

Tire Company "Dębica" Spółka Akcyjna

Financial Statement for the period  
from 1 January 2020  
to 30 September 2020

# INTRODUCTION TO THE FINANCIAL STATEMENT

## 1. (entity data)

Name: Tire Company "Dębica" Spółka Akcyjna  
Head Office: 1 Maja 1, 39-200 Dębica

The codes of the Polish Classification of Activities defining the core activity of the entity:

2211Z

An entry in a relevant court register:

KRS 0000045477

## 2. Duration of the entity activity, if limited

Not applicable.

## 3. Period covered by the financial statement

The Financial Statement was drawn up for the period from 1 January 2020 to 30 September 2020.

## 4. Indication whether the Financial Statement contains aggregate data

The Financial Statement does not contain aggregate data.

## 5. Going concern assumption

The Financial Statement drawn up following going concern assumption.

No circumstances indicating that business continuity is at risk have been identified.

## 6. Companies' Merger Information

Not applicable.

## 7. Accounting Policy

Discussion of the adopted accounting principles (policy), to the extent the entity is given freedom of choice by law, including:

The financial statement has been drawn up in accordance with the requirements set forth in the Accounting Act of 29 September 1994 for going concern entities. The accounting principles adopted by the Company were applied on a continuous basis and they are consistent with the accounting principles applied in the previous financial year.

The entity draws up P&L account in a functional format.

In the financial statements, the Entity shows economic events in accordance with their economic content. The Entity's financial result for a given accounting year includes all income earned and attributable to it, as well as costs related to these revenues, in accordance with the accrual basis, commensurability of revenues and costs, and prudent valuation.

Method of pricing assets and liabilities (including depreciation):

### 1. Tangible fixed assets, intangible assets

Intangible assets are priced at acquisition or manufacturing cost less amortization (depreciation).

The following depreciation periods have been adopted:

- computer software: 2-10 years
- remaining periods: 5 years

Fixed assets are tangible fixed assets and equivalents with foreseeable period of economic life longer than one year, complete and suitable for use and designated to satisfy Entity's needs.

Fixed assets shown in the balance sheet also include assets accepted for use under a contract that meets at least one of the criteria set forth in Article 3, par. 4 of the Act (financial lease).

Fixed assets are priced according to the purchase price, manufacturing costs, expansion or modernization. Fixed assets are written off using the straight line depreciation method in accordance with the term of their useful economic life. The following depreciation periods have been adopted:

- buildings and structures 25 – 40 years
- technical equipment and machinery 5 - 20 years
- means of transport 5 - 15 years

Fixed assets accepted for use on the basis of a contract that meet at least one of the criteria specified in Art. 3, par. 4 of the Act are depreciated taking into account the effective term of the contract. For fixed assets with a value not exceeding the equivalent of US \$ 5000 expressed in PLN, the Company applies one-off depreciation, whereas for tax purposes it is the amount of PLN 10 000. The correctness of the adopted periods and depreciation rates is subject to periodic verification.

The purchase price and manufacturing cost of fixed assets under construction, fixed assets and intangible assets also include the cost of servicing liabilities contracted for their financing during the construction, assembly and adaptation period.

The purchase price or manufacturing cost of a fixed asset are increased by the costs of its improvement.

In the case of changes in manufacturing process, designation for liquidation, decommissioning or other reasons causing a permanent impairment of a fixed asset or intangible asset, an impairment loss is posted into other operating costs. Revaluation allowances for fixed assets, whose pricing has been updated on the basis of separate provisions, reduce the differences due to the revaluation measured on the revaluation reserve, any possible excess over the revaluation write-offs is included in other operating costs.

If the reason for which an impairment loss has been written down against fixed assets and intangible assets, the equivalent or all of the previously made revaluation write-off increases the value of the asset and is recognized as other operating income, respectively.

## 2. Fixed assets under construction

Fixed assets under construction are valued at the purchase price or production cost, covering the total for a given fixed asset under construction costs incurred from the date of commencement of construction to the balance sheet date or acceptance for use.

The value of fixed assets under construction is increased by: the non-deductible value added tax, excise duty and the cost of servicing the liabilities incurred to finance them and the related FX gains/losses, less income from FX gains.

