	5,545
Means of transport	24,897	(6,285)	(1,343)	11,435	(133)	28,571
Other property, plant and equipment	82,965	(33,883)	576	36,313	117	86,088
Property, plant and equipment under construction	50,332	252,332	0	(212,718)	2	89,948

The gross value increase item covers acquisitions, whereas the amortisation increase item refers to depreciation of the particular groups of property, plant and equipment. The shift column presents values of property, plant and equipment put into use in the reporting period.

Changes of estimates concerning useful lives, and the capitalisation of finance costs

In the presented periods, the Group did not make any significant changes in the useful lives of property, plant and equipment. Write-downs and liquidation of property, plant and equipment resulted mainly from faster-than-expected wear and tear of property, plant and equipment when compared to their useful lives.

	2019	2018
Net value of liquidated property, plant and equipment	372	1,633

Liquidation of property, plant and equipment resulted directly from the sale of assets or their faster wear and tear than was expected when compared to their useful lives.

Capitalisation of finance costs

The Group capitalised interest related to the financing of the acquisition of property, plant and equipment

	2019	2018
Interest charged to property, plant and equipment	2,119	1,889

Restrictions on the disposal of property, plant and equipment

	31.12.2019	31.12.2018
<b>Leases*</b>	<b>0</b>	<b>1,247</b>
Loan securing mortgage on land, buildings and structures	517,000	517,000
<b>Total property, plant and equipment securing loans**</b>	<b>517,000</b>	<b>517,000</b>
<b>Total restricted property, plant and equipment</b>	<b>517,000</b>	<b>518,247</b>

\*Starting from 1 January 2019, in relation to IFRS 16 adoption, lease payables are presented in a separate item as lease liabilities.

\*\*Information on loans secured with property, plant and equipment is available in note 30.

Contractual liabilities

**Contractual liabilities related to the purchase of property, plant and equipment, by operating segments**

	31.12.2019	31.12.2018
Extruded Products Segment	10,748	12,746
Flexible Packaging Segment	9,325	70,004
Aluminium Systems Segment	2,356	10,547
Joint expenditure	0	103
<b>Total</b>	<b>22,429</b>	<b>93,400</b>

At the end of the current year, the major items of the said liabilities were related to:

- purchase and assembly of new production devices at the Flexible Packaging Segment;
- extension of the anodising unit at the Extruded Products Segment.

Impairment losses

The companies within the particular operating segments are cash-generating units for impairment tests (details of the companies of the Group and their business segments are included in note 2). Impairment tests or the valuation of property, plant and equipment by independent fixed assets appraisers for companies for which indicators of impairment occurred, showed no need to recognise impairment losses. Recognised impairment losses are related to individual assessment of the usefulness of the particular items of property, plant and equipment and the possibility of generating positive cash flows by them.

Energy-related assets carried at revalued amount

	31.12.2019	31.12.2018
Value at cost less depreciation charges	2,487	2,037

The Group holds a licence to transmit and distribute electrical energy. The revalued amount was determined with the replacement value method using the cost approach 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.

The 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 energy-related assets comprise buildings, structures and systems related to the transmission of electrical energy and power grids with transformers.

## 18. Right-of-use assets

### 18.1. Group as a lessee

Right-of-use assets	31.12.2019	31.12.2018
<b>Gross value</b>	<b>48,848</b>	<b>0</b>
Land	32,822	0
Buildings and structures	11,470	0
Plant and machinery	948	0
Means of transport	3,608	0
<b>Amortisation</b>	<b>(4,261)</b>	<b>0</b>
Land	(464)	0
Buildings and structures	(2,210)	0
Plant and machinery	(434)	0
Means of transport	(1,153)	0
<b>Net value</b>	<b>44,587</b>	<b>0</b>
Land	32,358	0
Buildings and structures	9,260	0
Plant and machinery	514	0
Means of transport	2,455	0

Right-of-use assets	01.01.2019	Transfer from property, plant and equipment	Recognition/ valuation according to IFRS 16	Increases	Currency translation differences	31.12.2019
<b>Gross value</b>	<b>0</b>	<b>21,152</b>	<b>21,730</b>	<b>5,906</b>	<b>60</b>	<b>48,848</b>
Land	0	19,179	13,588	0	55	32,822
Buildings and structures	0	0	7,353	4,104	13	11,470
Plant and machinery	0	938	0	16	(6)	948
Means of transport	0	1,035	789	1,786	(2)	3,608
<b>Amortisation</b>	<b>0</b>	<b>(344)</b>	<b>0</b>	<b>(3,916)</b>	<b>(1)</b>	<b>(4,261)</b>
Land	0	0	0	(464)	0	(464)
Buildings and structures	0	0	0	(2,210)	0	(2,210)
Plant and machinery	0	(251)	0	(183)	0	(434)
Means of transport	0	(93)	0	(1,059)	(1)	(1,153)
<b>Net value</b>	<b>0</b>	<b>20,808</b>	<b>21,730</b>	<b>1,990</b>	<b>59</b>	<b>44,587</b>
Land	0	19,179	13,588	(464)	55	32,358
Buildings and structures	0	0	7,353	1,894	13	9,260
Plant and machinery	0	687	0	(167)	(6)	514
Means of transport	0	942	789	727	(3)	2,455

\*The items 'Plant and machinery' and 'Vehicles' represent reclassifications comprising gross value and amortisation of property, plant and equipment, which were recognised as at 31 December 2018 as financial lease under IAS 17.

Costs of lease contracts recognised in the statement of profit or loss for 12 months:

Costs on account of		2019
Lease interest	Finance costs	(968)
Depreciation	Operating costs (depreciation)	(3,916)
Low-value lease	Operating costs (third-party services)	(458)
Short-term lease	Operating costs (third-party services)	(613)
Total		(5,955)

Value of future lease payments

	31.12.2019	01.01.2019
Value of future lease payments	56,426	52,920
Discount	(30,992)	(29,753)
<b>Present value of lease liabilities</b>	<b>25,434</b>	<b>23,167</b>
Including short-term lease	4,015	3,316

Weighted average incremental borrowing rate of the Group as the lessee applied to lease liabilities as at 31 December 2019 amounted to 4.02% (31 December 2018 – 4,36%).

## 18.2. Group as a lessor

Occasionally, the Group concludes finance lease contracts with its customers in reference to machinery, and with commercial representatives in reference to cars. As at the balance-sheet date, the Group had more than ten contracts pending repayment. The Group did not recognise any uncollectible lease payments.

The terms and conditions of the contract concluded by the Group are as follows:

- the finance covers the period from 18 to 60 months;
- the object of the contracts may be machinery or cars;
- the contracts cover for the option of the lease object purchase by the user after repayment, at a price lower than the market value on the day of acquisition;
- the contracts cover for termination option, for example if arrears amount to 3 monthly instalments;
- the user may terminate the contract providing that they cover any losses of the lessor resulting from the termination;
- the contracts forbid sub-leasing of the object of lease or assignment of the rights under the contract.

The concluded contracts do not contain any contingent lease payment depending on future factors other than the lapse of time.

	31.12.2019	31.12.2018
<b>Gross lease investment</b>	<b>2,223</b>	<b>2,609</b>
Up to 1 year	974	1,032
Between 1 and 5 years	1,249	1,577
<b>Present value of minimum lease payments</b>	<b>2,094</b>	<b>2,455</b>
Up to 1 year	919	952
Between 1 and 5 years	1,175	1,503
<b>Unearned finance income (discount)</b>	<b>129</b>	<b>154</b>
<b>Unguaranteed residual value vested in the lessor</b>	<b>706</b>	<b>768</b>

## 19. Investment properties

	31.12.2019	31.12.2018
<b>Net value at the beginning of the period</b>	<b>3,493</b>	<b>4,483</b>
Expenditure on property improvement	1,087	623
Transfer to property, plant and equipment	(1,105)	(290)
Fair value adjustment as a result of valuation	(154)	(685)
Sale of properties	0	(656)
Change due to currency translation differences	(6)	18
<b>Net value at the end of the period</b>	<b>3,315</b>	<b>3,493</b>

The investment properties as at the balance sheet date are related mainly to the administration and office building rented or leased to third parties.

The Group revalues investment properties at the end of each reporting year.

The carrying amount of investment properties is based on fair values determined on the basis of the valuation conducted by a qualified independent expert (fair value hierarchy – 3). The approach applied by the expert was based on compared market prices of rents in accordance with the income method and straight capitalisation of gross revenue technique.

