



MANAGEMENT REPORT ON THE OPERATIONS OF

RELPOL S.A. AND RELPOL CAPITAL GROUP

FOR THE YEAR 2017



Żary, April 2018

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I. Introduction

This document comprises both the Management Report on the Operations of Relpol S.A. and the Management Report on the Operations of Relpol Capital Group in 2017. The said reports have been drawn up as one document, pursuant to Article 83(7) of the Regulation of the Minister of Finance of 19 February 2009 on Current and Periodical Information Provided by Issuers of Securities and on Conditions for the Recognition of Information Required in Accordance with the Law of non-Member States as Equivalent, as well as pursuant to Article 55(2a) of the Accounting Act. This document is also referred to as the Report on the Operations of the Company and the Capital Group.

The terms “Relpol”, “company”, “parent company” or “issuer” used herein refer to Relpol S.A. The terms “capital group”, “Relpol group” or “group” pertain to the capital group.

This report reflects the property and financial condition of the both company and the capital group, due to the fact that the data of Relpol S.A. constitutes over 90% of the consolidated financial data. The data of three subsidiaries was consolidated, two of which carry out manufacturing operations, acting as subcontractors solely as commissioned by the parent company, and one of which is a distributor of the parent company’s products in Russia.

Apart from the shares in its subsidiaries, Relpol S.A. owns no separate facilities or branches which have legal personality and prepare their financial statements independently. However, the company does own a manufacturing department, “Zakład Polon”, which constitutes an integral part of the company; it is located outside the company’s registered office, in Zielona Góra.

Relpol S.A. holds no own stocks or shares.

II. Overview of the property and financial condition

1. Selected financial data

SELECTED FINANCIAL DATA	in PLN ‘000			
	Relpol S.A.		Relpol capital group	
	For the year 2017 from 01.01.2017 to 31.12.2017	For the year 2016 from 01.01.2016 to 31.12.2016	For the year 2017 from 01.01.2017 to 31.12.2017	For the year 2016 from 01.01.2016 to 31.12.2016
DATA FROM THE PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	115,533	106,089	123,429	114,430
Gross profit on sales	24,906	24,451	26,578	27,233
<i>Gross profit margin on sales</i>	<i>21.56%</i>	<i>23.05%</i>	<i>21.53%</i>	<i>23.80%</i>
Profit (loss) on operating activities	8,334	6,919	8,250	7,966
<i>Operating profit margin EBIT</i>	<i>7.21%</i>	<i>6.52%</i>	<i>6.68%</i>	<i>6.96%</i>
EBITDA	13,901	12,672	13,968	13,838
<i>EBIDTA margin</i>	<i>12.03%</i>	<i>11.94%</i>	<i>11.32%</i>	<i>12.09%</i>
Gross profit (loss)	7,720	7,657	7,584	8,107
Net profit (loss)	6,052	6,166	5,811	6,373
<i>Operating profit margin</i>	<i>5.24%</i>	<i>5.81%</i>	<i>4.71%</i>	<i>5.57%</i>

STATEMENT OF CASH FLOWS				
Net cash flow from operating activity	4,676	11,249	4,425	12,579
Net cash flow from investing activity	-3,284	-3,372	-3,803	-4,067
Net cash flow from financing activity	-4,693	-8,287	-4,745	-8,505
Total net cash flow	-3,301	-410	-4,123	7
STATEMENT OF FINANCIAL POSITION				
	As at 31.12.2017	As at 31.12.2016	As at 31.12.2017	As at 31.12.2016
Fixed assets, of which:	38,788	39,863	39,868	41,136
Tangible fixed assets	30,296	30,695	31,385	31,977
Current assets, of which:	53,593	50,141	57,342	54,577
Inventory	27,508	26,213	28,482	27,349
Trade accounts receivable	23,362	18,295	24,916	19,866
Total liabilities, of which:	92,381	90,004	97,210	95,713
Total equity	72,418	70,577	76,169	75,275
Long-term accounts payable	4,006	4,718	3,941	4,614
Short-term accounts payable	15,957	14,709	17,100	15,824
OTHER				
Number of shares in pcs.	9,609,193	9,609,193	9,609,193	9,609,193
Annualised profit (loss) per 1 ordinary share in PLN	0.63	0.64	0.60	0.66
Carrying value per 1 share in PLN	7.54	7.34	7.93	7.83

The principal events which influenced the capital group's operations in 2017 resulted both from the activities undertaken by the companies in order to implement the assumed plans and from the economic and political environment which remained beyond the companies' control.

The results attained by the company and the capital group in the years 2017 and 2016 were very good. Due to the high dynamics of 13% in the area of export, the revenues from sales generated by Relpol S.A. were the highest in the company's history for yet another consecutive year. The net profit was also high, though slightly lower than in 2016. A minor improvement on the domestic market was observed – the demand has been growing, although the investments in the energy and electrotechnical engineering sectors are still below expectations.

The situation on foreign markets is diverse. Currently, the largest European consumer is Germany. The sales on that market continue to grow each year. In turn, the company experienced a dynamic growth of sales in Asia and a slightly more modest increase in both Americas.

Also the consolidated revenues from sales were the highest in the history of the capital group's operations. Due to the increase in the costs of products sold, lower sales in Russia and the poorer financial performance of the subsidiaries, the net profit of the capital group was lower than in 2016.

Both the company and the capital group generated positive cash flow from operating activity and

negative cash flow from investing and financing activity, which resulted from the expenditure incurred on the purchase of tangible fixed assets, payment of the dividend and repayment of bank credits. The economic and financial indicators remain on a safe level, the range of products is being expanded and new customers are being acquired.

The Management Board of the parent company does not expect any risks in relation to the capital group's ability to discharge the liabilities it has incurred. All possible risks related to the operations of the company and the capital group are described herein.

2. Key financial analysis indicators

a) Profitability indicators

Indicator	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Gross return on sales	21.56%	23.05%	21.53%	23.80%
Return on sales	7.90%	7.38%	7.34%	7.80%
Net return	5.24%	5.81%	4.71%	5.57%
ROE	8.48%	8.78%	7.68%	8.50%
ROA	6.56%	6.70%	5.94%	6.53%

Indicator calculation method:

Gross return on sales = Gross result on sales / sales * 100%

Return on sales = Result on sales / sales * 100%

Net return = Net profit / sales * 100%

ROE = Net profit for 12 months / average value of equity * 100%

ROA = Net profit for 12 months / average value of assets * 100%

The levels of the profitability indicators are high, though slightly lower than in 2016, since a lower net profit was generated. The same applies to ROE and ROA.

b) Efficiency indicators

Indicator	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Assets turnover ratio	1.25	1.15	1.26	1.17
Inventory turnover ratio	105.3	106.2	103.7	104.9
Accounts receivable turnover ratio	72.9	71.2	74.5	72.5
Accounts payable turnover ratio	28.8	31.3	30.0	30.2

Indicator calculation method:

Assets turnover ratio = 12-month sales / average total assets

Inventory turnover ratio = Average inventory / cost of goods and products sold) * 365

Accounts receivable turnover ratio = Average trade accounts receivable / sales) * 365

Accounts payable turnover ratio = Average trade accounts payable / cost of products and goods sold) * 365

A long inventory turnover cycle reflects the nature of the production and the industry in which the capital group operates. The accounts receivable turnover ratio increased and the accounts payable turnover ratio decreased as compared to 2016.

c) Debt indicators

	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Debt ratio	21.61%	21.58%	21.64%	21.35%
Debt to equity ratio	27.57%	27.53%	27.62%	27.15%
Liability structure ratio	3.63	3.63	3.62	3.68
Equity to fixed assets ratio	1.97	1.89	2.01	1.94

Indicator calculation method:

Debt ratio = Total accounts payable / total liabilities (assets) * 100%

Debt to equity ratio = Total accounts payable / equity * 100

Liability structure ratio = equity / borrowed capital

Equity to fixed assets ratio = (equity + long-term accounts payable) / fixed assets

There were no major changes in the financing structure. The amount of equity and long-term capital used to finance the assets is large.

The debt of the capital group increased by PLN 0.6 million as compared to 31.12.2016, primarily due to the increase in trade accounts payable.

d) Liquidity indicators

	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Current ratio	3.36	3.41	3.35	3.45
Quick ratio	1.63	1.63	1.69	1.72
Working capital	119	122	119	124

Indicator calculation method:

Current ratio = Current assets / short-term accounts payable

Quick ratio = Current assets – inventory / short-term accounts payable

Working capital = Current assets – short-term accounts payable / sales) * 365

The liquidity indicators still remain at a high, safe level. The capital group has no problems with discharging its liabilities.

3. Overview of the current and expected condition of the company and the capital group

The financial condition of the capital group and the perspectives for its future operations are stable, although the performance of the subsidiaries in 2017 was poorer in comparison to 2016. From the point of view of the capital group's operations, the parent company, i.e. Relpol S.A., is

the most important company of the group. Its financial performance is very good, and the revenues from sales are at a record high.

The results of the other companies are slightly less impressive. In 2017, DP Relpol Altera generated the revenues from sales of PLN 2,963 thousand, which corresponded to a net loss of PLN 240 thousand.

Relpol Eltim is successfully facing a difficult situation on the Russian market. In 2017, the company generated the revenues from sales of PLN 9,448 thousand, thus earning a net profit of PLN 175 thousand. The company regularly pays a dividend.

The two remaining foreign companies, Relpol M in Belarus and Relpol Altera in the Ukraine, are of marginal importance for the capital group's operations. They generate minor revenues and low net profit.

Relpol Elektronik, which generated the revenues from sales of PLN 2,867 thousand in 2017, corresponding to a net loss of PLN 263 thousand, operates on the Polish market.

Taking into consideration the current market situation, the condition of the capital companies in 2018 should be stable. The operations of the companies will concentrate on the increase in revenues and the reduction of costs.

4. The market of relays and industrial automation

Electromagnetic relays have been manufactured for decades and they are still considered as promising products. Due to their technological capabilities and the areas of possible application, there is virtually no competition for them, although in some fields they can compete with solid state relays. These products are closely related to the development of the economy. The increase in investments drives the growth of the relay market and the possible applications of these products are numerous and diverse. Relays are an indispensable element of the industrial automation.

They no longer serve only simple functions and the expectations towards them continue to grow. Due to their unique characteristics, relays are commonly chosen as indispensable actuators. They have been used in many different systems, devices, machines and components of industrial automation, in building automation systems, air conditioning and ventilation stations, lighting control cabinets, main switchboards, the automotive industry, household appliances, photovoltaics and many other contexts. They are more and more frequently used in offices, houses and flats, where they provide a high level of automation without the need to install a huge switchboard.

According to the industry analysts, the international relay market is enormous. The estimates related to that market vary, due to the large number of different groups of relays. For example, the global market of protective relays is expected to increase to USD 5,836 billion by 2022.¹

The analysts also predict a further gradual growth of the industrial automation market. According to the report prepared by Transparency Market Research, the value of the global market of industrial automation devices will amount to USD 352 billion at the end of 2024. In

¹ <https://www.researchandmarkets.com/reports/4085923/protective-relay-market-forecasts-from-2017-to#>

2015, this market was valued at USD 183 billion. The average annual increase is expected to reach 6.6%.²

5. Description of external and internal factors material for the development of the capital group and description of the development prospects for at least the following quarter.

The financial performance of the capital group in the perspective of at least the following quarter will be mostly affected by the external factors, which are beyond the capital group's control, as well as the internal factors, which can be influenced by the group.

The external factors include:

- domestic and international economic growth rate,
- values and fluctuations of exchange rates,
- expenditure on domestic and foreign investments,
- prices on the raw material market (copper, silver, crude oil),
- costs of external financing,
- labour costs and situation on the labour market,
- development of renewable energy sources,
- increased demand for radiation protection systems,
- political situation in the Ukraine.

The internal factors include:

- adjustment of costs to the current economic situation on the market,
- investments in the increase of the production capacity,
- implementation of sales plans,
- increase in market share based on the currently offered products,
- improvement of profitability of the products,
- expansion and supplementation of the offered range of products by way of own development of electromagnetic relays,
- rationalisation of the commercial product offer,
- promotion and acquisition of counterparties for solar inverter relays,
- search for new locations of radiation protection systems,
- promotion and acquisition of customers for the new-generation system of digital protection and measurements CZIP-Pro.

a) macroeconomic environment

The macroeconomic environment has a profound impact on the capital group's financial results. Some of the elements of that environment, such as the growth rate and structure of GDP or raw material price on global stock exchanges influence the operating activities. Other elements, such as the cost of money on the banking market, influence the financing activities. The currency

² <http://www.transparencymarketresearch.com/industrial-automation-market.html>

exchange levels and fluctuations impact both the operating and financing activities.

The capital group sells its products to approximately 50 countries around the world. The economic situation in those countries is diverse and influences the performance of the capital group. The situation in Europe and Asia is of critical importance for the capital group’s activities. In the East, the political situation and its impact on the economy in Russia and the Ukraine is still significant. The recession in Russia and the conflict between Russia and the Ukraine have limited the trade with these countries.

It is difficult to ascertain definitively what the situation on the markets where the capital group carries out its business activity will look like in 2018. Taking into consideration various macroeconomic indicators and statistical data, it can be expected that the economic situation for the companies’ operations is going to be favourable.

The table below illustrates several macroeconomic indicators in Poland and in the EU.