## 3. Lease

A contract in which a significant part of the risk and benefits due to ownership remains with the lessor (the financing party) is recognized as operating lease, a hire or rent agreement. Lease payments made under operating lease, hire or rent after deduction of any special promotional offers obtained from the lessor (financing party), are posted into the costs using the straight-line method over the effective term of the lease, rent or hire.

Third party fixed assets or intangible assets taken for use under lease contract are classified as fixed assets or intangible assets if they fulfil the conditions set forth in the Act.

Lease of tangible fixed assets, where the Company as a beneficial owner incurs substantially all risks and derives substantially all benefits associated with ownership rights, classified as financial lease. The financial lease is activated upon the commencement of the lease at the lower of the two amounts: the fair value of the asset covered by the lease and the current value of the minimum lease payments.

Each lease payment is allocated between the liability under financial lease (principal portion) and financial costs (interest portion). The division is carried out using the internal rate of return method, according to which the interest part of the lease payment is divided into individual periods in such a manner that the interest rate in relation to the balance of financial lease liabilities is constant in each period.

Tangible fixed assets used as part of financial lease are subject to depreciation over the shorter of two periods: the useful life of the asset or the duration of the lease.

#### 4. Long-term investments

Interests in other entities and long-term securities are valued at the purchase price, less write-offs due to permanent impairment.

#### 5.

##### Inventory

Inventories of tangible current assets are priced as follows: the inventory of raw materials and goods are carried at acquisition prices, intermediate products and works in progress are carried at the direct planned manufacturing cost in core manufacturing activity and at actual manufacturing cost in auxiliary production, proportionally to the work progress rate, finished goods are carried at average manufacturing costs including direct costs of a certain product and reasonable portion of costs related directly to the manufacturing of said product.

The costs of product manufacturing do not include costs that are a consequence of non-utilized production capacity. They affect the net financial income of the accounting period in which they were incurred. In the event of an unplanned production stoppage, the Company determines the degree of utilization of production capacity based on a comparison of the average quarterly output expressed in tonnage to the tonnage assumed in the annual plan for the quarter in which the unplanned production stoppage occurred. If the deviation of the actual and planned tonnage exceeds 15%, the indirect costs of production incurred in the quarter in which the unplanned interruption occurred are treated as the cost of manufacturing products up to the sum of these costs and the average quarterly indirect cost absorption coefficient. This co-efficient is in turn calculated as the quotient of indirect manufacturing costs assumed in the annual plan and tonnage planned in this period. The co-efficient is updated based on actual data.

Finished goods as at the date of manufacture are carried in the accounts

at planned costs. At the balancing date, the value of finished goods is adjusted to the actual manufacturing cost, taking into account deviations between the actual manufacturing costs and planned costs. The Company makes revaluation write-offs for inventories considered obsolete or hard to sell, after inventory analysis. All inventories whose net selling price fell below the purchase price or manufacturing cost, or which were considered obsolete or partly lost their original utility value, were identified and their balance sheet value was reduced to the level of net sales prices.

#### 6. Receivables and payables.

Receivables and liabilities (except for financial liabilities) are priced at the due amount following the prudent pricing principle and shown as net values (less revaluation write-offs). The receivable value is revaluated taking into consideration the likelihood of their payment by means of making a revaluation write-off.

Financial liabilities (with the exception of financial liabilities held for trading, derivative instruments of a liabilities nature and hedged items) are valued not later than at the end of the accounting period, according to the adjusted purchase price.

#### 7. Short-term investments

Available-for-sale financial assets, including bills of exchange with maturity above 3 months - are priced at fair value. If it is not possible to determine the fair value in a reliable manner, and these assets have a set maturity date, then the pricing is made at amortized cost using the effective interest rate, and if these assets do not have a fixed maturity date, the valuation is made at the purchase price.

Loans extended are priced at the amount due and payable, plus interest due for the given month.

The effects of periodic pricing of financial assets are posted respectively into financial income or expenses in the accounting period in which the revaluation took place.

#### 8. Cash assets

Cash assets include assets in the form of domestic currency, foreign exchange and foreign currencies. Cash assets also include accrued interest on financial assets and received bills of exchange with maturity up to 3 months.

If such financial assets are payable or due within 3 months of their receipt, issue, purchase or deposit, they are recognised as cash and cash equivalents for cash flow reporting purposes. The listed cash assets are presented in the balance sheet in the short-term investment line.