<b>Data used for the valuation</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Usable area in m <sup>2</sup>	693	816
Percentage of vacancies	10%	10%
Monthly rent per m <sup>2</sup>	38-42	32-37
Annual rental revenue	316	324
Upkeep costs	48	54
Assumed capitalisation rate	8.5%	9%

The administration and office building owned by Aluprof S.A. subsidiary is rented to third parties.

The standard rental agreements for the Aluprof S.A. property are concluded for unlimited time and comprise a possibility to terminate the same by any of the parties with one-month notice period.

## 20. Intangible assets (except for goodwill)

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Gross value</b>	<b>129,764</b>	<b>127,749</b>
Development costs	9,098	8,741
Computer software	38,539	37,317
Aluprof trademark	22,500	22,500
Database of customers	43,927	43,927
ROMB trademark	1,900	1,900
MHF trademark	2,394	2,418
Schelfhaut trademark	9,001	9,089
Other intangible assets	244	536
Intangible assets not put into use	2,161	1,321
<b>Amortisation</b>	<b>(90,620)</b>	<b>(86,192)</b>
Development costs	(7,689)	(7,170)
Computer software	(30,544)	(29,159)
Database of customers	(40,748)	(37,820)
MHF trademark	(2,394)	(2,418)
Schelfhaut trademark	(9,001)	(9,089)
Other intangible assets	(244)	(536)
<b>Write-downs</b>	<b>(1,900)</b>	<b>(1,900)</b>
ROMB trademark	(1,900)	(1,900)
<b>Net value</b>	<b>37,244</b>	<b>39,657</b>
Development costs	1,409	1,571
Computer software	8,009	8,158
Aluprof trademark	22,500	22,500
Database of customers	3,165	6,107
ROMB trademark	0	0
MHF trademark	0	0
Schelfhaut trademark	0	0
Other intangible assets	0	0
Intangible assets not put into use	2,161	1,321

	01.01.2019	Increases	Decreases	Shifts	Currency translation differences	31.12.2019
<b>Gross value</b>	<b>127,749</b>	<b>4,195</b>	<b>(2,081)</b>	<b>0</b>	<b>(99)</b>	<b>129,764</b>
Development costs	8,741	0	(288)	613	32	9,098
Computer software	37,317	0	(1,504)	2,741	(15)	38,539
Aluprof trademark	22,500	0	0	0	0	22,500
Database of customers	43,927	0	0	0	0	43,927
ROMB trademark	1,900	0	0	0	0	1,900
MHF trademark	2,418	0	0	0	(24)	2,394
Schelfhaut trademark	9,089	0	0	0	(88)	9,001
Other intangible assets	536	0	(289)	0	(3)	244
Intangible assets not put into use	1,321	4,195	0	(3,354)	(1)	2,161
<b>Amortisation</b>	<b>(86,192)</b>	<b>(6,545)</b>	<b>2,010</b>	<b>0</b>	<b>107</b>	<b>(90,620)</b>
Development costs	(7,170)	(785)	288	0	(22)	(7,689)
Computer software	(29,159)	(2,832)	1,436	0	11	(30,544)
Database of customers	(37,820)	(2,928)	0	0	0	(40,748)
MHF trademark	(2,418)	0	0	0	24	(2,394)
Schelfhaut trademark	(9,089)	0	0	0	88	(9,001)
Other intangible assets	(536)	0	286	0	6	(244)
<b>Write-downs</b>	<b>(1,900)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,900)</b>
ROMB trademark	(1,900)	0	0	0	0	(1,900)
<b>Net value</b>	<b>39,657</b>	<b>(2,350)</b>	<b>(71)</b>	<b>0</b>	<b>8</b>	<b>37,244</b>
Development costs	1,571	(785)	0	613	10	1,409
Computer software	8,158	(2,820)	(68)	2,741	(2)	8,009
Aluprof trademark	22,500	0	0	0	0	22,500
Database of customers	6,107	(2,940)	(3)	0	1	3,165
ROMB trademark	0	0	0	0	0	0
MHF trademark	0	0	0	0	0	0
Schelfhaut trademark	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0
Intangible assets not put into use	1,321	4,195	0	(3,354)	(1)	2,161

Intangible assets	01.01.2018	Increases	Decreases	Shifts	Currency translation differences	31.12.2018
<b>Gross value</b>	<b>125,052</b>	<b>2,638</b>	<b>(397)</b>	<b>0</b>	<b>456</b>	<b>127,749</b>
Development costs	8,426	0	(33)	326	22	8,741
Computer software	33,967	0	(302)	3,559	93	37,317
Aluprof trademark	22,500	0	0	0	0	22,500
Database of customers	43,927	0	0	0	0	43,927
ROMB trademark	1,900	0	0	0	0	1,900
MHF trademark	2,418	0	0	0	0	2,418
Schelfhaut trademark	8,751	0	0	0	338	9,089
Other intangible assets	597	0	(62)	0	1	536
Intangible assets not put into use	2,566	2,638	0	(3,885)	2	1,321
<b>Amortisation</b>	<b>(77,430)</b>	<b>(8,434)</b>	<b>98</b>	<b>0</b>	<b>(426)</b>	<b>(86,192)</b>
Development costs, patents	(6,589)	(251)	0	0	(330)	(7,170)
Computer software	(26,427)	(2,752)	98	0	(78)	(29,159)
Database of customers	(34,892)	(2,928)	0	0	0	(37,820)



MHF trademark	(300)	(2,118)	0	0	0	(2,418)
Schelfhaut trademark	(8,751)	0	0	0	(338)	(9,089)
Other intangible assets	(471)	(385)	0	0	320	(536)
<b>Write-downs</b>	<b>(1,900)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,900)</b>
Production technologies, patents	0	0	0	0	0	0
Computer software	0	0	0	0	0	0
ROMB trademark	(1,900)	0	0	0	0	(1,900)
<b>Net value</b>	<b>45,722</b>	<b>(5,796)</b>	<b>(299)</b>	<b>0</b>	<b>30</b>	<b>39,657</b>
Production technologies, patents	1,837	(251)	(33)	326	(308)	1,571
Computer software	7,540	(2,752)	(204)	3,559	15	8,158
Aluprof trademark	22,500	0	0	0	0	22,500
Database of customers	9,035	(2,928)	0	0	0	6,107
ROMB trademark	0	0	0	0	0	0
MHF trademark	2,118	(2,118)	0	0	0	0
Schelfhaut trademark	0	0	0	0	0	0
Other intangible assets	126	(385)	(62)	0	321	0
Intangible assets not put into use	2,566	2,638	0	(3,885)	2	1,321

#### Depreciation of intangible assets

Depreciation charges for intangible assets are recognised in full in the operating costs item of 'Depreciation/Amortisation' in the statement of profit or loss. Aluprof and ROMB trademarks, due to their indefinite useful life, are not subject to depreciation. Every year the Group carries out an impairment test for the trademarks.

#### Impairment losses

The Group carried out impairment tests for intangible assets with indefinite economic useful lives. Intangible assets with indefinite useful lives comprise Aluprof trademark. The impairment tests carried out at the end of the present year and at the end of the previous year did not show any impairment of Aluprof trademark.

In 2018, a new useful life of MHF trademark was estimated; it is 12 months from January 2018.

Aluprof, MHF, ROMB and Schelfhaut trademarks are assigned to the Aluminium Systems Segment cash-generating unit and the assumptions for the impairment test that was carried out are presented in the note referring to the impairment tests.

#### Contractual liabilities

As at the end of the present year and at the end of the previous year, the Group did not have any contractual liabilities related to the acquisition of intangible assets.

## **21. Business combinations**

In 2019 and 2018 no business combinations took place.

## **22. Investments in associates**

On 11 September 2014, the subsidiary Aluprof System USA, Inc with its registered office in the USA entered into a joint venture agreement with two US partners and a new company was established for this purpose, i.e. Aluprof USA, LLC with its registered office in New York. The company share capital is USD 220,000, whereas Grupa Kęty S.A., through its subsidiary Aluprof System USA, Inc., took up 45.5% of shares in the company of the initial value of USD 100,100.

The company is involved in the distribution of aluminium systems. The establishment of the company is an element of the Group strategy of systematically increasing the share of export sales in the total sales of all Group segments. In the Aluminium Systems Segment, this strategy is implemented additionally through the establishment of subsidiaries on the markets to which products are exported, which allows the Group to better adjust the products offer to the specific nature of the particular markets and meet their technical and legal requirements more precisely.

In the Group financial statements, the company is recognised using the equity method. The Group presents net operating profit, as the nature of the investment complies with its business.