Selected indicators	Poland	European Union 28 countries	Germany	United Kingdom
Increase in GDP 2017/2016 *	4.6%	2.4%	2.2%	1.7%
Annual average unemployment rate *	4.9%	7.6%	3.8%	4.4%
Annual average inflation rate *	1.6%	1.7%	1.7%	2.7%
Industrial production 2017/2016 *	7.7%	4.7%	7.2%	0.7%
PMI for industry in February 2018 **	53.7	58.6	60.6	55.0
PMI for industry in March 2018 **	53.7	56.6	58.2	55.1

* Source: Eurostat, retrieved on 28.03.2018 and 04.04.2018.

GDP <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>

Unemployment

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=1>

Inflation <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00118&plugin=1>

Industrial production <http://ec.europa.eu/eurostat/data/database>

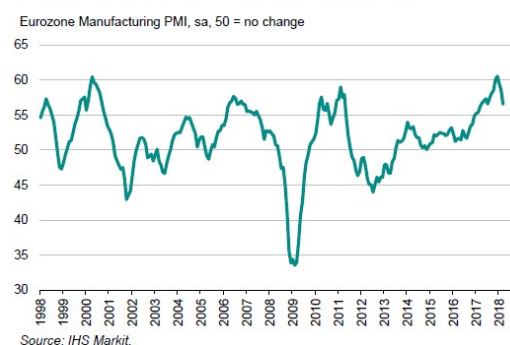
<http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=teii080&language=en>

percentage change as compared with the previous year (m/m-12).

** Source: Markit Economics, <http://www.markiteconomics.com/Public/Page.mvc/PressReleases> Value above 50.0 indicates an improvement in the conditions in the sector.

In many European countries, the PMI indicators in March were slightly lower as compared to January. In the eurozone, in March 2018 the PMI for the industry was 56.6 points and was lower in comparison with February 2018 when it amounted to 58.6 points. This index is driven up by Germany (58.2 points), Holland (61.5 points) and Austria (58.0 points)³.

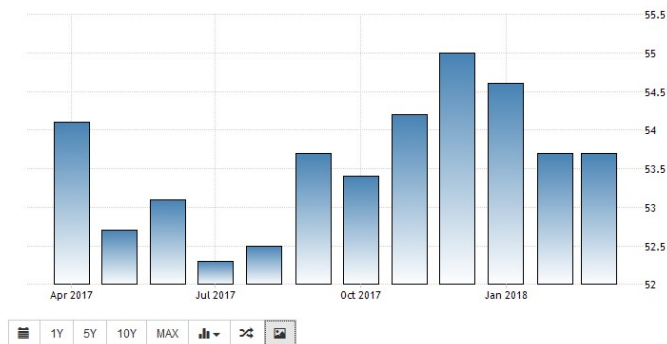
IHS Markit Eurozone Manufacturing PMI



³ <https://www.markiteconomics.com/Survey/Page.mvc/PressReleases>

PMI for Poland in February and March amounted to 53.7 points.⁴ It marks the lowest level in the last three months. The global PMI for the world economy in March 2018 was 53.4 points, as compared to 54.1 points one month earlier⁵. Each time the index exceeds the value of 50 points, it indicates that the conditions for the carrying out of business activity have improved.

Poland – PMI for industry



Polish entrepreneurs look to the future with optimism and positively evaluate the business situation in the perspective of the incoming 6 months. The Entrepreneurs' Optimism Index of Pracodawcy RP (Employers of Poland) in March 2018 increased to 126.8 points vs. 124.6 points in February.⁶ The entrepreneurs found the current economic situation to be a little less favourable. The Optimism Index with regards to the assessment of the current business situation amounted to 115.8 points in March, as compared to 115.4 points in February.

The increase in the indicators is a desirable phenomenon; however, it is not yet known how the situation is actually going to develop in the upcoming months. From the perspective of the first quarter of 2018, we are observing an increase in demand, employment and industrial production; however, in our opinion the condition of the domestic investments in the electrotechnical engineering and energy sectors is still unfavourable.

b) Currency exchange level.

Taking into consideration that nearly 70% of revenues from sales originates from foreign markets, the situation on the foreign exchange market, and in particular the EUR to PLN and USD to PLN exchange rates, is one of the key factors of the macroeconomic environment. A stable level of foreign currency exchange rates in relation to the Polish zloty reduces the fluctuations of the capital group's financial result.

In general, the increase in exchange rates has both a negative and a positive impact on the financial performance. The positive impact is the increase in the export revenues; the negative impact is the increase in the costs of purchasing raw materials used in production and of the imported commercial goods. In the case of the capital group, the balance is positive and there is a surplus of foreign currency proceeds from export sales. The imported raw materials and goods are purchased using the foreign currency funds from export sales.

The foreign exchange situation in recent years has been diverse. The European market has the largest share in sales; therefore, the level and fluctuations of euro exchange rates are important.

⁴ <http://pl.tradingeconomics.com/poland/manufacturing-pmi>

⁵ <https://www.markiteconomics.com/Survey/PressRelease.mvc/0db3741a42a04095825f736f65c9a6da>

⁶ <http://pracodawcyrp.pl/aktualnosci/kontynuacja-odbicia-najnowsze-wskazania-indeksu- optymizmu-przedsiębiorców-pracodawców-rp>

As illustrated in the chart below, the euro exchange rate has fluctuated widely in the recent years. Ultimately, the average euro exchange rate in 2017 was lower than in the corresponding period of 2016 by 2.99%, which is not a favourable situation, taking into consideration the current structure of sales and purchases.

The charts below illustrate average exchange rates of EUR, USD, RUB and UAH in 2016 and 2017.

The average EUR exchange rate in the period from 04.01.2016 to 29.12.2017.



Source: <http://kursy-walut-wykresy.mybank.pl/>

A downward trend was also observed in relation to the USD exchange rate. As shown in the chart below, it decreased throughout 2017 and reached its lowest value at the end of the year. Ultimately, the average US dollar exchange rate in 2017 was lower than in the corresponding period of 2016 by 5.6%.

Approximately 54% of the capital group's revenues is generated in EUR, 7% – in RUB (after consolidation adjustments) and 9% – in USD.

The average USD exchange rate in the period from 04.01.2016 to 29.12.2017.



Source: <http://kursy-walut-wykresy.mybank.pl/>

The currency chart of rouble is quite different than the charts of euro and US dollar. The exchange rate of the Russian currency showed an upward trend until the end of the 1st quarter of 2017. It subsequently began to decrease, but it remained higher than in 2016. The average rouble exchange rate in 2017 was higher than the average exchange rate in the corresponding period of 2016 by 7.7%. The revenues in rouble are generated by the Russian company. In the financial statements, they are converted into PLN. The higher the rouble exchange rate, the more favourable its conversion in the consolidated financial statements.

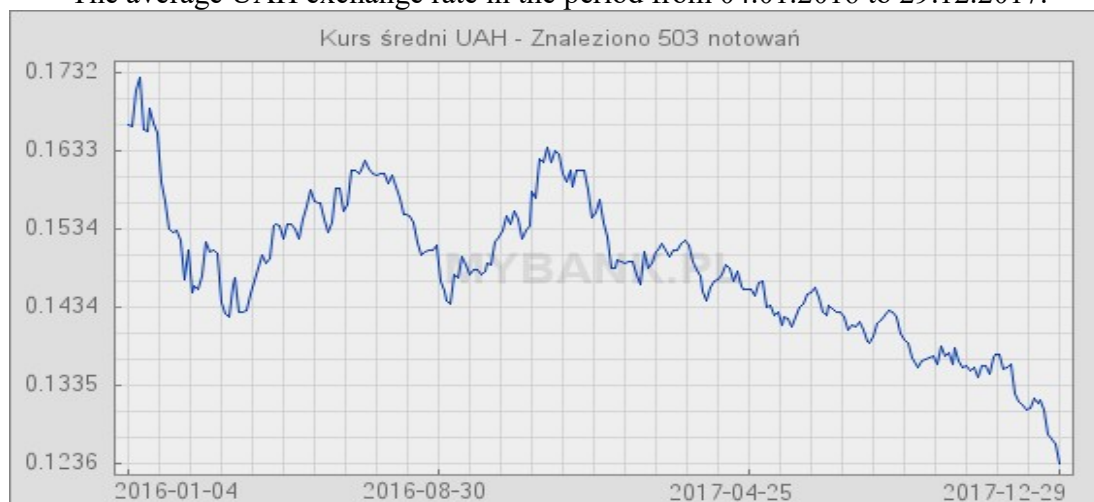
The average RUB exchange rate in the period from 04.01.2016 to 29.12.2017.



Source: <http://kursy-walut-wykresy.mybank.pl/>

The exchange rate of hryvnia showed a downward trend in 2017, similarly to euro and US dollar. The average hryvnia exchange rate in 2017 was PLN 0.1402, i.e. lower than the average exchange rate of that currency in 2016 by 9.1%. The revenues in hryvnia are generated by the Ukrainian company. In the financial statements, they are converted into PLN.

The average UAH exchange rate in the period from 04.01.2016 to 29.12.2017.

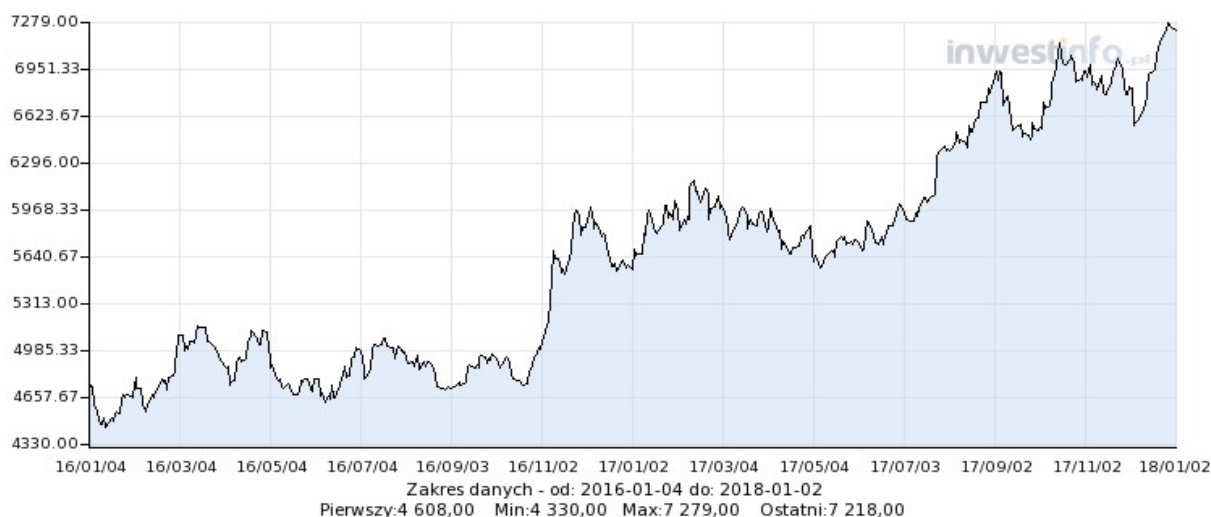


Source: <http://kursy-walut-wykresy.mybank.pl/>

c) Raw material price level.

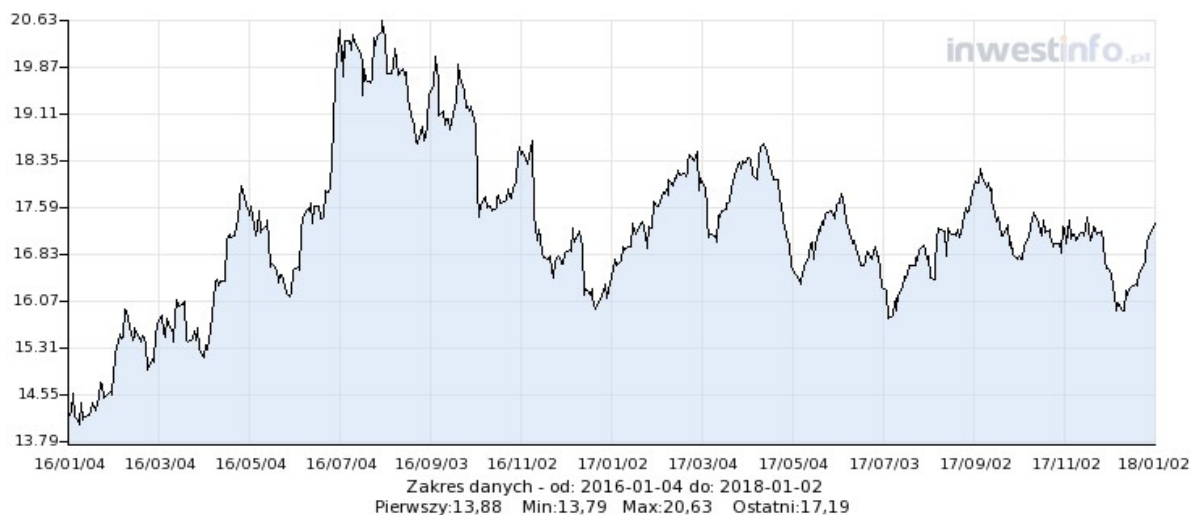
The basic raw materials used in the production of relays include copper, silver, gold, plastics and steel. They constitute a significant part of the costs of products, goods and materials sold. Since the beginning of 2017, the copper prices have been gradually increasing and reached their maximum value at the turn of 2018. The situation regarding the gold and silver prices was different. Both remained high, albeit slightly lower than in 2016. The fluctuations of basic raw material prices are presented in the charts below.