#### 9. Foreign currency transactions

Foreign exchange transactions are settled at the average exchange rate set for a certain currency by the National Bank of Poland in effect on the transaction date, unless a different exchange rate was set in a customs declaration. At the balance sheet date, the assets and liabilities expressed in foreign currencies are priced at the average exchange rate set for a given currency by the National Bank of Poland at such date.

Foreign exchange gains and losses concerning assets and liabilities expressed in foreign currencies, at the pricing date and at the payment of receivables and liabilities in foreign currencies, are posted into financial income or costs accordingly, and in justified cases into fixed assets under construction or intangible assets.

#### 10. Deferred income tax assets and provision

Due to transient differences regarding the moment of recognition of income or of costs incurred, the Company sets up provisions and determines deferred income tax assets pursuant to the Accounting Act and tax regulations.

In the balance sheet, the Company records a deferred income tax provision equal to the income tax amount payable in the future in relation to the occurrence of positive transient differences that will enhance income tax taxable base in the future.

The Company also records deferred income tax assets determined at the level of the income tax to be deducted in the future in relation to negative transient differences that will reduce in the future income tax taxable base and in relation to deductible tax loss, determined following prudence principle.

The amount of provision and deferred income tax assets is determined taking into consideration income tax rates prevailing in the year of tax obligation occurrence.

The difference between the provisions and assets due to a deferred tax at the end and the beginning of the reporting period affects the financial result, where the provisions and assets due to deferred tax related to settling the equity capital are also recognized as equity capital.

The Company does not apply the provisions of the National Accounting Standard No. 2 "Income Tax".

#### 11. Provisions for liabilities, warranty repairs, retirement gratuities and pensions, non-utilized leaves

The provisions for liabilities are priced at justified, reliably estimated value. Provisions are recognised against:

- certain or highly probable future liabilities, the amount of which can be estimated in a reliable manner, in particular losses arising from business transactions, including those related to guarantees, warranties granted, loans and the outcome of pending litigation;
- future liabilities resulting from a restructuring, which, pursuant to separate regulations, the Entity is obliged to carry out, or if binding agreements have been entered into in this respect, and where the restructuring plans allow to reliably determine the value of such future liabilities.
- retirement gratuities that have to be paid under corporate collective labour agreement. The provision is set up in the amount determined by an actuary;
- probable liabilities falling into current accounting period, being in particular a result of an obligation of fulfilment, in relation to current operations, of future liabilities vis-a-vis unknown persons, with the total amount that could be estimated, despite that the date of obligation occurrence is still unknown, including warranty repairs and sureties for durable products sold.

The Company posts cost accruals in relation to the warranties issued for tires, using as a basis the value of the warranty claim calculated under the warranty terms and conditions in effect for certain product categories.

Accruals related to long-term employee benefits such as: jubilee awards, retirement gratuities/ pension and death benefits, are established based on actuarial computations made once at the year-end. The setting up of accruals for

non-utilized leaves is charged into the costs of the period the leaves refer to.

#### 12. Shareholders' equity

The initial capital amount is recorded as provided for in the Company Statutes in compliance with the commercial register.

Revaluation capital is a result of revaluation of fixed assets.

Supplementary capital is made up of the issue of shares above their nominal value and from statutory profit distribution as prescribed and above the prescribed Supplementary capital is increased by the revaluation capital that originated from disposed fixed assets covered by revaluation.

Reserve capital includes reserve capital to cover contingent losses and is made up of profit distribution with the option of dividend payment to the shareholders.

#### 13. Prepayments and deferred costs

Prepayments and deferred costs are recognised in respect of costs relating to future reporting periods.

Prepayments and deferred costs are recognised in proportion to the time passed and/or services provided. Timing and settlement method should be substantiated by the nature of costs under settlement following the prudence principle.

#### 14. Accruals

Accrued expenses are recorded in the amount of probable liabilities in the current accounting period, particularly resulting from:

- services delivered to the company by its contractors, where the amount of the liability can be determined in a reliable manner;
- obligation of delivery, in relation to current operations, of future benefits vis-a-vis unknown persons, with the total amount that could be estimated, despite that the date of obligation occurrence is still unknown, including warranty repairs and sureties for durable products sold.