<b>Interests in associates</b>		
	<b>31.12.2019</b>	<b>31.12.2018</b>
Interests in associates	4,978	4,761
<b>Total</b>	<b>4,978</b>	<b>4,761</b>

The company basic financial figures:

<b>STATEMENT OF PROFIT OR LOSS</b>	<b>2019</b>	<b>2018</b>
<b>Operating income</b>	<b>7,637</b>	<b>10,696</b>
<b>Operating costs</b>	<b>(7,303)</b>	<b>(8,248)</b>
<b>Profit on operating activities</b>	<b>334</b>	<b>2,448</b>
Financial revenue	0	0
Finance costs	0	0
<b>Profit before tax</b>	<b>334</b>	<b>2,448</b>
Income tax	0	0
<b>Net profit on continued operations</b>	<b>334</b>	<b>2,448</b>

The share in the net profit of the company valued using the equity method amounts to PLN 152,000 (45.5%\*334); 2018: PLN 1,114,000.

<b>ASSETS</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>I. Non-current assets</b>	<b>61</b>	<b>105</b>
Property, plant and equipment	61	101
Intangible assets	0	4
<b>II. Current assets</b>	<b>11,081</b>	<b>10,738</b>
Trade and other receivables	6,284	7,121
Contractual assets	1,113	0
Cash and cash equivalents	3,684	3,617
<b>Total assets</b>	<b>11,142</b>	<b>10,843</b>
<b>EQUITY/LIABILITIES</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>I. Equity</b>	<b>10,940</b>	<b>10,490</b>
Share capital	835	827
Retained earnings	10,105	9,663
<b>II. Long-term liabilities</b>	<b>0</b>	<b>0</b>
<b>III. Short-term liabilities</b>	<b>202</b>	<b>353</b>
Trade payables and other liabilities	202	353
<b>Total equity/liabilities</b>	<b>11,142</b>	<b>10,843</b>

## 23. Other investments

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Long-term (goodwill)</b>	<b>0</b>	<b>11</b>
Interests or shares in other entities	0	11

### Short-term

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Borrowings</b>	<b>90</b>	<b>99</b>

## 24. Employee benefits

### 24.1. Employee share plans

The Group has an option plan open for the management staff. The plan commenced in 2015 and is divided in 3 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 of the part is divided into 4 sub-parts: A, B, C, D.

#### 24.1.1 Basic information about the 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%

\*As regards sub-parts C and D of the 2015 plan, the accomplishment of conditions below the bottom limit does not give any right to shares, and the accomplishment of conditions up to the upper limit, gives the right to the appropriate part of shares from a given sub-part. The accomplishment of conditions C and D above the upper limit gives the right to 100% of shares from a given sub-part.

Three-year employment period at the 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 part 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 Capital Group in the second year following the launch year of a given part and consolidated EBITDA per share attained by the Capital Group in the year directly preceding the part launch year.

'Net earnings per share increase' for a given part means the quotient of consolidated net earnings per share attained by the Group in the second year following the launch year of a given part and consolidated net earnings per share attained by the 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 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	<b>3,435</b>	<b>6,017</b>	<b>3,272</b>
Parameter A accomplishment	YES*	YES	YES
Parameter B base	YES*	YES	YES
Parameter C accomplishment	67%*	100%	100%
Parameter D base	0%*	0%	0%

\*Management Board estimations

The fair value of employee share plans 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 Group 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 Group recognises the scheme costs proportionally to the vesting period for options granted to the employees.

The amounts recognised below increased remuneration costs in the period as well as the Group equity.

<b>Costs of the options plan</b>	<b>2019</b>	<b>2018</b>
First part of the 2015 plan	0	(51)
Second part of the 2015 plan	953	1,944
Third part of the 2015 plan	1,117	437
<b>Total options costs in the period</b>	<b>2,070</b>	<b>2,330</b>

Future costs of share options plans are as follows:

<b>Future costs of the options plans</b>	<b>2020</b>
Third part of the 2015 plan	558
<b>Total</b>	<b>558</b>

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

<b>As at 31.12.2018</b>	<b>First part 2015 plan</b>	<b>Second part 2015 plan</b>	<b>Third part 2015 plan</b>
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	20,670
Number of options assumed for valuation	37,800	39,800	31,330
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. Retirement benefits and jubilee bonuses

	<b>31.12.2019</b>	<b>31.12.2018</b>
Long-term provision for jubilee bonuses, retirement benefits, disability benefits and death in service benefits	16,807	12,675
<b>Total</b>	<b>16,807</b>	<b>12,675</b>

Basic actuarial estimates as at the balance-sheet date

	<b>2019</b>	<b>2018</b>
Discount rate as at 31 December	2.01%	2.77%

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

	2020	2021	2022	2023	2024	Other years
Extruded Products Segment	3%	3%	2.5%	2.5%	2.5%	2.5%
Flexible Packaging Segment	8%	5%	5%	5%	5%	2.5%
Aluminium Systems Segment	5%	5%	5%	5%	3%	2.5%
Other companies	5%	3%	5%	5%	5%	2.5%

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

	2019	2020	2021	2022	2023	Other years
Extruded Products Segment	5%	4%	3%	3%	3%	2.5%
Flexible Packaging Segment	4.4%	4.6%	3.7%	4.1%	3.9%	2.5%
Aluminium Systems Segment	5%	5%	5%	5%	5%	3%
Other companies	5%	3%	4%	5%	3%	2.5%

The short-term part of the provision for jubilee bonuses, retirement benefits, disability benefits and death in service benefits is recognised in other short-term provisions.

The provisions for retirement benefits, disability benefits, death in service benefits and jubilee bonuses were calculated using an individual method, for each employee separately. The provision is calculated using the present value of the Group future long-term liabilities due to employee 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 employee to reach the retirement age during the employment in the Group from the time of acquiring the right to the employee benefit. 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.

### 24.3. Actuarial gains/losses

The table below presents the statement of changes in liabilities due to employee benefits by the particular items:

2019	Retirement benefits	Disability benefits	Jubilee bonuses	Death in service benefits	Total
<b>1 January 2019</b>	<b>11,645</b>	<b>324</b>	<b>886</b>	<b>507</b>	<b>13,362</b>
Current employment cost	1,298	61	43	73	1,475
Interest costs	250	9	7	14	280
Actuarial losses (gains) charged to other comprehensive income	1,923	82	0	3	2,008
Past employment cost	558	13	52	54	677
(Payments)	(309)	(52)	0	(5)	(366)
Cumulative translation adjustment for foreign companies	(27)	0	(13)	0	(40)
<b>31 December 2019</b>	<b>15,338</b>	<b>437</b>	<b>975</b>	<b>646</b>	<b>17,396</b>
<i>Short-term</i>	519	40	0	30	589
<i>Long-term</i>	14,819	397	975	616	16,807

2018	Retirement benefits	Disability benefits	Jubilee bonuses	Death in service benefits	Total
<b>1 January 2018</b>	<b>9,982</b>	<b>293</b>	<b>834</b>	<b>431</b>	<b>11,540</b>
Current employment cost	947	54	73	63	1,137
Interest costs	233	10	9	14	266
Actuarial losses (gains) charged to other comprehensive income	1,214	(19)	0	55	1,250

Past employment cost	(30)	(2)	0	(25)	(57)
(Payments)	(876)	(12)	(56)	(31)	(975)
Cumulative translation adjustment for foreign companies	175	0	26	0	201
<b>31 December 2018</b>	<b>11,645</b>	<b>324</b>	<b>886</b>	<b>507</b>	<b>13,362</b>
<i>Short-term</i>	628	33	0	25	686
<i>Long-term</i>	11,017	291	886	482	12,676

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

<b>2019</b>	<b>Financial discount rate</b>		<b>Planned increases in the bases</b>	
	<b>-1 p.p.</b>	<b>+ 1 p.p.</b>	<b>-1 p.p.</b>	<b>+ 1 p.p.</b>
<b>Change</b>				
Retirement benefits	2,206	(1,745)	(378)	454
Disability benefits	48	(41)	(12)	14
Death in service benefits	88	(73)	(70)	82
<b>Total change in provisions</b>	<b>2,342</b>	<b>(1,859)</b>	<b>(460)</b>	<b>550</b>

  

<b>2018</b>	<b>Financial discount rate</b>		<b>Planned increases in the bases</b>	
	<b>-1 p.p.</b>	<b>+ 1 p.p.</b>	<b>-1 p.p.</b>	<b>+ 1 p.p.</b>
<b>Change</b>				
Retirement benefits	1,422	(1,138)	(1,098)	1 344
Disability benefits	31	(29)	(28)	30
Death in service benefits	70	(60)	(60)	68
<b>Total change in provisions</b>	<b>1,523</b>	<b>(1,227)</b>	<b>(1,186)</b>	<b>1 442</b>

## 25. Inventories

	<b>31.12.2019</b>	<b>31.12.2018</b>
Materials	196,171	228,612
Work in progress	91,546	121,522
Finished products	154,082	151,194
Trade goods	7,011	8,133
<b>Total</b>	<b>448,810</b>	<b>509,461</b>

Inventories did not secure loans or other debts.