Copper prices – London (in USD/tonne) in the period from 04.01.2016 to 02.01.2018.



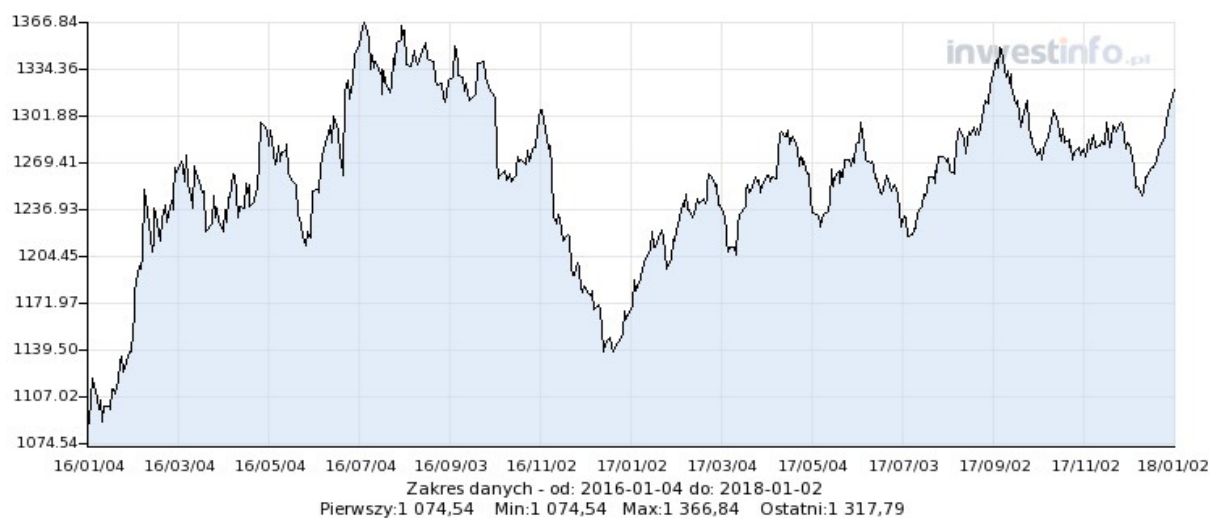
Source: <http://www.inwestinfo.pl/surowce/notowania-surowcow/wykres/Miedz.htm>

Silver prices – London (in USD/ounce) in the period from 04.01.2016 to 02.01.2018.



Source: <http://www.inwestinfo.pl/surowce/notowania-surowcow/wykres/Srebro.htm>

Gold prices – London (in USD/ounce) in the period from 04.01.2016 to 02.01.2018.



Source: <http://www.inwestinfo.pl/surowce/notowania-surowcow/wykres/Zloto.htm>

The increase in the raw material prices negatively influences the company's performance by lowering the sales profitability. It also causes an increase in the costs of production of metal materials and plastic parts.

d) Cost of external financing.

Another factor which may impact the performance of the capital group is the increase in the costs of funding on the market. Taking into consideration that a part of the capital group's assets was financed by interest capital, if WIBOR, EURIBOR and LIBOR increase, the financial costs

will also grow. The costs of external financing include credit interest, lease interest and other costs incurred in relation to the borrowing of funds in order to finance the operating and investing activity.

e) Labour costs.

The labour market also saw some significant changes. The labour costs in the locations where the capital group carries out its production activities are currently rising. In order to reduce those costs and ensure the employment flexibility of the production staff, Polish companies use employee outsourcing services.

6. Overview of the primary areas of operations

6.1 Production activities

In 2017, the production departments and the supporting technical departments of Relpol S.A., as well as qualified subcontractors, implemented the production plans based on the orders being placed by customers and on the production plans for the manufacture of typical products to be placed in inventory. Those activities were focused on the timely and quantitative implementation of plans and on the reduction of delivery times. At the same time, the capital group carried out works related to the implementation of changes in technological processes in order to increase the production capacity, works aimed at improving the quality of products and production processes, as well as works related to the organisational changes at the places of manufacture. The changes in the production sites were aimed at releasing the production capacity, required to carry out more technologically and organisationally advanced stages of the production process, as well as at reducing the costs.

The parent company systematically modernises and expands the machinery stock in order to eliminate or substantially limit labour-intensive, manual works. The outsourcing of the simplest part of the manufacturing process serves the same purpose. Outsourcing the least complicated works to subcontractors allows the capital group to more effectively benefit from the experience of the employees and from the specialist equipment. The activities aimed at achieving a higher level of production automation, and consequently at increasing the profitability of the operations, are being carried out continuously.

Also the activities related to the adaptation to the conditions of a dynamically changing labour market have been carried out in the form of the change in the organisation of workstations, implementation of new procedures and the provision of training for the employees in order to adjust their skills to the changing market needs and the development of technological processes.

The implemented activities include:

1. A galvanized nickel coating line was purchased and put into operation, replacing the worn-out zinc coating line. The line is equipped with several modern solutions, including on-line reporting, which facilitates the work time tracking and control over the process. The line is fitted with a number of safeguards, including the protection against the loss of rotations on the barrels, which influences the quality of the coatings. It can also dynamically adjust the entire process to the given part by implementing an appropriate programme without

- spending time on changeover, as well as supervise the dosing of brighteners, which ensures repeatability and the high quality of the parts.
2. A family of RLK power indicators, so-called signal lamps, was introduced, used to optically indicate the presence of voltage in electrical circuits or in the individual phases of the three-phase networks. It is also used to signal the statuses of individual circuits or receivers.
 3. In order to increase the performance and improve the quality of the manufactured products from the R15WT group, an automated control device for electrical and high voltage parameters was created. The device was placed in the manufacturing line of R15WT relays at Relpol Elektronik.
 4. In order to maintain and at the same time increase the production capacity, an automatic production line for 24V coils was purchased. It is a typical component for the RM84/5/7 relay group.
 5. The analytical tools continued to be used, allowing the observation of stock market quotations for raw materials and their potential influence on the current and future technical cost of production. It allows the capital group to react as quickly as possible to the changing prices of strategic raw materials at the operational level.
 6. The organisational and technological changes were introduced in the production departments in the form of:
 - works related to the visualisation of goals and cascading of objectives for 2017,
 - changes in technological processes, aimed at reducing their labour-intensive character and improving their quality,
 - reduction of operating costs of machinery through the analysis, availability and performance capability of production stations and the number of repairs of machines and devices in relation to the production volume,
 - continuation of the above-standard consumption of materials at the level of 2016,
 - maintenance of the productivity of the employees involved directly in the manufacture at the level of 2016,
 - adjustment of the number of production employees to the implementation of growing sales plans.

The aforementioned measures allowed the optimisation of inventory, reduction of the ongoing production value and an increase in the production capacity; consequently, the capital group was able to provide the customers with a better access to the products it offers.

6.2 Logistics activities

While the prices of raw materials essential from the perspective of production, such as copper, silver, plastics etc. continue to fluctuate, the analysis of the prices and the market trends is carried out on an ongoing basis for the key raw materials. Taking the foregoing into consideration, in 2017 the capital group undertook numerous activities aimed at reducing the purchasing costs, improving the cooperation with suppliers and optimising the deliveries. In 2017, measures were adopted in order to:

- qualify alternative suppliers of strategic raw materials,

- purchase raw materials from alternative suppliers, consequently lowering the costs of manufacture of the leading product groups,
- sign agreements with suppliers, taking into consideration the safety inventory levels of key materials,
- optimise the consumption of raw materials throughout the production process,
- use up the lingering materials, instead of scrapping or disposing of them,
- maintain smooth inventory turnover.

The aforementioned activities are being continuously carried out in relation to the strategic materials, the basic production materials and the auxiliary materials.

6.3 Commercial and marketing activities

Intensive work of the commercial and marketing departments resulted in a high level of sales. Our regular, long-term partners had the most significant influence in this context. Additionally, the capital group successfully acquired several new customers.

A high level of sales was achieved thanks to exports, which increased by 11% in comparison to 2016. The key relay groups, i.e. miniature relays and industrial relays, have been selling well. The sales of relays intended for the growing industries of photovoltaics and e-mobility has also been growing systematically. The increase in sales was observed mostly on the Western European markets, but we are also experiencing growth on the Eastern market. The Russian market is still very much influenced by the geopolitical situation.

In 2017, the sales on the domestic market were very similar to 2016. The sales of the main product group, i.e. the electromagnetic relays, have increased, whereas the sales of the product groups intended for the metal and energy industries, i.e. digital protection systems CZIP-PRO and radiometric portals which allow the detection of radioactive elements, have decreased. It is a result of both the real decreased implementation of budgets for the modernisation of energy facilities, and the decisions to halt the investment projects in the industry.

The promotion and marketing activities are being continued, in relation to both the new and already launched product groups in the area of monitoring relays, signal lamps and relays for railroad industry, and to the development in the field of digital protection systems intended for medium-voltage networks in the energy sector. We expect to see the results of those actions in 2018. We are still expanding our product offer both based on the enquiries from our customers regarding the design and manufacture of special versions, custom-made in order to fit the specific applications, as well as based on our own analyses and market forecasts.

We operate deposit warehouses for large domestic and foreign customers. As part of our sales organisation, focused both on the domestic market and the export, we not only carry out sales activities, but also participate in direct meetings with the users, designers and manufacturers of all types of devices that contain our relays. The purpose of those meetings is education, training and help regarding the issue of appropriate selection of products to match the assumed solutions in specific applications. Certain changes have been introduced in the catalogues, making them more informative and functional. The greatest challenge we met in 2017 is the dynamically increasing sales in the context of securing adequate resources and creating a sales organisation. We will continue to make improvements in the area of sales by developing both its organisation

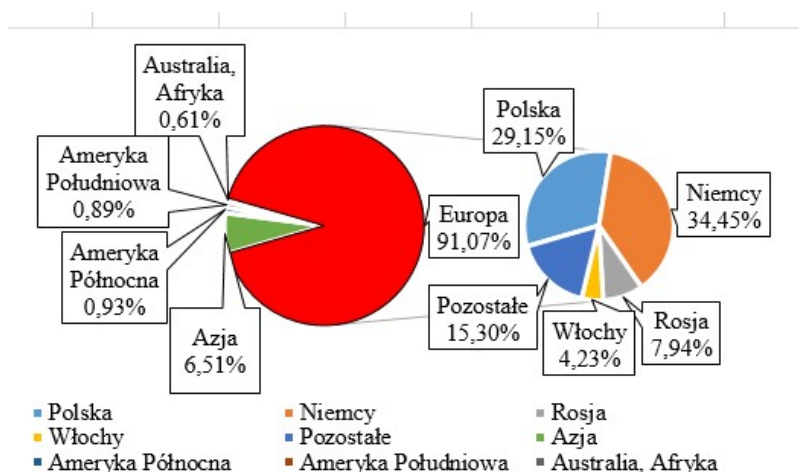
and the tools.

The marketing activities in 2017 were focused on the promotion of new releases and the support for the domestic and export sales operations by way of special offers, so-called “company days” organised at the distributors’ facilities and our participation in main trade events both abroad and in Poland (in Hannover and, domestically, in Automaticon in Warsaw and Energetab in Bielsko-Biała). Together with our partners, in 2017 we presented our product range also during trade fairs in Macedonia, Czech Republic and Belarus.

Our website is functioning flawlessly. For instance, it has been modified to display properly on mobile devices.

In the upcoming months, we are expecting to see improved conditions for the increase of sales – we have observed better results in the second half of 2017 and more optimistic forecasts for the subsequent months, including the latest data on the GDP, inflation, production, orders, as well as the optimism indicators and the PMI.

The geographical sales structure of the capital group in 2017



	Poland
	Germany
	Russia
	Italy
	Other
	Asia
	North America
	South America
	Australia, Africa

- The revenues reached a record high in the history of the capital group’s operations.
- The increase in sales was observed in all continents.

- 91% of sales pertains to the European markets.
- 29% of products is sold in Poland and 71% – on foreign markets.
- The sales on foreign markets increased by 11%.
- The sales on the German market grew by 14%, which makes it the largest commercial market with a share in the capital group's structure amounting to 34%.
- The sales on the Asian markets increased by 83%.
- In contrast, the sales in Russia decreased by 7%.

Structure of sales by product

in PLN '000

	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Products and services	99,046	92,872	97,698	91,112
Goods and materials	16,487	13,217	25,731	23,318
Total	115,533	106,089	123,429	114,430

- The sale of products constituted 79% of the total sales in 2017 and 80% in 2016.
- The consolidated revenues from sales of products increased by 7%.
- The consolidated revenues from sale of goods and materials increased by 10%.

6.4 Research and development

The most significant achievements in the area of research and development

As part of the ongoing projects, PLN 648 thousand were spent on research and development in 2017. The main items included:

Subject	Expenditure in PLN '000
RM12 relays – stage II	317
Time relays	157
Other	174
Total	648

The parent company has its own research and development facilities. A specialised group of engineers and constructors ensures that the product range is continuously expanded and new solutions are introduced. The directions of the research and development works are determined by a number of factors. The most important include: changes in the customers' needs and the development of economy; competitiveness on the commercial markets; changes in domestic and European legislation; individual orders of the customers; searching for new solutions; and striving to maintain the highest quality of the products.