The accruals mentioned above are presented in the balance sheet in the line: trade payables.

The write-offs of accruals related to warranty repairs are posted in proportion to the expected size of services, which include repairs made (on one's own or replacement of goods or product under extended warranty). Upon the expiry of the warranty period, the non-written-off accruals are deducted from the cost of sales of accounting period in which no warranty repair claims did not occur.

Method used to determine net financial income:

##### 1. Sales revenues

Sales revenues in value terms are recognized based on figures in the invoices issued during the year less goods and service tax. Sales are recognized when significant risks and benefits related to products, goods and materials have been transferred or when the service has been delivered.

Sales revenues presented in the profit and loss account are net of the discounts and other allowances granted to the customers, following the same principles as discounts.

## 2. Costs and measurement of net financial income

Operating costs include costs connected directly with the core activity of the Company. Expenses are recognized on accrual basis in order to safeguard the commensurability of income and related expenses.

Other operating revenues and expenses include income and costs that are not connected directly with the core activity of the Company.

Other operating income includes proceeds from the disposal of non-financial fixed assets, equivalent of dissolved provisions and revaluation asset allowances, expired or redeemed liabilities, donations received, subventions, additional payment, compensations and gift income.

Other operating expenses include loss on the disposal of non-financial fixed assets, revaluation of tangible fixed assets and inventories, costs of non-utilized production capacity not recognised as costs of manufacturing product, receivables revaluation write-offs, compensations, penalties paid, donations made, penalty interest on taxes, social insurance and customs duties.

Financial income includes interest income or interest due on extended credits and loans, income from securities trade and foreign exchange gains.

Financial costs include interest paid and accrued on credits and loans taken, losses related to securities trade, surplus of foreign exchange losses over foreign exchange gains, entries revaluating financial assets and short-term securities.

Extraordinary gains and losses reflect financial impact of events not connected with standard business activities of the Company including in particular unique, extraordinary events and discontinuation or suspension of operational activities.

The Company's net financial income in a given accounting year includes all generated revenues and costs related to said revenues, pursuant to the principles presented hereinabove, other operating income and expenses, result of prudence-based pricing of assets and liabilities, net financial and extraordinary item income and taxation.

Corporate income tax, shown in the Profit and Loss Account, is calculated in adherence to Polish law, taking into account income generated in the territory of Poland and abroad, tax non-deductible costs, non-taxable income.

Method of drawing up the Financial Statement:

The Financial Statement was drawn up pursuant to the Appendix No. 1 of the Accounting Act.

The entity draws up P&L account in a functional format. Cash Flow Statement was drawn up using an indirect method.

## 8. Additional details

Not applicable

### THE FINANCIAL STATEMENT SIGNED BY:

BOLANOWSKA ANNA on 13 November 2020

MAKSYMIOK IRENEUSZ on 16 November 2020


Szafran Leszek on 16 November 2020

Michał Mędrak on 16 November 2020


Mirosław Maziarka on 16 November 2020

Właściciel podpisu: **ANNA BOLANOWSKA**  
Data i godzina podpisu: **2020-11-13 13:50:50 CET**  
Status podpisu:  Ważny  
Rodzaj podpisu: **Podpis zaufany**

Właściciel podpisu: **IRENEUSZ MAKSYMIOK**  
Data i godzina podpisu: **2020-11-16 09:32:13 CET**  
Status podpisu:  Ważny  
Rodzaj podpisu: **Podpis zaufany**

Właściciel podpisu: **Leszek Szafran**  
Data i godzina podpisu: **2020-11-16 11:33:29 CET**  
Status podpisu:  Ważny  
Rodzaj podpisu: **Podpis zaufany**

Właściciel podpisu: **Mirosław Maziarka**  
Data i godzina podpisu: **2020-11-16 12:56:18 CET**  
Status podpisu:  Ważny  
Rodzaj podpisu: **Podpis kwalifikowany**

Właściciel podpisu: **Michał Mędrak**  
Data i godzina podpisu: **2020-11-16 11:53:21 CET**  
Status podpisu:  Ważny  
Rodzaj podpisu: **Podpis kwalifikowany**

## ESPI REPORTS

Data in PLN

Raport SA-Q 3 2020 TC Dębica SA

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