In 2019 the Group recognised write-downs of inventories for materials amounting to PLN 711,000 as other operating costs, and PLN 137,000 of write-downs of finished products and semi-products (reflected as an adjustment in the balance of products).

In 2018 the Group reversed write-downs of inventories for materials amounting to PLN 844,000, reflected as other operating costs, and recognised PLN 6,000 of write-downs of products and semi-products (reflected as an adjustment in the balance of products).

<b>Write-downs</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Materials	(7,154)	(6,809)
Work in progress	(3,136)	(2,028)
Finished products	(6,745)	(7,162)
Trade goods	(723)	(911)
<b>Total write-downs of inventories</b>	<b>(17,758)</b>	<b>(16,910)</b>

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

	<b>2019</b>	<b>2018</b>
Value of products sold	2,566,265	2,276,760
Value of resold materials and trade goods	279,133	412,884
<b>Total</b>	<b>2,845,398</b>	<b>2,689,644</b>

## 26. Long-term receivables and advance payments for the purchase of property, plant and equipment

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Advance payments for the purchase of property, plant and equipment</b>	<b>10,329</b>	<b>38,409</b>
<b>Other receivables:</b>		
Building security deposits	4,570	4,997
Lease receivables	1,175	1,503
Other	185	301
<b>Total</b>	<b>5,930</b>	<b>6,801</b>

As a performance bond for construction services, for a part of construction contracts the Company submits security deposits. In the event of any defects that the Group fails to eliminate pursuant to such a bond, the customer may retain the security deposit and use it to repair such defects. Each security deposit has a strictly defined validity period. If no defects occur, the full amount of the security deposit is returned as per the agreement.

Aluprof S.A. is a party to leases under which the company provided passenger cars to be used for a consideration for the period of four years, and machines and equipment for 10 years. In its assets, the Group recognises a receivable equal to the total amount of lease payments payable to the Group less unearned finance income.

## 27. Trade and other receivables

	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Gross receivables:</b>		<b>609,463</b>	<b>646,866</b>
Trade receivables		577,361	605,111
- including from related parties*		209	0
Deposits on account of transactions hedging the aluminium price		0	2,485
Receivables from employees		183	161
Other		8,035	10,712
<b>Total gross financial receivables (under IFRS 7)</b>		<b>585,579</b>	<b>618,469</b>
Public law receivables (except for income tax)		15,380	17,991
Prepayments (trade-related) for suppliers		4,154	6,403
Prepaid expenses		4,350	4,003
<b>Total gross non-financial receivables</b>		<b>23,884</b>	<b>28,397</b>
<b>Write-down of receivables</b>		<b>(72,312)</b>	<b>(75,730)</b>
Trade receivables		(70,242)	(73,310)
Prepayments (trade-related) for suppliers		(620)	(821)
Other		(1,450)	(1,599)
<b>Net receivables:</b>		<b>537,151</b>	<b>571,136</b>
Trade receivables		507,119	531,801
- including from related parties*		209	0
Deposits on account of transactions hedging the aluminium price		0	2,485
Receivables from employees		183	161

Other		6,585	9,113
<b>Total net financial receivables (under IFRS 7)</b>	<b>37(b)</b>	<b>513,887</b>	<b>543,560</b>
Public law receivables (except for income tax)		15,380	17,991
Prepayments (trade-related) for suppliers		3,534	5,582
Prepaid expenses		4,350	4,003
<b>Total net non-financial receivables</b>		<b>23,264</b>	<b>27,576</b>

\*Refers to an associate, information in note 22.

The conditions of related party transactions are presented in note 36.2 of the supplementary information and explanatory notes.

Trade receivables do not bear interest and usually have 30 to 90 days maturity.

The Group has implemented an appropriate policy related to sales only to verified customers and applies receivables insurance. 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 Group trade receivables.

Changes in the write-downs of trade receivables:

	2019	2018
<b>At the beginning of the period</b>	<b>75,729</b>	<b>69,541</b>
Increase	3,122	11,876
Utilisation	(6,539)	(5,688)
<b>At the end of the period</b>	<b>72,312</b>	<b>75,729</b>

Below presented is the analysis of trade receivables which were overdue, but were not deemed impaired:

	Total	Not overdue	Overdue, but not impaired			
			up to 3 months	up to 6 months	up to 12 months	over 12 months
31 December 2019	507,119	395,424	102,803	4,278	4,550	64
31 December 2018	531,801	414,914	102,157	4,861	6,274	3,595

Overdue receivables not covered by write-downs are insured or subject to other securities. As a result, the Group expects that they will be paid. In the Group's opinion, the credit quality of the receivables, which are overdue but not covered by write-downs, described above is good.

## 28. Cash and cash equivalents

Cash at bank bears interest at variable interest rates; the level of such rates depends on the interest rate of one-day bank term deposits. Short-term term deposits are made for periods of various lengths from one day to one month depending on the Group current demand for cash and bear interest at applicable interest rates.

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

	31.12.2019	31.12.2018
Bank deposits (current accounts) and short-term deposits	103,552	100,634
Cash in hand	38	45
Other cash	2	2
<b>Total</b>	<b>103,592</b>	<b>100,681</b>

As at 31.12.2019, the Group had PLN 7,434,000 of restricted availability cash in its VAT accounts (31 December 2018: PLN 895,000). 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, the Group had undrawn credit funds granted amounting to PLN 358,968,000 with regard to which all conditions precedent had been complied with (31 December 2018: PLN 201,340,000).



## 29. Capital

### 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>	9,569,947	9,545,447

#### Nominal value of shares

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.

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

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.

#### 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
<b>Total</b>	<b>38,018</b>	<b>33,900</b>

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	(557)	(667)
<b>Total</b>	<b>2,368</b>	<b>2,841</b>

### 29.4. Capital from the valuation of share based payments

The Group has implemented share options plans for employees, under which options to take up the Company shares were assigned (more information about the management options plans can be found in note 24.1).

	31.12.2019	31.12.2018
Capital at the beginning of the period	24,322	21,992
Costs of the period	2,070	2,330
<b>Total</b>	<b>26,392</b>	<b>24,322</b>

The capital reflects the fair value of the options granted to the Group employees, proportionally to the vesting period, according to the valuation as at the plan launch date.

### 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	2,302	(8,979)
Forward contracts hedging cash flows due to exchange rate changes	(1,318)	(113)
Deferred tax	(79)	1,727
<b>Total</b>	<b>905</b>	<b>(7,365)</b>

## 29.6. Result on cash flow hedging transactions

The Group 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 on futures contracts hedging cash flows	(303)	(531)
<b>Total</b>	<b>(303)</b>	<b>(531)</b>

## 29.7. Retained earnings

	31.12.2019	31.12.2018
Previous years profit	1,073,373	1,035,572
Shift from revaluation reserve in relation to the depreciation of assets measured at fair value	3,275	2,802
Net actuarial gains (losses)	(1,673)	(872)
Net profit attributable to owners of the parent for the period	294,894	268,233
<b>Total</b>	<b>1,369,869</b>	<b>1,305,735</b>

## 29.8. Cumulative translation adjustment for subsidiaries

*Reserve capital from currency translation differences*

	31.12.2019	31.12.2018
Cumulative translation adjustment for subsidiaries	(27,901)	(30,414)

## 30. Liabilities related to loans

### 30.1. Bank credits and loans

Maturity date	31.12.2019	31.12.2018
Short-term	369,583	654,274
From 1 to 2 years	411,325	68,372
From 2 to 5 years	22,955	152,410
More than 5 years	3,080	0
<b>Total</b>	<b>806,943</b>	<b>875,056</b>

### LONG-TERM

Lender	Loan currency	Security	31.12.2019	31.12.2018
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
BGŻBNP PARIBAS	PLN/EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 220 million), Alupol Packaging S.A. (up to PLN 38.5 million), Aluprof S.A. (up to PLN 66 million), ROMB S.A. (up to PLN 22 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 49.5 million), Alupol Films Sp. z o.o. (up to PLN 60.5 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	92,832	0

BGŻBNP PARIBAS	PLN	Civil law security bond up to the amount of PLN 120 million, contractual mortgage up to PLN 120 million, entered on the first position on the property owned by Alupol Films sp. z o.o.	69,506	57,399
BGŻBNP PARIBAS	EUR	Joint and several liability of the following companies: Alupol Films Sp. z o.o. and Alupol Packaging Kęty Sp. z o.o. up to the amount of PLN 132 million.	14,971	0
mBank	EUR	Contractual mortgage, registered pledge for the total value of the property and fixed assets owned by Alupol Packaging Kęty sp. o.o., up to the amount of PLN 108 million.	46,065	0
PEKAO	PLN	Blank promissory note and promissory note declaration, mortgage on real properties up to the amount of PLN 85 million, registered pledge on property, plant and equipment, along with the assignment of rights under the security assets insurance policy.	28,333	56,667
BGŻBNP PARIBAS	PLN	Joint mortgage up to PLN 48 million, along with the assignment of rights under the insurance policy; joint and several liability of the Capital Group companies.	99	0
ING Polska	PLN	Contractual mortgage up to PLN 96 million, plus declaration on submission to enforcement.	15,529	0
mBank	PLN	Contractual mortgage, registered pledge for the total value of the property and fixed assets owned by Alupol Packaging Kęty sp. o.o., up to the amount of PLN 108 million.	35,000	0
Leases*	EUR/PLN	Leases	0	887
<b>Total</b>			<b>437,360</b>	<b>220,782</b>

\*As at 1 January 2019 lease payables were shifted to lease liabilities.