In 2017, the research and development works comprised the introduction of new solutions for the

key products in the company's portfolio. Furthermore, the parent company carried out and completed works concerning new products, technical assumptions and documentation necessary to launch new products which will constitute a response to the market trends in the upcoming years, and to acquire new customers on the European market. It also carried out tasks related to the increase in the technological level of manufacturing processes, with the simultaneous reduction of the technical cost of production, along with projects and objectives included in the plan for 2017. The result of those activities is the optimisation of manufacturing processes of the currently offered products, as well as the launching of new products.

Overview of the current projects

1. A new family of time relays for timer control in industrial and home automation systems was developed. The new time relays are characterised by a modern design and the style of the prints is consistent with the industrial relays. They are fitted with a new-generation processor and a solution allowing the 16A current to be passed through the contacts in the 1P version.
2. The works aimed at starting the production of monitoring relays were commenced. In the interface relay group, a new family of RPI installation relays was developed.
3. In cooperation with our long-term commercial partner, a new product – RS80 – intended for the switching of 80A currents was developed based on the RS50 relay which has been manufactured for several years. The production process of that product was quickly prepared and launched, which is crucial from the perspective of the increasing market demand.
4. Product modifications and improvements constitute an intrinsic part of the research and development works. They are crucial for the maintenance of the excellent recognition of the RELPOL brand as the supplier of reliable, high-quality solutions. In 2017, those works covered the R15WT, R4N, PI6W and RG25 relays. The parent company carried out laboratory works which confirmed the improvements of the products, as well as works related to the obtaining of approvals from third-party research institutes based on the demands of individual customers and of the country where the given product is sold.
5. Since a new edition of the international ICE 61810-1 standard, specifying the safety requirements applicable to electromagnetic relays, came into force in 2017, complementary tests were carried out in relation to all of our products with the European certification. Once the tests were completed, new certificates were issued, confirming that all of the requirements have been met.
6. A positive event for the company's perspectives, looked forward to by the market of the Eurasian Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation, was also the conclusion of works and the obtaining of certificates which confirm the compliance of the entire industrial relay series with the requirements specified in the Directive TP TC 001/2011 on the safety of the rolling stock on that market. It is a perfect opportunity to enter the market of modernisation and expansion of the rolling stock, particularly in Russia.

Commissioning the tool-shop department to carry out works is a regular practice during the research and development process. It ensures that the production departments are provided

with necessary materials and parts to manufacture special tools, as well as produces and recovers tools used to manufacture relays, thus enabling the maintenance of production continuity while designing and manufacturing injection moulds, punching dies, assembly and control instruments to be used with new products, as recommended by the development department. Its potential can perfectly complement the range of services provided outside the company.

The tasks performed by the tool-shop department in 2017 primarily addressed the needs of the production departments, in relation to the production increase and introduction of new products. In 2017, planned recoveries and repairs were performed, among other activities. The production departments were provided with materials and parts necessary for the manufacture of special tools and the technologies which extend the lifespan of selected elements and tools of the technological processes were applied.

6.5 Other operating activities

The other operating activities in 2017 caused the decrease in the capital group's result by PLN 811 thousand, primarily due to the various write-offs and provisions created in other operating expenses.

In 2016, the result of other operating activities was also negative and amounted to PLN 965 thousand. This was primarily caused by the creation of provisions, scrapping of inventory and other minor items of operating expenses.

6.6 Financing activities

The financing activities in 2017 decreased the capital group's result by PLN 666 thousand, which was primarily caused by the excess of foreign exchange losses over foreign exchange gains.

In 2016, the result of the financing activities was positive and amounted to PLN 141 thousand, which was primarily influenced by the excess of foreign exchange gains over foreign exchange losses.

6.7 Net result

In 2017, the capital group generated a net profit of PLN 5,811 thousand, which constituted a decrease of 8.8% in comparison to PLN 6,373 thousand of net profit in 2016. The net profit for the shareholders of the parent company amounted to PLN 5,741 thousand and was lower than in 2016 by 7.0%.

The lower profit was caused by poor domestic sales dynamics, a decrease in sales in Russia, higher manufacturing costs of the products sold and poorer results of the subsidiaries.

	Relpol S.A.		Capital group	
	2017	2016	2017	2016
Net financial result	6,052	6,166	5,811	6,373
Net result attributable to non-controlling interest	---	---	70	198
Net result attributable to parent company's shareholders	6,052	6,166	5,741	6,175

in PLN '000

7. Description of the basic risk factors and threats

The operations of the capital group are exposed to various risks and threats. Those risks can influence the financial performance of the company and the capital group in a more or less significant way.

The risks and threats which, in the opinion of the parent company's Management Board, can be potentially of the most critical importance, are presented below.

7.1 Financial risks

7.1.1 Interest rate risk.

The interest rate risk results from the financing of the capital group's operations with borrowed capital, based on variable interest rates.

Due to the fact that the borrowed interest capital, as at the balance sheet date, constitutes approximately 8.1% of the liabilities, with only minor potential interest rate fluctuations, the group does not use any safeguard tools in this respect and is of the opinion that this risk is not significant.

In that respect, the group identified two primary risk areas: the possibility of failing to fulfil its contractual obligations and the insufficient credit limits to carry out business activity.

The opportunities for funding the group's operations with borrowed capital have increased. The parent company has concluded the working capital facility and factoring agreements with Raiffeisen Bank Polska, with the original limit of PLN 5 million (in March 2017 the limit was reduced to PLN 2.5 million and the factoring service was discontinued). Furthermore, in order to disperse the financial risk and prevent the current liquidity from being dependent on one entity, in March 2017 a working capital facility agreement was concluded with BGŻ BNP PARIBAS Polska S.A., with the limit of PLN 2.5 million.

In addition, the parent entity also concluded investment loan agreements: with Raiffeisen Bank, with the limit of PLN 3 million, of which PLN 0.85 million remained outstanding as at the balance sheet date, as well as with mBank, with the limit of PLN 6.8 million, of which PLN 0.3 million remained outstanding as at the balance sheet date. The principal instalments are being paid regularly. The subsidiaries have not taken out any bank loans. In the Management Board's opinion, the interest rate risk is not significant.

The table below illustrates the sensitivity of the net financial result to reasonably possible fluctuations of interest rates, with the assumption that all other factors remain unchanged (in relation to the accounts payable with a variable interest rate).

For Relpol S.A. and the capital group as at 31.12.2017 in PLN '000

Item in the statement of financial position as at 31.12.2017	Value	Impact on the net result	
		decrease by 1 percentage point	increase by 1 percentage point
Bank deposits	0	0	0
Bank credits	2,798	28	-28
Loans granted	0	0	0
Accounts payable arising from leases	718	7	-7
Accounts payable arising from factoring	0	0	0
Total assets and liabilities	3,516	35	-35

For Relpol S.A. and the capital group as at 31.12.2016 in PLN '000

Item in the statement of financial position as at 31.12.2016	Value	Impact on the net result	
		decrease by 1 percentage point	increase by 1 percentage point
Bank deposits	900	0	0
Bank credits	-3,204	32	-32
Loans granted	0	0	0
Accounts payable arising from leases	-1,043	11	-11
Accounts payable arising from factoring	0	0	0
Total assets and liabilities	-3,347	43	-43

7.1.2 Credit risk.

The credit risk results from the fact that virtually all sale transactions are conducted with a deferred payment date. Consequently, the share of trade accounts receivable in total assets amounts to 25.6%.

This risk is mitigated by the cooperation with trustworthy and long-term trade partners. Furthermore, the accounts receivable insurance and the data from credit information agencies are used to a large extent. In the case of unreliable customers, the deliveries are halted or prepayments are required. According to the Management Board of the parent company, this risk is of minor importance.

The credit risk related to cash and bank deposits is monitored on an ongoing basis by way of continuous verification of the financial condition of financial institutions and by way of maintenance of an appropriately low level of concentration in individual financial institutions.

7.1.3 Liquidity risk.

The capital group is exposed to the liquidity risk, i.e. the risk of losing the ability to discharge liabilities as they fall due.

The group monitors the risk of funds shortage using a periodic liquidity planning tool. This tool takes into account the maturity dates, both for the investments and the financial assets (e.g. receivables accounts, other financial assets), as well as the predicted cash flows from operating activities.

The group's goal is to maintain a balance between continuity and flexibility of financing by using diverse sources of funds, such as overdrafts, bank loans, factoring or finance lease agreements.

According to the Management Board of the parent company, this risk does exist; however, taking into account the balance of cash and cash equivalents as at the balance sheet date (PLN 1,533 thousand) and the external debt, it should be considered minor. As at the balance sheet date, the accounts payable of the capital group arising from leases and credits amounted to PLN 3,516 thousand in total.

7.1.4 Foreign exchange risk.

The foreign exchange risk results from the fact that the capital group settles sale and purchase transactions in foreign currencies. The base foreign currency used during the transactions is EUR. Additionally, in the case of sales, a minor part of export is carried out in USD and GBP.

Nearly 70% of the group's revenues are generated in foreign currencies. At the same time, the group purchases the majority of basic materials and production services abroad, using the currencies originating from export sales. It is estimated that there is an excess of foreign currency inflows over the foreign currency outflows in the average amount of EUR 6 million annually. According to the hedging policy, the issuer can secure between 70% and 90% of the planned flows. In 2017 and 2016, the group concluded no hedging transactions.

The tables below illustrate the sensitivity of the net financial result to the possible fluctuations of the EUR, USD, GBP, RUB and UAH exchange rates as at 31.12.2017 and 31.12.2016, assuming that all other factors remain unchanged (in relation to the accounts receivable and loans in foreign currencies).

Data for the capital group as at 31.12.2017

in PLN '000

Item in the financial statements Relpol CG as at 31.12.2017	Currency risk for EUR		Currency risk for USD		Currency risk for GBP		Currency risk for RUB		Currency risk for UAH		Total currency risk	
	impact on the result		impact on the result		impact on the result		impact on the result		impact on the result		impact on the result	
	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%
Inventory	0	0	0	0	0	0	144	-144	1	-1	145	-145
Financial assets	0	0	10	-10	0	0	0	0	0	0	10	-10
Cash and cash equivalents	30	-30	8	-8	0	0	76	-76	8	-8	122	-122
Trade accounts receivable and other accounts receivable	1,624	-1,624	41	-41	0	0	183	-183	48	-48	1,896	-1,896
Credits and loans	0	0	-18	18	0	0	0	0	0	0	-18	18
Trade accounts payable and other accounts payable	-434	434	-76	76	0	0	-114	114	-18	18	-642	642
Total increase / (decrease)	1,220	-1,220	-35	35	0	0	289	-289	39	-39	1,513	-1,513

Data for the capital group as at 31.12.2016

in PLN '000

Item in the financial statements Relpol CG as at 31.12.2016	Currency risk for EUR		Currency risk for USD		Currency risk for GBP		Currency risk for RUB		Currency risk for UAH		Total currency risk	
	impact on the result		impact on the result		impact on the result		impact on the result		impact on the result		impact on the result	
	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%
Inventory	0	0	0	0	0	0	183	-183	1	-1	184	-184
Financial assets	0	0	27	-27	0	0	0	0	0	0	27	-27
Cash and cash equivalents	333	-333	30	-30	3	-3	92	-92	88	-88	546	-546
Trade accounts receivable and other accounts receivable	961	-961	123	-123	40	-40	205	-205	68	-68	1,397	-1,397
Trade accounts payable and other accounts payable	-299	299	-88	88	0	0	-158	158	-82	82	-627	627
Total increase / (decrease)	995	-995	92	-92	43	-43	322	-322	75	-75	1,527	-1,527

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Part I – commentary on the property and financial condition, and notes

Data for the capital group as at 31.12.2017 in PLN '000

Assets in foreign currency	31.12.2017 (current year)	Currency				
		EUR	USD	GBP	RUB	UAH
Long-term financial assets	<i>in foreign currency in '000</i>	0	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0	0
Long-term accounts receivable	<i>in foreign currency in '000</i>	0	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0	0
Inventory	<i>in foreign currency in '000</i>	0	0	0	23,915	114
	<i>in reporting currency</i>	0	0	0	1,444	14
Trade accounts receivable	<i>in foreign currency in '000</i>	3,856	116	0	28,157	3,630
	<i>in reporting currency</i>	16,084	404	0	1,701	449
Other accounts receivable	<i>in foreign currency in '000</i>	38	3	0	2,074	281
	<i>in reporting currency</i>	158	10	0	125	35
Short-term financial assets	<i>in foreign currency in '000</i>	0	28	0	0	0
	<i>in reporting currency</i>	0	97	0	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	71	24	0	12,653	682
	<i>in reporting currency</i>	297	83	0	764	84
Total assets	<i>in foreign currency in '000</i>	3,965	171	0	66,799	4,707
	<i>in reporting currency</i>	16,539	594	0	4,035	582

Data for the capital group as at 31.12.2017 in PLN '000

Liabilities in foreign currency	31.12.2017 (current year)	Currency				
		EUR	USD	GBP	RUB	UAH
Credits and loans	<i>in foreign currency in '000</i>	0	51	0	0	0
	<i>in reporting currency</i>	0	177	0	0	0
Finance lease	<i>in foreign currency in '000</i>	109	0	0	0	0
	<i>in reporting currency</i>	456	0	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	932	166	0	17,108	112
	<i>in reporting currency</i>	3,887	578	0	1,033	14
Other accounts payable	<i>in foreign currency in '000</i>	0	0	0	1,765	1,315
	<i>in reporting currency</i>	0	0	0	107	163
Total liabilities	<i>in foreign currency in '000</i>	1,041	217	0	18,873	1,427
	<i>in reporting currency</i>	4,343	755	0	1,140	176
Assets – Liabilities	<i>in foreign currency in '000</i>	2,924	-46	0	47,926	3,280
	<i>in reporting currency</i>	12,196	-161	0	2,895	405

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Assets in foreign currency	31.12.2016 (current year)	Currency				
		EUR	USD	GBP	RUB	UAH
Long-term financial assets	<i>in foreign currency in '000</i>	0	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0	0
Long-term accounts receivable	<i>in foreign currency in '000</i>	0	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0	0
Inventory	<i>in foreign currency in '000</i>	0	0	0	26,866	80
	<i>in reporting currency</i>	0	0	0	1,827	12
Trade accounts receivable	<i>in foreign currency in '000</i>	2,171	179	78	26,237	4,156
	<i>in reporting currency</i>	9,605	748	401	1,784	641
Other accounts receivable	<i>in foreign currency in '000</i>	0	115	0	3,965	284
	<i>in reporting currency</i>	0	480	0	270	44
Short-term financial assets	<i>in foreign currency in '000</i>	0	64	0	0	0
	<i>in reporting currency</i>	0	267	0	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	752	72	5	13,595	5,738
	<i>in reporting currency</i>	3,328	301	26	924	885
Total assets	<i>in foreign currency in '000</i>	2,923	430	83	70,663	10,258
	<i>in reporting currency</i>	12,933	1,796	427	4,805	1,582

Data for the capital group as at 31.12.2016 in PLN '000

Liabilities in foreign currency	31.12.2016 (current year)	Currency				
		EUR	USD	GBP	RUB	UAH
Credits and loans	<i>in foreign currency in '000</i>	0	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0	0
Finance lease	<i>in foreign currency in '000</i>	163	0	0	0	0
	<i>in reporting currency</i>	720	0	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	675	210	0	22,554	0
	<i>in reporting currency</i>	2,987	878	0	1,534	0
Other accounts payable	<i>in foreign currency in '000</i>	0	0	0	788	5,309
	<i>in reporting currency</i>	0	0	0	54	819
Total liabilities	<i>in foreign currency in '000</i>	838	210	0	23,342	5,309
	<i>in reporting currency</i>	3,707	878	0	1,587	819
Assets – Liabilities	<i>in foreign currency in '000</i>	2,085	220	83	47,321	4,949
	<i>in reporting currency</i>	9,226	918	427	3,218	763

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Part I – Commentary on the property and financial condition, and notes

Data for Relpol S.A. as at 31.12.2017

in PLN '000

Item in the financial statements as at 31.12.2017	Currency risk for EUR		Currency risk for USD		Currency risk for GBP		Currency risk	
	Impact on the result		Impact on the result		Impact on the result		Impact on the result	
	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%
1. Financial assets	0	0	10	-10	0	0	10	-10
2. Cash and cash equivalents	30	-30	8	-8	0	0	38	-38
3. Trade accounts receivable and other accounts receivable	1,624	-1,624	41	-41	0	0	1,665	-1,665
4. Credits and loans	0	0	-18	18	0	0	-18	18
5. Finance lease	-46	46	0	0	0	0	-46	46
6. Trade accounts payable and other accounts payable	-389	389	-58	58	0	0	-447	447
Total increase / (decrease)	1,219	-1,219	-17	17	0	0	1,202	-1,202

Data for Relpol S.A. as at 31.12.2016

in PLN '000

Item in the financial statements as at 31.12.2016	Currency risk for EUR		Currency risk for USD		Currency risk for GBP		Currency risk	
	Impact on the result		Impact on the result		Impact on the result		Impact on the result	
	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%	exchange rate change by +10%	exchange rate change by -10%
1. Financial assets	0	0	27	-27	0	0	27	-27
2. Cash and cash equivalents	333	-333	30	-30	3	-3	366	-366
3. Trade accounts receivable and other accounts receivable	961	-961	75	-75	40	-40	1,076	-1,076
4. Trade accounts payable and other accounts payable	-299	299	-88	88	0	0	-387	387
Total increase / (decrease)	995	-995	44	-44	43	-43	1,082	-1,082

Report on the Operations of Relpol S.A. and Relpol Capital Group in 2017
Part I – Commentary on the property and financial condition, and notes

Data for Relpol S.A. as at 31.12.2017		in PLN '000			
Assets in foreign currency	31.12.2017 (current year)	EUR	Currency		
			USD	GBP	Other
Long-term financial assets	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Long-term accounts receivable	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Inventory	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Trade accounts receivable	<i>in foreign currency in '000</i>	3,856	116	0	0
	<i>in reporting currency</i>	16,084	404	0	0
Other accounts receivable	<i>in foreign currency in '000</i>	38	3	0	0
	<i>in reporting currency</i>	158	10	0	0
Short-term financial assets	<i>in foreign currency in '000</i>	0	28	0	0
	<i>in reporting currency</i>	0	97	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	71	24	0	0
	<i>in reporting currency</i>	297	83	0	0
Total assets	<i>in foreign currency in '000</i>	3,965	171	0	0
	<i>in reporting currency</i>	16,539	594	0	0

Data for Relpol S.A. as at 31.12.2017		in PLN '000			
Liabilities in foreign currency	31.12.2017 (current year)	EUR	Currency		
			USD	GBP	Other
Credits and loans	<i>in foreign currency in '000</i>	0	51	0	0
	<i>in reporting currency</i>	0	177	0	0
Finance lease	<i>in foreign currency in '000</i>	109	0	0	0
	<i>in reporting currency</i>	456	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	932	166	0	0
	<i>in reporting currency</i>	3,887	578	0	0
Other accounts payable	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Total liabilities	<i>in foreign currency in '000</i>	1,041	217	0	0
	<i>in reporting currency</i>	4,343	755	0	0
Assets – Liabilities	<i>in foreign currency in '000</i>	2,924	-46	0	0
	<i>in reporting currency</i>	12,196	-161	0	0

Data for Relpol S.A. as at 31.12.2016		in PLN '000			
Assets in foreign currency	31.12.2016 (current year)	EUR	Currency		
			USD	GBP	Other
Long-term financial assets	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Long-term accounts receivable	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Inventory	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Trade accounts receivable	<i>in foreign currency in '000</i>	2,171	179	78	0
	<i>in reporting currency</i>	9,605	748	401	0
Other accounts receivable	<i>in foreign currency in '000</i>	0	115	0	0
	<i>in reporting currency</i>	0	480	0	0
Short-term financial assets	<i>in foreign currency in '000</i>	0	64	0	0
	<i>in reporting currency</i>	0	267	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	752	72	5	0
	<i>in reporting currency</i>	3,328	301	26	0
Total assets	<i>in foreign currency in '000</i>	2,923	430	83	0
	<i>in reporting currency</i>	12,933	1,796	427	0

Data for Relpol S.A. as at 31.12.2016		in PLN '000			
Liabilities in foreign currency	31.12.2016 (current year)	EUR	Currency		
			USD	GBP	Other
Credits and loans	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Finance lease	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	675	210	0	0
	<i>in reporting currency</i>	2,987	878	0	0
Other accounts payable	<i>in foreign currency in '000</i>	0	0	0	0
	<i>in reporting currency</i>	0	0	0	0
Total liabilities	<i>in foreign currency in '000</i>	675	210	0	0
	<i>in reporting currency</i>	2,987	878	0	0
Assets – Liabilities	<i>in foreign currency in '000</i>	2,248	220	83	0
	<i>in reporting currency</i>	9,946	918	427	0

7.1.5 Concentration of cash.

The credit risk related to cash is managed by the group through diversification of banks where the excess cash is deposited. All entities with which the group concludes deposit transactions operate in the financial sector.

Those entities include banks with a high rating and adequate equity, as well as a strong and stable market position.

in PLN '000

Concentration of cash	Relpol S.A.		Capital group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bank A	166	1,980	166	1,980
Bank B	121	1,637	121	1,637
Bank C	20	210	20	210
Bank D	45	10	51	72
Bank E	82	0	82	0
Bank F	0	0	725	924
Bank G	0	0	279	885
Cash in hand	50	32	89	32
Total cash	484	3,869	1,533	5,740

7.2 Non-financial risks

7.2.1 Capital management risk.

The principal purpose of the management of the group's capital is to maintain a good credit rating and a safe level of capital metrics which would support the companies' operating activities and increase the value for their shareholders.

The parent company manages the capital structure and introduces appropriate modifications, resulting from the changes in the economic conditions. In order to adjust the capital structure, the companies can pay dividend to the shareholders, repay the capital to the shareholders or issue new shares.

The company monitors the balance of capitals by using the leverage ratio, calculated as the ratio of net debt to the total amount of capitals increased by the net debt.

Net debt includes interest-bearing bank loans and non-bank loans, trade accounts payable and other accounts payable, except for derivatives, less cash.

Leverage ratio	Relpol S.A.		Capital group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt	15,235	15,087	16,337	16,180
Cash and cash equivalents	484	3,869	1,533	5,740
Net debt	14,751	11,218	14,804	10,440
Equity	72,418	70,577	74,922	73,885
Debt to equity	20.37%	15.89%	19.76%	14.13%

in PLN '000

7.2.2 Macroeconomic risk.

The operations of the capital group are exposed to the changes in the economic situation. For instance, the investment indicators, public procurement contracts, inflation, interest rates, access to external sources of financing, foreign currency exchange rates or the domestic and foreign GDP growth rates are of considerable importance. The economic downturn is reflected in the decreased demand, which negatively affects the financial standing of the stakeholders and the company's operations. According to the Management Board, this type of risk is significant.

7.2.3 Competition-related risk.

The competition on the domestic and international markets is a permanent feature of business. The group is the leader of the relay manufacturing business on the Polish market. On the other hand, there is a large number of manufacturers of various types of relays on the international market. Various companies offer their products on both the domestic and international markets. The price, quality, delivery times and service all play important roles in the competitive struggle. The risk related to the competitors' operations is significant. In order to mitigate that risk, the company has implemented procedures which ensure the high quality of products and timely delivery of the orders. The task of the commercial departments is to maintain regular contact with the customers and provide technical support and high-quality service.

7.2.4 Risk of dependency on one customer.

The capital group strives to diversify the recipients of its products and goods. In addition to several larger trade partners, the group has numerous smaller customers throughout Poland and Europe.

Outside the EU, the company's products reach customers in Asia, North America, South America and Africa. Despite this dispersion, the share of the two largest customers in the consolidated sales for 2017 amounted to 18.8% and 12.5%, respectively. Therefore, any possible decrease in the volumes purchased by those customers can influence the capital group's performance. The share of other customers in the sales of the capital group does not exceed 10%.

7.2.5 Risk related to purchases and dependency on the main supplier.

A substantial part of raw materials and materials used in production is imported, which may result in disruptions and delays in the deliveries, as well as the inconsistent quality of the supplied raw material. The group selects well-known and reliable suppliers of raw materials and materials. The imported materials are tested and analysed. Furthermore, the suppliers of materials and raw materials are subject to periodic evaluations. The risk of dependency on the main suppliers has been largely mitigated through the diversification of the deliveries of raw materials and materials. Two suppliers have been selected for each key material. In 2017, the share of each of the suppliers in the total revenues remained below 10%. In the opinion of the Management Board, the risk related to the dependency on the main suppliers is moderate.

7.2.6 Risk related to the build-up and impairment of inventory.

Due to the nature of the capital group's operations and the diversity of offered products and goods, the inventory is built up at various stages of the manufacturing process and comprises materials and raw materials used in production, semi-manufactured goods and finished products. The inventory is managed using the integrated IT system, based on the incoming customers' orders, analyses of market trends, sales forecasts, analyses of conditions and times of deliveries of materials and raw materials, production cycles etc.

Although the purchasing of production materials and raw materials is based on the continuous analysis of the sales plans and structures, there is a risk that a portion of the materials will not be used during production or a portion of the finished products will not be sold. This can be due to the commercial terms of purchasing raw materials and materials (minimum order volumes or long delivery times). Furthermore, there is a risk that the analyses and forecasts are erroneous or that a customer fails to collect the order they placed. In the case of large and regular customers, several-months or annual framework orders are used. The inventory of finished products can also build up when the dispatch of goods is halted due to overdue payments or financial problems of a customer.

Products, goods and materials are stored in appropriate conditions which ensure that the quality parameters are maintained. However, if the goods and materials are stored for long periods of time, there is a risk of soiling, damage or impairment due to the company's inability to sell them (for instance because of their specific design).

The inventory building up in the companies is at a risk of impairment. Such inventory is disposed of during periodic stocktaking. The inventory write-offs influence the current performance of the capital group.

In order to minimise the losses, the inventory of products, goods and materials is insured against ordinary risks of fire, flooding, and theft. The warehouses of the parent company are equipped with alarm and fire protection systems.

7.2.7 Risk of losing key employees.

Experienced, high-skilled, competent and loyal employees are one of the most crucial assets of any company. The Relpol products are designed, implemented and manufactured by its own departments and using its own technology. The resignation of key, high-skilled employees could have an adverse effect on the operations and financial performance of the capital group.

The resignation or fraudulent activities of the employees also entail a risk of loss or leak of confidential data, company-classified information, trade information etc. In order to mitigate the risk related to the employees, the company monitors the level of remuneration in particular groups of employees, motivates the staff using the bonus system, ensures proper work conditions and the occupational health and safety, encourages the employees to improve their professional qualifications and skills by funding their participation in training sessions, courses and studies, as well as introduces internal regulations, safety procedures and instructions on the protection of data and the access to IT systems.