#### SHORT-TERM

Lender	Loan currency	Security	31.12.2019	31.12.2018
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
BGŻBNP PARIBAS	PLN, EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 220 million), Alupol Packaging S.A. (up to PLN 38.5 million), Aluprof S.A. (up to PLN 66 million), ROMB S.A. (up to PLN 22 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 49.5 million), Alupol Films Sp. z o.o. (up to PLN 60.5 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	8,612	240,712
ING Polska	EUR, PLN	Joint and several liability of Grupa KĘTY S.A. and Aluprof S.A.	50,593	43,922
PEKAO	PLN, EUR, USD	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 330 million), Alupol Packaging S.A. (up to PLN 66 million), Aluprof S.A. (up to PLN 176 million), Aluform Sp. z o.o. (up to PLN 32.5 million), Alupol	208,954	259,650

		Packaging Kęty Sp. z o.o. (up to PLN 66 million), Alupol Films Sp. z o.o. (up to PLN 66 million), and Aluminium Kęty EMMI d.o.o. (up to PLN 55 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.		
Societe Generale	EUR, PLN	Civil law security bond.	23,545	25,833
PKO BP	PLN	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.	3,231	33,409
BGŻBNP PARIBAS	PLN	Short-term part of long-term loans – the same collaterals as in the case of the respective long-term loans.	23,163	22,763
mBank	EUR	Joint and several liability of the following companies: Alupol Films sp. z o.o. and Alupol Packaging Kęty sp. z o.o. up to the amount of PLN 12 million.	4,995	105
BGŻBNP PARIBAS	PLN	Joint mortgage up to PLN 48 million on the real properties of Aluprof S.A., along with the assignment of rights under the property insurance policy; joint and several liability of Aluprof S.A. and Grupa Kęty S.A., declaration on submission to enforcement.	0	7,202
Leases*	EUR/PLN	Leases	0	561
<b>Total</b>			<b>369,583</b>	<b>654,274</b>

\*As at 1 January 2019 lease payables were shifted to lease liabilities.

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

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

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 Group negotiates agreements/annexes with the banks to extend the agreements for the subsequent 12-month periods.

## 31. Lease liabilities

Maturity date	31.12.2019	31.12.2018
Short-term	4,015	0
From 1 to 3 years	8,958	0
More than 3 years	12,461	0
<b>Total</b>	<b>25,434</b>	<b>0</b>

## 32. Provisions and accruals

	31.12.2019	31.12.2018
<b>Long-term provisions:</b>	<b>721</b>	<b>499</b>
provision for warranty repairs	721	499
<b>Short-term provisions:</b>	<b>1,822</b>	<b>1,934</b>
provision for jubilee bonuses and retirement benefits	589	686
provision for warranty repairs	1,233	1,248

<b>Short-term accruals:</b>	<b>38,428</b>	<b>32,949</b>
unused holiday	7,050	7,449
annual bonuses	17,352	16,497
damages	3,704	3,704
costs of services in progress	8,758	3,807
financial statements audits	251	250
Other	1,313	1,242

### 32.1. Change in the balance of provisions and accruals

	01.01.2019	Increases	Utilisation	Reversal/ Shift	Currency translation differences	31.12.2019
<b>Long-term provisions:</b>	<b>499</b>	<b>224</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>721</b>
provision for warranty repairs	499	224	0	0	(2)	721
<b>Short-term provisions</b>	<b>1,934</b>	<b>502</b>	<b>(930)</b>	<b>315</b>	<b>1</b>	<b>1,822</b>
provision for jubilee bonuses and retirement benefits	686	0	(413)	315	1	589
provision for warranty repairs	1,248	502	(517)	0	0	1,233
<b>Short-term accruals:</b>	<b>32,949</b>	<b>33,856</b>	<b>(28,371)</b>	<b>0</b>	<b>(6)</b>	<b>38,428</b>
unused holiday	7,449	7,063	(7,449)	0	(13)	7,050
annual bonuses	16,497	17,368	(16,497)	0	(16)	17,352
damages	3,704	0	0	0	0	3,704
costs of services in progress	3,807	8,781	(3,807)	0	(23)	8,758
financial statements audits	250	252	(250)	0	(1)	251
Other	1,242	392	(368)	0	47	1,313

	01.01.2018	Increases	Utilisation	Reversal/ Shift	Currency translation differences	31.12.2018
<b>Long-term provisions:</b>	<b>499</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>499</b>
provision for warranty repairs	499	0	0	0	0	499
<b>Short-term provisions</b>	<b>1,651</b>	<b>414</b>	<b>(171)</b>	<b>40</b>	<b>0</b>	<b>1,934</b>
provision for jubilee bonuses and retirement benefits	803	0	(157)	40	0	686
provision for warranty repairs	848	414	(14)	0	0	1,248
<b>Short-term accruals:</b>	<b>32,206</b>	<b>26,369</b>	<b>(25,280)</b>	<b>(430)</b>	<b>84</b>	<b>32,949</b>
unused holiday	7,421	7,420	(7,421)	0	29	7,449
annual bonuses	13,460	16,475	(13,460)	0	22	16,497
damages	4,134	0	0	(430)	0	3,704
costs of services in progress	3,830	1,102	(1,139)	0	14	3,807
financial statements audits	278	247	(278)	0	3	250
Other	3,083	1,125	(2,982)	0	16	1,242

## 33. Trade payables and other liabilities

### 33.1. Long-term liabilities

As a performance bond for construction services for a part of construction contracts, the Company submits security deposits. In the event of any defects that the supplier fails to eliminate pursuant to such a bond, the Group may retain the security deposit and use it to repair such defects.

	31.12.2019	31.12.2018
Building security deposits	1,310	1,130

### 33.2. Short-term trade payables and other liabilities

	31.12.2019	31.12.2018
<b>Short-term liabilities:</b>	<b>294,749</b>	<b>345,747</b>
Trade receivables	215,414	244,226
On account of property, plant and equipment purchase	28,090	49,610
Payroll payables	18,172	17,419
<b>Total financial liabilities (under IFRS 7)</b>	<b>261,676</b>	<b>311,255</b>
Public law payables (except for income tax payables)	28,926	30,899
Other	4,147	3,593
<b>Total non-financial liabilities</b>	<b>33,073</b>	<b>34,492</b>

The conditions of related party transactions are presented in note 36.2 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 one month.

The said liabilities are not secured with the Company assets.

### 33.3. Contractual liabilities

	31.12.2019	31.12.2018
Contractual liabilities related to construction contracts	83	129
Contractual liabilities related to other contracts (advance payments for deliveries)	12,954	10,609
<b>Total</b>	<b>13,037</b>	<b>10,738</b>

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

## 34. Deferred income

	31.12.2019	31.12.2018
Long-term subsidies	36,707	37,014
Other	24	89
<b>Total</b>	<b>36,731</b>	<b>37,103</b>
Short-term subsidies	1,696	1,428
Other	515	555
<b>Total</b>	<b>2,211</b>	<b>1,983</b>

The subsidies received are mainly related to the performance of projects co-financed under the European Union assistance programmes and to co-financing of the costs of development works.

The Group carried out three large projects co-financed from the EU funds related to the purchase and construction of property, plant and equipment. The Group complied with all of the conditions of the said subsidies.