7.2.8 Risk related to the equipment breakdown.

The products of the capital group are manufactured based on automated production processes. Any machinery and equipment breakdowns may result in production downtimes and

consequently cause late deliveries, decreased revenues from sales and even the loss of customers. Such events might negatively influence the financial performance of the capital group. It mitigates the risk of losses resulting from production downtimes by purchasing high-quality machinery and devices from the best manufacturers, maintaining the machinery and equipment in good working order, providing training to employees who operate the machinery, carrying out maintenance and repair works, maintaining spare equipment etc.

7.2.9 Risk related to the IT systems failure.

The operations of the parent company are based on an integrated IT management system. The proper operation of the IT system is crucial for the functioning of many key processes of current activities at the company. There is a risk of improper operation of the IT systems which can cause serious problems and further consequences, such as:

- the inability of various departments of the company, including finance, accounting, sales, production, logistics, human resources, quality control, to function properly,
- the inability to conduct sales transactions online or issue commercial documents,
- the inability to ensure timely deliveries,
- problems with production planning and purchasing of materials,
- the loss of economic and financial data,
- the loss of data on suppliers and customers,
- the loss of customers due to the shortages

In order to mitigate this risk, appropriate procedures have been implemented, minimising the IT systems breakdowns by:

- introducing a safety policy,
- training the employees,
- providing a system for controlling the employees' access to the IT systems,
- protecting the system data by creating backups,
- protecting the server rooms and fitting them with alarm and fire protection systems, and air-conditioning,
- using anti-malware software,
- ensuring appropriate maintenance,
- using high-quality IT equipment.

7.2.10 Risk of the product responsibility.

As the manufacturer, Relpol is accountable for proper and safe functioning of the products it launches. In order to mitigate this risk, the company's products are subject to strict quality control and the design, manufacture and sales of electromagnetic relays, sockets for relays, gamma-neutron radiation portal monitors, the digital protection, measurements, automation, control, communication and registration systems for electromagnetic stations, as well as the trade in electrotechnical components is conducted according to the Quality and Environment Management System and meets the requirements of the PN-EN ISO 9001:2009 and PN-EN 14001:2015 standards.

All marketed products are manufactured according to the applicable provisions of the law and certified by third-party institutions. The company's products hold quality and safety certificates issued by the countries where they are sold. Despite the diligence in relation to the products and the undertaken precautions, there is a possibility that a product which does not meet quality standards is launched and marketed. In order to mitigate the risk related to the payment of compensation for the damages caused by the product, the company has taken out a product liability insurance policy.

7.2.11 Risk of changes in legal regulations and their interpretation.

Frequent amendments to the provisions of the law applicable to companies, their inconsistency and lack of uniform interpretation entails a risk of violation or misinterpretation thereof, which may cause high penalties and negatively influence the capital group's operations and its financial condition. In order to mitigate that risk, the company provides its employees with training, as well as seeks opinions and services of legal and tax advisers.

III. Notes

1. Information on the markets and customers, as well as suppliers who represent at least 10% of the total revenues from sales

The capital group carries out commercial activity both in Poland (29% of revenues) and abroad (71%). The capital group has two large customers, who represented 18.8% and 12.5% respectively of the consolidated revenues from sales in 2017. Each of the remaining counterparties represents no more than 10% of the revenues from sales.

The majority of the materials used in production is imported. They include contacts, steel, wires, copper, brass, plastics etc. The group is not dependent on any of the suppliers. None of those suppliers represent more than 10% of the revenues from sales.

More information on the products, markets and the business model is presented in the part of the Management Report pertaining to non-financial information.

2. Specification of significant proceedings pending before a court, an authority competent to conduct arbitration proceedings, or a public administration body

No significant court, arbitration or administrative proceedings are pending, pertaining to the accounts payable or receivable of the issuer or their subsidiaries, whose value would represent at least 10% of the issuer's equity.

There are also no two or more proceedings pertaining to the accounts payable or receivable whose combined value would constitute at least 10% of the issuer's equity.

3. Information on agreements significant for the issuer's operations

1. Agreements with banks:

Raiffeisen Bank – an investment credit agreement with the limit of PLN 3 million and collaterals:

- a) power of attorney to the current account and other accounts of the company in the said bank;
- b) registered pledge on machinery and equipment covered by the investment,
- c) open, unconfirmed assignment of current and future accounts receivable, pursuant to the receivables assignment agreement,
- d) blank bill of exchange.

Raiffeisen Bank – a debt limit agreement with the limit of PLN 2.5 million and collaterals:

- a) power of attorney to the current account and other accounts of the company in the said bank;
- b) blank bill of exchange

mBank S.A. – an investment credit agreement with the limit of PLN 6.8 million and collaterals:

- a) blank bill of exchange,
- b) registered pledge on the financed machinery and equipment,
- c) unconfirmed assignment to the bank of the accounts receivable due from specified counterparties based on the global assignment agreement,
- d) declaration of submission to enforcement up to the amount of PLN 4.7 million.

BGŻ BNP Paribas – a credit agreement with the limit of PLN 2.5 million and collaterals:

- a) blank bill of exchange,
2. Multi-annual cooperation agreement with Zettler Electronics GmbH in Germany regarding the supply of Relpol products to the company.
3. Multi-annual cooperation agreement with ABB Stotz Kontakt GmbH in Germany regarding the supply of Relpol products to the company.
4. The cooperation agreements with other foreign customers – specifying the commercial terms of the delivered products and goods, pursuant to which the customers place framework orders – which are not considered significant from the perspective of their value.
5. Cooperation agreement with other domestic customers – specifying the commercial terms – which are not considered significant from the perspective of their value.
6. Cooperation agreement with Relpol Elektronik and DP Relpol Altera, specifying the terms and conditions of the cooperation.
7. Lease agreements for the leasing of machinery, equipment and means of transport.
8. Insurance policies, including a policy of comprehensive insurance of the company's assets against all risks, including the products in domestic and international transport, as well as the business liability and property use insurance, concluded with Ergo Hestia.
9. Agreements with suppliers of materials and services, specifying the terms and conditions of the cooperation.

4. Information on organisational or capital ties between the issuer and other entities and specification of its main investment projects

Organisational and capital ties	Carrying value in PLN '000		Share in (%)	Consolidation method
	31.12.2017	31.12.2016		
Relpol M j.v in Minsk	71	71	80.0	Excluded
Relpol Eltim ZAO in Saint Petersburg	9	9	60.0	Full consolidation method
Relpol Altera Sp. z o.o. in Kiev	305	305	51.0	Excluded
DP Relpol Altera Sp. z o.o. in Cherniakhiv	446	446	100.0	Full consolidation method
Relpol Elektronik Sp. z o.o. Miostowice Dln.	50	50	100.0	Full consolidation method

The shares of DP Relpol Altera, Relpol Elektronik and Relpol Eltim, due to their consolidation, are subject to intercompany eliminations.

Except for the companies listed above, Relpol S.A. owns no branches (facilities) which have legal personality or carry out reporting independently. Relpol has only one production department, located in Zielona Góra, which constitutes an integral part of the company's assets. The said department manufactures and provides maintenance services of radiation portal monitors and CZIP digital protection, automation, measurements, control, registration and communication systems.

The parent company has no other organisational or capital ties. It also does not hold any own shares. The equity-related companies do not hold any of the parent company's shares.

The capital group did not invest in financial instruments, intangible assets or real estate. In 2017, there were no changes in the structure of the capital group.

5. Information on transactions with related entities on other than arm's length terms.

Between 01.01.2017 and 31.12.2017, Relpol S.A. and the subsidiaries did not enter into any significant transactions with related entities which would have the characteristics of transactions other than typical and routine transactions concluded on arm's length terms.

6. Information on concluded and terminated credit and loan agreements

Information on the credits taken out and the interest rates is provided in Note 21 to the financial statements. Information on the bank credit collaterals is provided above, in Point 3 of this part hereof.

In the given financial year, there were no instances of termination of credit or loan agreements.

7. Information on loans granted, and warranties and guarantees granted and received

In the financial year 2017, the parent company and the subsidiaries did not grant any loans or grant or receive any warranties or guarantees.

8. Issuance of securities

In the given financial year, the issuer did not issue any shares.

9. Explanation of the differences between the financial results disclosed in the Report and the previously published forecasts

The issuer did not publish any forecasts for the company or the capital group.

10. Assessment and its justification pertaining to the management of financial resources, taking into account the ability to discharge the incurred liabilities.

The capital group finances its operations using the inflows from current operating activities, working capital credits and investment credits. The company and the capital group are able to discharge the incurred liabilities. The debt ratio amounts to approximately 22%. The Management Board of the parent company analyses the available financial resources on an ongoing basis in order to ensure financial liquidity. As at the day of drawing up hereof, in the Management Board's opinion there is no risk of failure to discharge the incurred liabilities. The financial risk management has been discussed in Point 7 above.

11. Assessment of the ability to implement the investment plans, including equity investment plans, in relation to the available funds

The investments, particularly in fixed assets, are made using the own financial resources and the funds available through bank credits. The funding of investments is secured. There are no equity investments pending.

12. Assessment of the factors and non-standard events influencing the result on operations for the financial year

There were no factors or non-standard events which could significantly influence the operations of the capital group. All significant factors and events have been discussed above herein or in the notes.

13. Changes in basic principles governing the management of the issuer's enterprise

and the capital group

In 2017, there were no changes in the principles governing the management of the company and the capital group. Any changes in the company's governing bodies have been discussed herein. The changes did not result in any significant modifications of the company's strategy of operations or the capital group management.

14. Agreements concluded between the issuer and the management, providing for a compensation in case of resignation or redundancy without valid reason

The parent company concluded a non-compete agreement with the current President of the Management Board, pursuant to which the employee cannot carry out any activities competitive to the operations of the employer or perform work under employment relationship or otherwise for the benefit of an entity carrying out such competitive activities, for the period of six months following the termination of their employment relationship. In return, the employee shall receive compensation in the gross amount equal to 25% of the remuneration received by the employee during 6 months prior to the termination of their employment relationship, but no less than PLN 120 thousand. Should the employee violate the provisions of the agreement, they shall be obliged to pay the employer a contractual penalty in the amount of PLN 69 thousand for each violation. The employer may renounce the said agreement, on the day of termination of the employment relationship with the employee at the latest.

The parent company did not enter into such agreement with the Vice President of the Company's Management Board.

15. Remunerations, rewards and benefits, including based on incentive or bonus programmes, paid, due or potentially due to the members of the governing bodies of the parent company

The data on remunerations is provided in Point 31 of the consolidated financial statements for 2017. The company has implemented no incentive programmes payable in shares. There are also no accounts payable resulting from retirement pensions and other similar benefits, due to former managerial and supervisory staff.

16. Shares held by the Management Board and the Supervisory Board

Data as of the report signature date	Number of shares of Relpol S.A. (in pcs)	Nominal value of shares held (in PLN '000)	Numer of stocks/shares in related entities (in pcs)
Management Board of Relpol S.A.	0	0	0
Supervisory Board of Relpol S.A., of which:	3,779,943	18,900	0
1. Ambroziak Adam	3,171,000	15,855	0
2. Osiński Piotr	608,943	3,045	0

17. Shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders, directly and indirectly through subsidiaries

Relpol S.A. issued 9,609,193 shares, all of which were admitted to trading and are listed on the Warsaw Stock Exchange.

Shareholder	Number of shares held (in pcs)	Number of votes at the General Shareholders' Meeting	Share in the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN '000)	Share in the share capital	Change in comparison to the report for Q3 2017 (09.11.2017)
Ambroziak Adam	3,171,000	3,171,000	33.00%	15,855	33.00%	0
Altus TFI S.A.	2,027,358	2,027,358	21.10%	10,138	21.10%	-383,239
Osiński Piotr	608,943	608,943	6.34%	3,045	6.34%	0
Rockbridge TFI S.A.	959,772	959,772	9.99%	4,799	9.99%	0
Raiffeisen TFI S.A.	569,467	569,467	5.93%	2,847	5.93%	+569,467

The capital group does not hold any own stocks or shares.

Share price chart of Relpol S.A. in 2017



18. Information on agreements known to the issuer, which might result in future changes in proportions of shares held by the existing shareholders

The issuer is not aware of any such agreements.

19. Information on the system of control over employee share schemes

There are no employee share schemes in the capital group.

20. Information on the entity authorized to audit the financial statements

	2017	2016
Auditor	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. w Warszawie*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. w Warszawie
Date of conclusion of the agreement	28.06.2017, amendment 12.12.2017	25.05.2016
Subject matter of the agreement	Review of the half-yearly and audit of the annual financial statements for 2017	Review of the half-yearly and audit of the annual financial statements for 2016
Net remuneration under the agreement	net PLN 59,000 + business trip costs	net PLN 48,500 + business trip costs
Costs incurred in the given year according to invoices	net PLN 36,912, of which PLN 19,109 for the audit of 2016	net PLN 53,350, of which PLN 21,340 for the audit of 2015
Tax advisory services	None	None
Other services	None	None

* operating under the business name Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. since 18 March 2018

21. Loans granted to the governing bodies of the parent company.

As at 31.12.2017, no loans were granted to the company's governing bodies or the members of their families.

22. Other significant events of 2017

1. In March 2017, Relpol S.A. signed amendments to the agreements concerning accounts receivable with Raiffeisen Bank Polska S.A. The amendments regarded:
 - 1) The debt limit agreement of 2011, which decreases the debt limit in the current account from PLN 5 million to PLN 2.5 million. The agreement also changes the date of repayment of the credit from 24.03.2017 to 14.09.2018, provides for the discontinuation of the use of the limit for factoring service and reduces the number of collaterals, which now comprise the power of attorney to the current account and other accounts held at the bank and a blank bill of exchange with a B/E declaration.
 - 2) The receivables assignment agreement of 2011, which added a provision that in the case of a person whose place of residence or registered office is located abroad, the assignor shall not introduce a provision as to the manner of enforcement of the assigned receivables to a foreign court.
 - 3) The agreement for assignment of receivables from the insurance agreement of 2013, from which the repaid credits were deleted and the current number of the property insurance policy was added.

All other significant events have been included in the financial statements and the report on the operations.

23. Other significant events after the balance sheet date.

All other significant events have been included in these financial statements.

IV. Statement on non-financial information

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I. Basis for and aspects of non-financial data reporting

We hereby present the first statement (report) of the Relpol Capital Group on the corporate social responsibility. This statement has been drawn up in relation to the obligations under the Accounting Act (Article 55(2b)–(2e), the Directive 2014/95/EU of the European Parliament and of the Council, amending the Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, the European Commission guidelines published in the Communication from the Commission 2017/C 215/01 “Guidelines on non-financial reporting”, and the Directive 2013/34/UE of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

While preparing this statement, we referred to the international guidelines of Global Reporting Initiative GRI G4 and the aforementioned regulations. In this statement, we have present the results achieved by the capital group in 2017 and 2016. The statement pertains to the consolidated data. The data Relpol S.A., Relpol Elektronik, DP Relpol Altera and Relpol Eltim were consolidated.

This statement contains information on our business, its impact on the environment, the employees and the local community. We have discussed issues such as the respect of human rights and anti-corruption efforts. We will publish such statements annually. The data included herein was prepared and verified by a designated team of employees from various areas of our business activity, with the participation of our subsidiaries. Such data was not subject to external verification.

While selecting the reporting aspects, we paid attention to the nature of our operations and the significance of such aspects, i.e. the importance of their impact on the economic results, the community and the environment. The analysis of these aspects included the role of our stakeholders, taking into consideration both internal and external factors.⁷

The reporting aspects defined by us and their impact on the capital group:

Reporting aspects and specific indicators	The impact of the aspect within the CG	The impact of the aspect outside the CG
Economic		
Economic results	✓	✓
Indirect economic impacts	✓	✓
Purchasing practices	✓	✓
Environmental		
Materials and raw materials	✓	✓
Energy	✓	✓
Products and services	✓	✓
Environmental grievance mechanisms	✓	✓
Social		
Employment	✓	✓
Occupational health and safety	✓	

⁷ G4-18, G4-19, G4-20, G4-21, G4-22, G4-23, G4-28, G4-29, G4-30, G4-33

Equal remuneration for women and men	✓	
Respect of human rights	✓	✓
Anti-corruption policies and procedures	✓	✓

II. Business characteristics

1. Approach to the sustainable development

In our company, building a long-term strategy in the perspective of sustainable development means the ability to identify key aspects related to the economy, employment, community and environment, and search for optimum balance between those aspects⁸.

Within those areas, we focus on the aspects that are crucial to us, specify the objectives, carry out appropriate activities, and monitor and evaluate the results while paying attention to the expectations of individual groups of stakeholders. The selection of these aspects is based on the scale, nature and profile of the activities of our organisation.

As regards the economic aspect, we use our best efforts to ensure that while resulting in the positive financial performance, our activities take into account the interests of all our stakeholders, from employees to shareholders, customers, suppliers, institutions and the local community. Our goal is to build long-term business relations, based on trust, dialogue and mutual understanding of the objectives. We use our best efforts to ensure that all applicable domestic and international standards are met. We want the Relpol Group to be perceived as a reliable manufacturer and supplier of high-quality products, safe for their users.

Within the environmental aspect, we minimise the impact of our organisation on the environment by introducing the materials management system which allows the optimisation of the material consumption and reduction of the amount of waste. We also carry out activities aimed at reducing the consumption of thermal and electricity. In 2017, the company conducted an audit and evaluated the energy efficiency in order to identify the potential actions. The objectives for 2018 and the methods for their achievement were specified.

We pay particular attention to maintaining proper relations with our employees by respecting human rights, following the principle of equal opportunities, applying a transparent remuneration policy, preventing mobbing etc. We ensure safety and decent working conditions, as well as take care of the professional development of our employees. In order to verify our working conditions and working environment, in 2014 we commissioned Intertek to carry out an audit, as a result of which we were granted a certificate which confirms the compliance of our working conditions with the Workplace Conditions Assessment requirements. Since then, we have continuously striven to maintain high standards in this area. The audit covered the following areas:

- 1) Employment
- 2) Working hours and remuneration
- 3) Occupational health and safety
- 4) Management
- 5) Working environment

In our organisation, the social aspect is manifested by the participation in the life of our

⁸ G4-1

immediate environment. As an important business entity in the region, we maintain regular contact with authorities and social organisations. By making donations and sponsoring our local community, we support the organisation of cultural, educational and sports events. For its social activity and financial performance, in 2016 Relpol received Gospodarcza Nagroda Specjalna (Special Economic Award) 2016, given by the Social Council of Entrepreneurs and the Mayor of Żary. For its economic results in 2017, Relpol received the Gazeta Biznesu (The Business Gazelle) Award of the Lubusz Voivodeship 2017 and the Brylant Polskiej Gospodarki (The Diamond of Polish Economy) Award 2017.

2. Business model

Our enterprise has operated since 1958, initially as a branch of Zakład Wytwórczych Przekazników Refa, then as a branch of Lubuskie Zakłady Aparatów Elektrycznych LUMEL, subsequently as Zakład Przekazników and finally, since 29 March 1991, as Relpol S.A.

Currently, Relpol is the Polish leader in the manufacture of electromagnetic relays and the manufacture and installation of radiation portal monitors. The town of Żary, in Lubusz Voivodeship, and its vicinity are the principal place of business. Żary is the seat of the parent company and one of the subsidiaries which act as subcontractors. We develop our business in Poland and abroad.

Relpol has built its own capital group, which currently consists of 3 production companies and 3 distribution companies. The production companies operate in Poland and the Ukraine and the distribution companies – in Russia, the Ukraine and Belarus.⁹



Mission

Our mission is to ensure that our customers associate Polish electrotechnical engineering with the Relpol brand. We strive to offer a product unsurpassed in its class in terms of quality, delivery times and price. We create the best development conditions for loyal employees.

Vision

Be the second largest manufacturer of electromagnetic relays in Europe.

⁹ G4-3; G4-4, G4-5, G4-6; G4-8; G4-9

2.1. Objects of the company

We manufacture and offer high-quality products addressed to a wide target group across many industries. Our products meet all domestic and international quality requirements, as confirmed by various certificates. Our activity in the industry began with the manufacture of electromagnetic relays. Subsequently, the offer was expanded with plug-in sockets for relays. Over time, new products in various configurations appeared.



We are flexible and open to cooperation. We meet individual expectations of our customers. We modify and develop our products according to their individual and specific needs. This approach allows further growth of our business and the enhancement of cooperation, as well as gives us an opportunity to find new applications for our products. We manufacture our products both under our own label and under the label of our key customers.

Approximately four thousand special versions of relays and sockets, as well as other products of the company, are widely used in various industries.

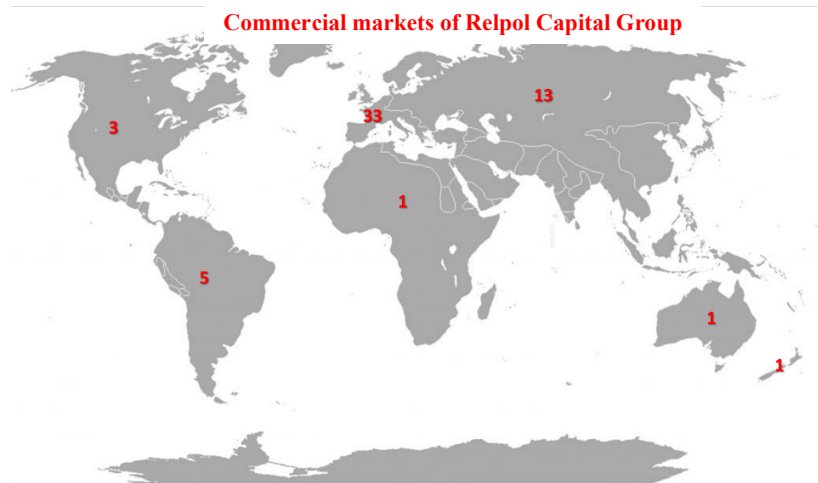
2.2. Basic product groups and their applications

Industrial relays	<ul style="list-style-type: none"> • in device automation and processing line systems, as well as in industrial safety and signalling systems
Miniature and subminiature relays	<ul style="list-style-type: none"> • in electronic circuits and telecommunication systems, automation systems, measuring and transport devices
Interface relays	<ul style="list-style-type: none"> • in industrial automation systems as galvanic separation units
Automotive relays	<ul style="list-style-type: none"> • in automotive electric circuits (e.g. lamps, power door locks, heating systems, windscreen wipers, indicator lamps etc.)
Solid state relays and switches	<ul style="list-style-type: none"> • in various electronic circuits and telecommunication systems, measuring devices, medical and transport devices
Programmable relays	<ul style="list-style-type: none"> • in automation systems, transport devices, machines controlling technological processes
Solar relays	<ul style="list-style-type: none"> • in solar system inverters, as well as in electric and hybrid car chargers
Time and monitoring relays	<ul style="list-style-type: none"> • in automation systems and household systems, measuring and control systems, for supervision of engine parameters
Relay sockets	<ul style="list-style-type: none"> • in connections with relays and modules
CZIP Digital Medium Voltage Protection Systems	<ul style="list-style-type: none"> • in medium voltage switchboards
Automatic backup supply automation systems	<ul style="list-style-type: none"> • as ready-made supply voltage loss management systems in low voltage systems
Gamma and neutron radiation portal monitors	<ul style="list-style-type: none"> • everywhere where radioactive gamma-neutron radiation may occur, such as airports and other border crossing points, on landfills, in logistic centres, sport venues
Electric car charging stations:	<ul style="list-style-type: none"> • in designated car charging spots
Other products	<ul style="list-style-type: none"> • in various areas of industrial automation

2.3 Scale of operations and the target groups

We carry out our business activities across the world. Our main customers include distributors, wholesalers and manufacturers who operate in many areas of industrial and energy automation, power electronics, industrial and consumer electronics, telecommunications, household appliance production and other industries in Poland and abroad.

Our products are exported to over 50 countries around the world. The largest commercial market is Europe. In 2017, Relpol products were sold to a total of 33 European countries. The capital group has two prominent foreign customers. Each of them represents over 10% of the total revenues. The remainder of our customers, i.e. approximately 950 active recipients in Poland and abroad, represent approximately 75% of the total revenues.



2.4 Channels used to reach customers

We reach our customers by participating in individual meetings with constructors, designers and company representatives from various sectors of the industry and the power generation business, developing trade and distribution networks, taking part in domestic and international trade fairs and exhibitions, organising training sessions and lectures, publishing articles in the trade press, concerning the technical parameters of our products and their applications, as well as through our own and third-party websites.

Are customers are served directly by the parent company, the subsidiaries, our own online store, as well as by a network of long-term trading partners, wholesale stores and distributors of electrical and electrotechnical engineering products.

2.5 Sources of revenues

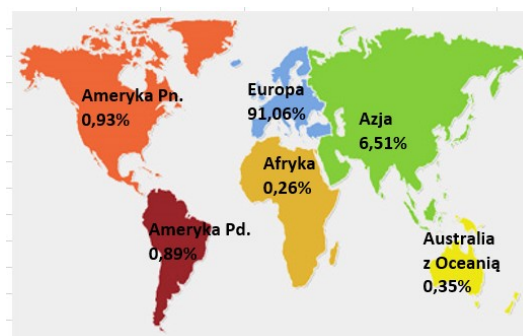
Various electromagnetic relays (both industrial and miniature), as well as plug-in sockets for relays constitute the primary source of revenues of the capital group. Other products include SMP radiation portal monitor systems, CZIP PRO – medium voltage protection systems, contactors, soft starters, switched-mode power supplies, automation modules etc. The product portfolio is complemented by a wide range of commercial goods. The sale of commercial goods is also carried out by three subsidiaries.

in PLN ‘000

Sales revenues structure by product range	2017	2016
Industrial automation	120,479	110,044
Other segments	2,950	4,386
Total	123,429	114,430

in PLN ‘000

Sales revenues structure by location	2017	2016
Europe	112,402	107,736
Asia	8,036	4,400
North America	1,147	820
South America	1,094	834
Africa and Australia	750	640
Total	123,429	114,430



2.6 Resources used for conducting business activities

Our experience in the manufacture of relays spans 60 years. Our advantages include high-skilled employees, our own research and development facilities, as well as our own laboratories and machinery stock. It allows us to design, manufacture and market new products, search for new applications and meet the individual needs of our customers in the area of design and characteristics of relays and sockets.