Moreover, in March 2017, Aluprof S.A. signed a co-finance agreement for the project entitled: **‘Construction of the Research and Innovation Centre to Conduct Research and Development Works on the Development of Innovative Systems for the Construction Industry’**, under Measure 2.1. ‘Support for Investments in R&D Infrastructure of Enterprises’, under the Smart Growth Operational Programme 2014–2020, subsidised by the European Regional Development Fund. The total cost of the project is PLN 65,939,000, including eligible costs of PLN 53,440,000. The maximum value of the subsidy is PLN 10,688,000 and the first payment application was filed in March 2018. The project comprises the construction and the provision of equipment for the Research and Innovation Centre, which will carry out research and development works. The structure of the usable area of approximately 15,000 m<sup>2</sup> will be located on a plot of land of 11 ha located in the District of Cieszyn.

The objective of the project is to create state-of-the-art facilities for carrying out research and development works on designing construction solutions of break-through technical parameters, unique on the global scale. The major emphasis is placed on creating modern systems for passive buildings, characterised with ultra-high thermal insulation properties and super-high strength and tightness, as well as wall systems meeting extremely high fire resistance requirements, and also fire-rated systems. The project aims at ensuring the unquestionable leadership position in the industry for Aluprof S.A. The project is financed from the company own funds and public aid under EU funds. The total cost of the project is PLN 43,400,550.00, with the total amount of eligible expenditures less the flat-rate of income percentage amounting to PLN 28,093,200.00. The maximum co-financing amount is PLN 7,023,300.00. By the end of 2019, the Group received PLN 5,401,000 of subsidy within the project. The expenditures eligibility period for the project started on 27 April 2016 and ended on the date of filing an application for the final payment, i.e. on 31 December 2019.

The basic condition for the project is to achieve the project objective and its durability by 21 December 2024. In that period, the Group is not allowed to dispose of or otherwise transfer the ownership of the property, plant and equipment financed with the subsidy. In addition, the Group is obliged to carry out business activities in the scope specified in the application.

The key measurable indicators of the project are:

- product indicators, i.e. the number of fixed assets and intangible assets purchased, and the value of expenditure on the purchase of scientific and research devices;
- result indicators, i.e. employment increase, the number of R&D projects performed with the use of the co-financed research infrastructure, and the value expenditures on R&D activities.

## 35. Contingent liabilities

Item	31.12.2019	31.12.2018
Bank performance bonds for construction contracts, as provided by the ASS	14,383	25,097
Insurance performance bonds for construction contracts, as provided by the ASS	2,175	50,960
Subsidies in the period of conditions fulfilment	5,401	0
<b>Total</b>	<b>21,959</b>	<b>76,057</b>

Construction-related guarantees refer to the proper performance of construction service contracts, and their validity dates depend on the terms and conditions of the particular contracts.

More information about the subsidy conditions fulfilment was provided in note 34.

Apart from the aforementioned liabilities, there are no other contingent liabilities.

### 35.1. Tax accounts

Tax settlements and other regulated areas of activities (e.g. customs or foreign exchange issues) may be subject to inspections by authorities that are entitled to impose penalties and sanctions. The absence of references to the established legal regulations in Poland and Ukraine, where the Group has its production assets, results in ambiguity and incoherence. The differences in opinions as to the legal interpretation of tax regulations result in uncertainty and conflicts. As a result, the tax risk in Poland and Ukraine is much higher than the usual tax risk in the countries where tax systems are more developed.

Tax accounts may be subject to audits in the period until the date when such tax accounts are lapsed according to tax regulations (5 years in Poland), starting from the end of the year in which a given tax was paid. As a result of the control procedures, the Group's current tax settlements may be increased for additional liabilities. According to the Group, as at the balance sheet date, there was no risk justifying the creation of provisions for tax settlements.

## 36. Shareholding structure and related party transactions

### 36.1. 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%
Others	3,342,525	34.93%	3,309,966	34.68%
<b>Total</b>	<b>9,569,947</b>	<b>100.00%</b>	<b>9,545,447</b>	<b>100.00%</b>

### 36.2. Terms of intercompany transactions

All intercompany transactions are concluded on arm's length basis.

Apart from the transactions described in notes 13 and 36, the Group did not enter into any other significant intercompany transactions. Note 13 describes the standard sales transactions with the USA associate (a subordinate company).

### 36.3. Other transactions with members of the Management Board

The Group did not enter into any transactions with the Management Board members, except those described in notes 36.4 and 36.5.

### 36.4. Remuneration of the Group key management staff

The Group key management staff include: members of the Supervisory Board of the parent company and members of the Management Board of the parent company.

<b>Management Board:</b>	<b>2019</b>	<b>2018</b>
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
<b>Total costs of the Management Board remuneration at the parent company</b>	<b>7,327</b>	<b>8,435</b>
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
<b>Total costs of remuneration at other Group companies</b>	<b>1,529</b>	<b>2,186</b>
<b>Total consideration for the Management Board members</b>	<b>8,856</b>	<b>10,621</b>

\*The details of the share options plan are provided 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 the parent company 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 remuneration of the Company Supervisory Board members was as follows:

	<b>2019</b>	<b>2018</b>
Supervisory Board	836	789
<b>Total</b>	<b>836</b>	<b>789</b>

### 36.5. Participation of key management staff in the employee share plan

As described in details in note 24.1, the Group has implemented a share options plan.

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 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.

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

## 37. Objectives and principles of financial risk management

The basic risk factors which may affect the financial result of the Group 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 events. The Management Board verifies and agrees on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Group also monitors the risk of market prices applicable to all financial instruments managed by it.



**The basic objectives of the Group 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 events.

**Risk management strategies applied 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 on the current price, e.g. LME quoting, and conclusion of futures contracts to hedge the raw material (aluminium) 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 revolving 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 insurance of the receivables from customers, and use of legal liabilities security measures;
- 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 regards project finance;
- risk of exceptional occurrences – focus on risk limitation by way of risk transfer (insurance), technical audits aimed at risk mitigation, and diversification of the places of operation.

**Risk-management objectives of the Capital Group:**

- The interest rate risk and currency risk are managed in order to limit the impact of short-term market fluctuations on the Company profit.
- Managing the risk of changes in the prices of basic raw materials is aimed at the elimination of short-term impact of changes in the raw materials prices on the Company results, and specifically when the transfer of costs to the customer or arranging deliveries at fixed prices are not possible.
- Credit risk management is to reduce the possible financial losses on account of unpaid receivables and ensure financial liquidity.
- Liquidity risk management is to ensure the possibility of timely payment of liabilities by all of the Capital Group companies.
- 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 to supervise the reasons and places of such risk occurrence, plus obtaining indemnities under insurance policies.
- 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 the legal environment, adjust the methods of conduct to the changes and needs on a current basis, as well as product and territorial diversification of operations.

## **37.1. Risk related to changes in the prices of basic materials**

### **37.1.1 Aluminium, aluminium scrap**

Primary aluminium, billets and scrap are the basic raw materials used by the Group. Primary aluminium is mainly purchased on the basis of annual contracts and the price is determined on a monthly basis individually for each delivery. 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 movements of metals at the London Metal Exchange.

The risk of changes in the prices of basic raw materials is mitigated by futures contracts for the purchase of aluminium.

### **37.1.2 Plastics**

Plastics (polyethylene, polyester, polypropylene) are the main raw materials of the Flexible Packaging Segment. These raw materials are primarily purchased based on SPOT type orders at the fixed price. However, it does not mean the maintenance of constant prices for longer periods of time (exceeding the order period), as the suppliers respond to changes of the raw materials prices at the stock exchange as well as changes in the competitive environment by

changing the prices in function of the the raw materials prices or a significant increase in demand for a given product. Hence, the Group faces the risk of price changes, which is beyond its control.

### 37.2. Interest rate risk

The Group records a surplus of financial resources or uses borrowings through long- and short-term bank loans. Interest on bank term deposits and loans is variable and depends on interest rates applicable on the interbank market such as WIBOR (for loans in PLN), LIBOR and EURIBOR (for foreign currency loans). As a result, the Group is exposed to the interest rate risk, which may result in lower rate of return on deposits or higher costs of borrowed loans.

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

- loans and lease,
- provisions for retirement benefits,
- goodwill,
- trade and other receivables,
- trade and other payables,
- valuation of derivative financial instruments.

#### Interest rate risk refers to the following items:

Variable interest	Maturity periods			
31.12.2019	< 1 year	1–2 years	2–3 years	More than 3 years
Cash	103,592	0	0	0
Bank loans in PLN	(296,077)	(339,710)	(22,849)	(3,080)
Bank loans in EUR	(67,856)	(71,498)	0	0
Bank loans in USD	(5,641)	0	0	0
Bank loans in RON	(9)	0	0	0

  

Variable interest	Maturity periods			
31.12.2018	< 1 year	1–2 years	2–3 years	More than 3 years
Cash	100,681	0	0	0
Bank loans in PLN	(512,652)	(67,929)	(78,372)	(73,965)
Lease and bank loans in EUR	(135,597)	(237)	0	0
Lease and bank loans in USD	(5,987)	0	0	0
Lease and bank loans in GBP	0	(14)	0	0
Other loans in DKK and RON	(38)	(192)	(73)	0

#### Susceptibility analysis

By managing interest rate risk and currency risk, the Group aims to reduce the impact of short-term interest rates fluctuations on the Group results. However, persisting changes of exchange rates and interest rates will have an impact on the Group results.

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

For the items affecting the statement of profit or loss

Risk	Change	Change of gross profit – 2019	Change of gross profit – 2018
Increase in interest rates	1%	(8,069)	(8,750)
EUR/PLN exchange rate increase	5%	2,041	(1,812)
USD/PLN exchange rate increase	5%	308	(213)
GBP/PLN exchange rate increase	5%	1,683	1,471

For the items affecting the equity

Risk	Change	31.12.2019	31.12.2018
EUR/PLN exchange rates increase for hedging instruments	5%	0	2,937
USD/PLN exchange rates increase for hedging instruments	5%	381	716
GBP/PLN exchange rates increase for hedging instruments	5%	(767)	(377)
Higher aluminium price for hedging instruments	5%	5,749	6,097

For items affecting the equity

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

- Cash and cash equivalents, short-term bank deposits and short-term bank loans. The fair value of the said instruments is close to their carrying amounts due to their short-term maturity.
- Trade receivables, other receivables, trade payables and other 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, bank loans, and lease. 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 derivatives at fair value determined as at the balance-sheet date.

Financial assets	Under IFRS 9	31.12.2019	31.12.2018
Financial receivables	FAatAC	513,887	543,560
Hedging instruments*		2,706	606
Cash	FAatAC	103,592	100,681

Financial liabilities	Under IFRS 9	31.12.2019	31.12.2018
Financial liabilities	OFLatAC	261,676	311,245
Hedging instruments*		1,722	9,700
Financial lease and bank loans	OFLatAC	832,377	871,737

\*Hedging derivatives meeting the requirements of hedge accounting.

Abbreviations:

FAatAC – Financial assets measured at amortised cost

OFLatAC – Other financial liabilities measured at amortised cost

### 37.3. 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 3 years	Above 3 years
Bank loans	29	128,513	241,041	433,256	3,080
Lease liabilities	0	1,468	2,547	8,958	12,461
Other financial liabilities	0	220,016	41,344	316	0
Off-balance-sheet liabilities	0	0	0	16,558	0
Derivative financial instruments	0	902	820	0	0
<b>Total</b>	<b>29</b>	<b>350,899</b>	<b>285,752</b>	<b>459,088</b>	<b>15,541</b>

31.12.2018	Validity				
	On demand	Below 3 months	From 3 to 12 months	From 1 to 3 years	Above 3 years
Lease and bank loans	5,379	49,338	599,557	141,670	79,112
Other financial liabilities	22,679	286,477	968	441	689
Off-balance-sheet liabilities	0	0	410,897	120,000	61,584
Derivative financial instruments	0	7,511	1,612	0	0
<b>Total</b>	<b>28,058</b>	<b>343,326</b>	<b>1,013,034</b>	<b>262,111</b>	<b>141,385</b>

The Group 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, of 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.

### 37.4. Currency risk

The Group records revenue and expenses in four basic currencies (PLN, EUR, GBP and USD). The revenue and expenses in other currencies do not exert significant influence on the Group risk. The balance of revenue and expenses in foreign currencies is usually positive for EUR and negative for USD, and the EUR surplus exceeds the USD deficit. It results in an exposure to changes in EUR/USD and PLN/EUR relations.

The Group exposures to the currency risk as at the balance sheet date are 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	4,295	18,289	7,493	32,218
Cash in GBP	603	3,013	629	3,013
Cash in USD	1,718	6,524	1,624	6,106
Receivables in EUR	58,311	248,318	46,648	200,585
Receivables in GBP	6,375	31,855	5,691	27,256
Receivables in USD	3,571	13,560	4,686	17,619
Bank loans in EUR	(32,724)	(139,354)	(31,589)	(135,834)
Bank loans in GBP	0	0	(3)	(14)
Bank loans in USD	(1,485)	(5,641)	(1,592)	(5,987)
Liabilities in EUR	(20,297)	(86,434)	(30,981)	(133,217)
Liabilities in GBP	(243)	(1,214)	(173)	(829)
Liabilities in USD	(2,181)	(8,282)	(5,849)	(21,989)
<b>Total exposure to EUR risk</b>	<b>9,585</b>	<b>40,819</b>	<b>(8,429)</b>	<b>(36,248)</b>
<b>Total exposure to GBP risk</b>	<b>6,735</b>	<b>33,654</b>	<b>6,144</b>	<b>29,426</b>
<b>Total exposure to USD risk</b>	<b>1,623</b>	<b>6,161</b>	<b>(1,131)</b>	<b>(4,251)</b>

Information about the hedging of the Group exchange position is presented in note 37.4.1

### 37.5. Trade credit risk

#### *Trade credit*

In cooperation with the customers, the Group companies apply 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 Group 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 Group insures the trade credit in professional companies providing such types of services. As at the balance sheet date, over 60% of the Group trade receivables not covered by write-downs were insured.

There is no customer whose balance of receivables or liabilities would exceed 10% of the receivables or liabilities disclosed in the balance sheet.

#### *Cash*

The Group cooperates with the biggest Polish banks and the biggest banks in the countries where the Group operates (the latter are related by capital to the banks providing services to the Group in Poland). The banks are characterised with a high liquidity rating. To minimise the risk of the loss of liquidity, the Group uses the services of a few banks as well as monitors the financial standing of the banks on an ongoing basis.

### 37.6. Exceptional occurrences risk

#### 37.6.1 Property damage risk

The Group 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 Group production assets are insured.

#### 37.6.2 Profit loss risk

Exceptional occurrences may significantly limit the capacity of the Group to generate profit. Such a situation can occur in the case of excluding the whole or a part of any of the Group production plants from the production process.

### 37.6.3 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 Group production facilities as well as a result of defective operation of products manufactured by the Group. The shares of Grupa Kęty S.A. are quoted at the 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.

### 37.6.4 Geopolitical risk in the countries of the Group operation

The Group activities and the Group key assets are located mainly in Poland. Moreover, the Group runs its activities in other countries, including Ukraine. As at the balance sheet date, net assets recognised in the consolidated financial statements in relation to the operations of Alupol Ukraina LLC amounted to PLN 24,007,000 (2018: PLN 22,666,000). Also disclosed were assets related to the operations of Aluprof System Ukraina, which amounted to PLN (150,000) (2018: PLN 1,300,000).

The unstable political and economic situation in Ukraine results in the exposure of the said assets to the risk, which exceeds the usual economic risk. The Management Board has been analysing the situation of Ukrainian subsidiaries on a constant basis.

The Group cooperates with multiple partners from other countries as regards the purchase and sale of trade goods. Increasing geopolitical risk related to the unstable political situation in certain countries may have adverse impact on the Group by breaking the supply chain for raw materials or due to the loss of some customers.

## 38. Derivative financial instruments

Financial assets	31.12.2019	31.12.2018
Currency forward contracts hedging cash flows	56	272
Futures contracts hedging cash flows related to the purchase of aluminium	2,650	334
<b>Total</b>	<b>2,706</b>	<b>606</b>
<b>Financial liabilities</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Currency forward contracts hedging cash flows	1,374	386
Futures contracts hedging cash flows related to the purchase of aluminium	348	9,314
<b>Total</b>	<b>1,722</b>	<b>9,700</b>

Currency forward and futures contracts for the purchase of aluminium 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.

### 38.1. Forward and futures contracts

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

	31.12.2019	31.12.2018
Open currency forward contracts	(1,318)	(113)
Open futures contracts for the purchase of aluminium	2,302	(8,979)
Exercised futures contracts for the purchase of aluminium	(303)	(531)
<b>Total</b>	<b>681</b>	<b>(9,623)</b>

The aforementioned items will affect the Group result in 2020. The effectiveness of hedging transactions is monitored on an ongoing basis and in 2019 and 2018 there were no non-effective hedging transactions whose result or part of result should be recognised in the statement of profit or loss.

## 38.2. Cash flow hedge

As at 31 December 2019, the Group had the following hedging contracts that were subject to hedge accounting principles. The items below were recognised as a component of equity:

### 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	879	8,550	57,667	6,744.68
Q.2, 2020	1,266	6,850	46,083	6,727.45
Q.3, 2020	95	1,000	6,791	6,791.00
Q.4, 2020	62	650	4,429	6,813.85
<b>Total</b>	<b>2,302</b>	<b>17,050</b>	<b>114,970</b>	<b>6,743.11</b>

The Group 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, whereas they are settled on the third Wednesday of each month.

### Hedge accounting:

The risk at the Group results from the purchase of raw materials and products in reference to primary aluminium, the price of which depends on the quoting on the London Metal Exchange. In order to limit the risk, in 2019 and 2018 hedge fully related to the risk of changes in raw materials prices 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 Group companies enter into futures purchase contracts denominated in USD or EUR, at the amounts equivalent to the orders filed.

The principles of hedging the risk of prices are adjusted to the specifics of the respective operating segments.

Grupa KĘTY S.A. (EPS) enters into futures purchase contracts denominated in USD or 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, whereas it is the total value for the risk of price changes at LME and the risk resulting from the changes in the EUR/USD values.

The hedge level of Aluprof S.A. (ASS) results from the average monthly demand for the raw materials, calculated on the basis of the procurement plan, adjusted for the expected changes in the level of sales.

The effectiveness of the concluded transactions is measured by 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% at each of the companies.

### Currency:

In the reporting periods, in order to hedge the currency risk, the Group used only forward contracts for the purchase/sale of currencies.

As the Group currency position for EUR was usually long (which means the excess of revenue denominated in this currency over expenses), whereas for USD it was short (which means the excess of expenses denominated in this currency over revenue), the hedging transactions were aimed at the purchase of USD for PLN. The risk of a long position in EUR is compensated with natural hedging, e.g. purchase of aluminium for EUR (instead of USD).

The amounts and settlement dates for the transactions are not standardised and they are subject to individual agreements with a bank. However, the Group adopted a principle that the currency transactions aimed at hedging cash flows in a given month are concluded with the date of delivery on the last working day of a given month and closed (through the conclusion of opposite transactions) in a given month or realised through a delivery.

### Hedge accounting:

The currency risk at the Group 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.

The principles of currency risk hedging are adjusted to the specifics of the companies.

In 2019, Grupa KĘTY S.A. did not enter into hedging transactions based solely on foreign currencies, due to the change in the settlement currency for raw materials purchases.

The companies of the FPS enter into transactions hedging the FX risk related to the purchase of property, plant and equipment in foreign currencies.

Aluprof hedges its FX risk designating the net position as a difference between the revenue and expenditure in the respective currency. The company applies hedging instruments if the level of the monthly FX position of a given currency, with the stable +/- trend in the last 6 months, exceeds GBP 500,000 or USD 2,000,000, or EUR 1,500,000, whereas contracts of the value of up to USD 1.5 million are consolidated for the purpose of designating the net position,

while contracts of the value exceeding USD 1.5 million are hedged individually based on the same principles (the net position is designated as a difference between the revenue and expenditure in the respective currency related to the performance of the respective contract).

#### Effectiveness of hedging transactions:

The method of determining the effectiveness of foreign currency transactions is uniform at the Group level.

As regards USD/PLN, GBP/PLN, EUR/PLN transactions, the transaction effectiveness is the ratio of the amount of cash flows resulting from commercial transactions, adjusted for changes related to their current value as a result of the hedged risk, to the cash flows resulting from the realisation of the hedging transaction, adjusted for the changes related to their current value as a result of the hedged risk.

The main factor of non-effective hedge are the differences in the actual payment dates in the hedged (commercial) transactions and the dates of the hedging transactions, concluded on a standard basis on the last business day of a month.

The table below presents a statement of transactions concluded by the Group.

#### Purchase of USD for PLN

Delivery date	Fair value PLN '000	Value in USD	Value in PLN	Average exchange rate
Q.1, 2020	(559)	5,625	21,924	3.8976
Q.2, 2020	(371)	5,150	19,331	3.7536
<b>Total</b>	<b>(930)</b>	<b>10,775</b>	<b>41,255</b>	<b>3.8845</b>

#### Purchase of GBP for PLN

Delivery date	Fair value PLN '000	Value in GBP	Value in PLN	Average exchange rate
Q.1, 2020	(376)	1,833	8,932	4.8729
Q.2, 2020	(12)	1,275	6,414	5.0306
<b>Total</b>	<b>(388)</b>	<b>3,108</b>	<b>15,346</b>	<b>4.9376</b>

### 39. Revenue, costs and losses by categories of financial instruments

	Hedging instruments	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total financial instruments
<b>2019</b>				
Write-downs	0	(3,122)	0	(3,122)
Interest income (costs)	0	1,127	(18,347)	(17,220)
Profit (loss) from currency translation differences	0	14,056	(14,859)	(803)
Profit (loss) from hedging financial instruments	(8,597)	0	0	(8,597)
<b>Total profit (loss)</b>	<b>(8,597)</b>	<b>12,061</b>	<b>(33,206)</b>	<b>(29,742)</b>

	Hedging instruments	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total financial instruments
<b>2018</b>				
Write-downs	0	(2,318)	0	(2,318)
Interest income (costs)	0	767	(15,077)	(14,310)
Profit (loss) from currency translation differences	0	1,940	(5,522)	(3,582)
Profit (loss) from hedging financial instruments	(7,110)	0	0	(7,110)
<b>Total profit (loss)</b>	<b>(7,110)</b>	<b>389</b>	<b>(20,599)</b>	<b>(27,320)</b>

### 39.1. 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)	1,346	1,343
Consumption of materials (- cost increase – result on futures contracts)	(13,911)	(8,453)
Consumption of materials (- cost increase – result on forward contracts)	(166)	0
<b>Impact on gross result</b>	<b>(12,731)</b>	<b>(7,110)</b>

  

Statement of comprehensive income	2019	2018
Impact of valuation	10,205	(15,402)
Reclassification to profit or loss	228	(1,395)
Deferred tax	(1,935)	2,952
<b>Impact on other comprehensive income</b>	<b>8,498</b>	<b>(13,845)</b>

## 40. Capital management

The main aim of the Group capital management process is to retain good credit rating and safe equity ratios which would support the Group operating activities and increase shareholder value.

The Group manages the capital structure and, as a result of changes in economic conditions, amends it. To retain or adjust the capital structure, the Group may change the payment of dividend to shareholders, return the capital to shareholders or issue new shares. In the reporting periods, no changes were introduced to objectives, principles and processes in this area.

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 business 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 Group 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 Group net debt includes interest-bearing loans and borrowings, less cash and cash equivalents.

The policy of the company accepts the leverage ratio at the maximum level of 50%, and net debt to EBITDA ratio at the maximum level of 2.5.

	31.12.2019	31.12.2018
EBITDA (operating profit plus depreciation and amortisation)	523,131	463,477
Net profit	295,435	268,463
Interest-bearing borrowings and lease liabilities	832,377	875,056
Cash and cash equivalents	(103,592)	(107,867)
Net debt	728,785	767,189
Equity	1,478,505	1,476,467
Leverage ratio	49.3%	52%
Net debt to EBITDA ratio	1.39	1.66
ROE	20%	18%



## 41. Fair value measurement methods (fair value hierarchy)

The detailed principles for determining the fair value of energy-related assets as at the revaluation date are described in note 17. The investment properties method of measurement at fair value is described in note 19. Detailed information about the measurement of derivative financial instruments is available in note 38.

As compared to the previous financial year, the Group 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 the statement of profit or loss.

Fair value hierarchy	Fair value hierarchy level	31.12.2019	31.12.2018
<b>Assets</b>			
Investment properties	3	3,315	3,493
Energy-related assets	3	5,411	5,545
Hedging derivatives	2	2,706	606
<b>Total</b>		<b>11,432</b>	<b>9,644</b>
<b>Liabilities</b>			
Hedging derivatives	2	1,722	9,700
<b>Total</b>		<b>1,722</b>	<b>9,700</b>

## 42. Statutory auditor's remuneration

	2019	2018
Remuneration for the audit of annual separate and consolidated financial statements	116	108
Remuneration for the audit of financial statements of subsidiaries	209	213
Remuneration for semi-annual reviews	20	20
Remuneration for open training	8	13
<b>Total</b>	<b>353</b>	<b>354</b>

## 43. 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 Group, 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 Group staff.

As at the date of these statements publication, the Grupa Kęty S.A. Capital Group 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 Group 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

Tomasz Grela  
Member of the Management Board

Piotr Wysocki  
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.*