In our production process, we use steel bands, coil wires, contacts, plastics and other materials, the majority of which are imported.

The convenient location in western Poland, next to the international Wrocław-Berlin route, allows direct contact with customers from the Western Europe, facilitates the delivery process of our products and the purchasing of materials.

2.7 Main development activities

1. We focus on our principal activity. We pay particular attention to the internal development regarding the market and technologies, as well as to the introduction of new products and offering them to our existing and potential customers.
2. We increase our sales on the domestic market through our distribution network and online store.
3. We develop our distribution network in Europe and across the world based on the capital ties, the acquisition of new customers, the conclusion of agreements and the maintenance of regular contact with our partners on Asian markets.
4. We provide technical support to construction and design offices, offering the knowledge and experience of our technical advisers.
5. We create and develop the management processes for the company and the capital group.
6. We improve the quality of our products by:
 - using our own resources, such as the potential and experience of the employees of the

- R&D departments, laboratories and quality control.
- adopting a flexible approach to our customers and being able to meet their individual needs and expectations.
 - reducing the defective rate for the manufactured products to less than 10 ppm (pieces per million, i.e. the number of defective pieces per one million of manufactured pieces).
 - developing the integrated quality and environmental management system according to PN-EN ISO 9001:2009 and PN-EN 14001:2015 standards. Those systems include the continuous improvement processes.
7. We provide our employees with development opportunities and suitable working conditions.
 8. We promote the RELPOL brand through various marketing activities.

2.8 Key suppliers

We have approximately 80 qualified suppliers of strategic materials and approximately 500 suppliers of auxiliary materials. The majority of them are reliable suppliers from Europe and to a lesser extent – from Asia.

2.9 Costs of business

The most important prime costs of the capital group's business include the materials, raw materials and energy used in production. Due to the number of employees which exceeds 700 people, the remunerations and their derivatives also constitute a significant item. Other costs include third-party services, depreciation of machinery and other minor items.

Main cost items	2017		2016	
	in PLN '000	%	in PLN '000	%
Consumption of materials and energy	51,919	42.55%	50,272	42.33%
Wages and salaries	27,126	22.23%	26,471	22.29%
Outsourcing	16,032	13.14%	16,973	14.29%
Costs of goods and materials sold	11,972	9.81%	10,314	8.69%
Social insurance and benefits	5,901	4.84%	5,596	4.71%
Amortisation and depreciation	5,695	4.67%	5,864	4.94%
Taxes and fees	1,698	1.39%	1,650	1.39%
Other costs	1,677	1.37%	1,613	1.36%
Total costs by type	122,020	100.00%	118,753	100.00%

The other operating activities and the financing activities are of lesser importance from the perspective of the capital group's operations.

3. Capital group

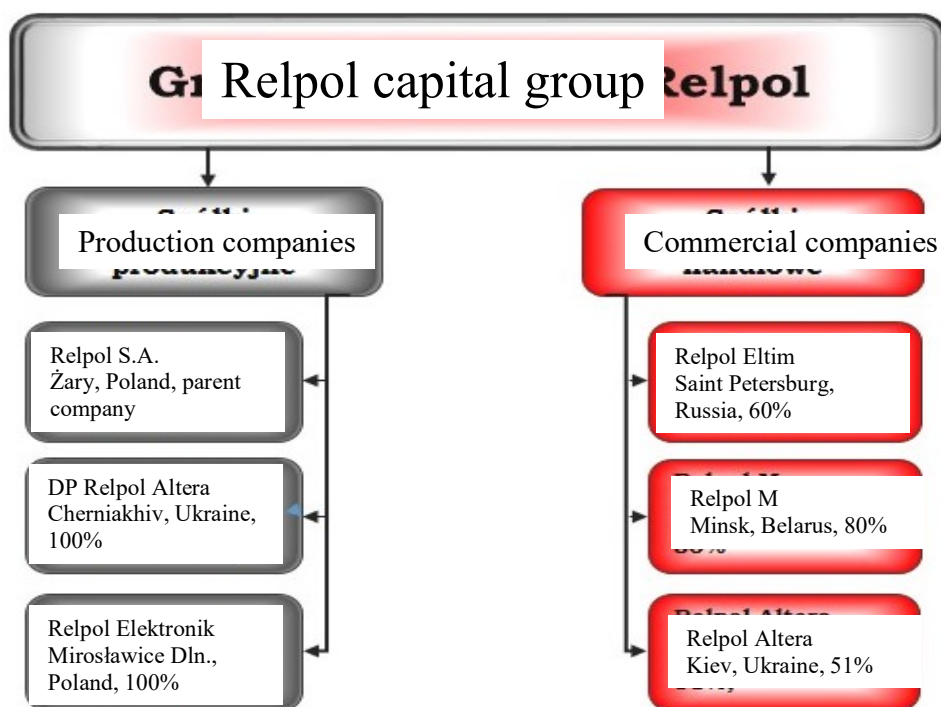
The capital group comprises 6 companies. The parent company, i.e. Relpol S.A., is the most important member of the capital group. It has the most extensive experience in the sector, holds

the largest capitals, generates the highest revenues, earns the largest profits and employs the largest number of people¹⁰.

Among the subsidiaries, two other production companies, i.e. DP Relpol Altera in the Ukraine and Relpol Elektronik in Poland, are of major importance. Both companies assemble the products using the provided elements, as commissioned by Relpol S.A. and in accordance with the quality standards it specifies. DP Relpol Altera employs approximately 240 people and Relpol Elektronik – approximately 70.

Relpol Eltim in Russia is the most significant of the distribution companies. It generates the largest revenues among those entities and employs 11 people. The other two companies, Relpol M in Belarus and Relpol Altera in the Ukraine with 2–4 employees generate low revenues and achieve low financial results. The results of those companies are insignificant from the perspective of the entire capital group and obtaining detailed financial and non-financial data for the purposes of preparation of the consolidated financial statements and hereof exceeds the financial and organisational capacities of those companies. Therefore, they have been excluded from the consolidation and the data on those companies is not included in this report.

In 2017, there were no changes in the composition and structure of the capital group. There were no increases or decreases in share capitals or changes in organisation or location of the companies' activities. No facilities were opened, closed or expanded.



¹⁰ G4-7; G4-13, G4-17

4. Ethical values and principles

While carrying out our activities, we apply ethical values and principles which describe our conduct, attitude and beliefs during the fulfilment of our business objectives. We conduct our business activity in accordance with the highest ethical standards, in a transparent, responsible, fair, diligent and reliable manner. We act in compliance with the provisions of the Polish law and abide by the regulations applicable in the countries where we conduct our production or commercial activities. We observe the rules of fair competition and do not breach any third-party rights. Relpol S.A. has implemented an anti-mobbing policy, opposes the use of forced and child labour, as well as respects the employees' freedom of association and trade union membership. We recognize the rights of the local community¹¹.

Our main ethical values and principles

Responsibility	<ul style="list-style-type: none">• We are responsible for our employees and the conditions they work in• We hold ourselves accountable for the quality and safety of our products• We hold ourselves accountable for our impact on the environment
Respect	<ul style="list-style-type: none">• We treat all of our stakeholders with utmost respect and dignity• We engage in open dialogue and develop partnerships with all of our stakeholders• We take into consideration the needs and expectations of our stakeholders
Integrity	<ul style="list-style-type: none">• We act in accordance with the law, procedures and declarations• We comply with the terms of all agreements• We present our intentions in an honest and clear way
Development	<ul style="list-style-type: none">• We search for new opportunities for the development of the company and the capital group• We improve the quality and functionality of our products and look for new applications• We implement state-of-the-art technological solutions
Competencies	<ul style="list-style-type: none">• We have thorough knowledge of the relay production process, acquired during 60 years in the business• We share our experience, provide advice and find applications of our products• We continuously grow and improve our skills

5. Management systems

Our approach to business is comprehensive, professional and responsible. We act according to the adopted management system. Our conduct in various areas of the company's activities is determined by regulations, procedures and policies. The companies' Management Boards are

¹¹ G4-56

responsible for taking decisions which influence the economy, environment and society¹².

The management and supervisory bodies are composed of highly qualified persons, with vast experience in the industry, supervision, management, finance and accounting. It is the primary criterion for selecting the members of those bodies. Age and gender are irrelevant.

The personnel decisions regarding the selection of the Supervisory Board members are taken by the General Meeting of Shareholders. In addition to the qualifications and professional experience, the criterion of independence is also of importance, since at least half of the members of the Supervisory Board should be independent.

The Supervisory Board nominates the members of the Management Board and the Management Board takes the decisions regarding the employment of the remainder of the staff. In the capital group, all employees are treated equally, irrespective of their gender, age, disability, political views, religion, or nationality.

5.1 Division of powers in Relpol S.A.

General Meeting of Shareholders	
Supervisory Board	
Audit Committee: Zbigniew Derdziuk, Agnieszka Trompka, Dariusz Daniluk	Remuneration Committee: Zbigniew Derdziuk Adam Ambroziak Agnieszka Trompka Dariusz Daniluk Piotr Osiński
Management Board	
President of the Management Board Sławomir Bialik	Vice President of the Management Board Krzysztof Palgan
Manages the departments of finance, accounting, staff-related matters, the head office, internal audit, OHS, quality control, as well as the departments of production, logistics and construction and development, the chief mechanic department and the tool-shop.	Manages the commercial departments, marketing, IT and the Zakład Polon facility.

The companies from the capital group included in this report act in accordance with the management systems, procedures and regulations implemented by them. Due to the nature of the operations of individual companies, their size, strategy of operations, location of business and provisions of the law applicable to them, those systems are not identical in all of the companies.

¹² G4-34

5.2 Quality and environmental management system at the companies

The production, quality and environmental management systems in place at the companies are diverse and adapted to the given company's profile of activities, its business objectives and management decisions.

In order to protect the interests of our customers, ensure the highest quality of our products and minimise our impact on the environment, we have implemented and maintain an integrated quality and environmental management system policy at Relpol S.A., according to the PN-EN ISO 9001:2009 and PN-EN 14001:2015 standards.

We follow this policy by:

- Continuously improving the implemented quality and environmental management system, thus ensuring the functionality and safety of our products and helps minimising our impact on the environment,
- Regularly cooperating with qualified suppliers in order to maintain the highest quality of the products, materials and services we receive,
- Increasing sales by way of expansion into the existing and new markets,
- Improving the employees' understanding of the systems and their knowledge of the influence of the staff's work on the company's financial condition,
- Systematically improving the timeliness of deliveries,
- Developing the production process and applying state-of-the-art technological solutions,
- Maintaining full compliance of our environmental protection activities with the applicable provisions of the law, standards and decisions of local authorities by way of rationalisation of waste management, appropriate water and sewage management and ensuring that air emissions do not exceed the level provided for in the regulations.
- This system is regularly subjected to internal audits and an external audit is carried out once per year. The last audit compliant with the previous standards was conducted in January 2017. An audit of integrated management systems was carried out in January 2018, according to the new editions of the PN EN ISO 9001:2015 and PN EN ISO 14001:2015 standards. The result of the audit is positive. No instances of non-compliance were found.
- The certification covers 100% of the processes taking place in the organisation.
- The quality and environmental management systems are certified and assessed by a certification body – Polskie Centrum Badań i Certyfikacji PCBC S.A. (Polish Centre for Testing and Certification).

Relpol Elektronik has implemented the requirements of the Factory Production Control; however, they are not subject to the external assessment by a certification body. The scope of that management system is narrower than the system in place at Relpol S.A. – it focuses on the manufacture and control of the products, consists in particular in regular inspections, product testing, technical equipment checks, raw material, input material and production process inspections, storage and packaging of products, as well as staff training. The system is based on the procedures which ensure that the manufactured products are compliant with the relevant technical specification and the invariable values of the product's individual parameters as

specified in the product catalogue of Relpol S.A. The Factory Production Control system does not include the development, marketing and sales processes. In the case of that company, this system is sufficient and focuses on the manufacture (assembly) of products according to the requirements of Relpol S.A. and using the elements provided by it.

DP Relpol Altera has implemented and ensured the certification of a quality management system compliant with the PN EN ISO 9001:2015 standard. That system, similarly to the system in place at Relpol S.A., is subject to an annual assessment by a certification body. The last audit took place in 2017. No instances of non-compliance were found.

There are no quality and environmental management systems in place at Relpol Eltim. The company is managed according to the provisions applicable in Russia.

5.3 Best Practices of Companies Listed on the WSE

As the parent company of the capital group and a company listed on the WSE, Relpol S.A. undertook to adhere to the corporate governance principles referred to as “Best Practices of Companies Listed on the WSE 2016”, adopted by way of resolution of the WSE of 13 October 2015, with certain exceptions. Due to the fact that they are not public companies, the other capital group companies do not apply the Best Practices of Companies Listed on the WSE.

The companies cooperate with one another primarily based on the agreements and guidelines regarding the rules and terms of cooperation, compliance with the quality system requirements, as well as the OHS, accounting and reporting principles.

The changes in the composition of the Supervisory Board and the Management Board of Relpol S.A. have been discussed in the Statement on the Application of Corporate Governance Principles, which constitutes a separate part of the Management Report on the Operations of the Capital Group in 2017.

6. Risk management

Relpol assumes the responsibility for the impact of its decisions and activities on the community and the environment. It means that the social responsibility is embedded in our organisational structure and put into practice during our activities. We also take into consideration the expectations of our stakeholders. This approach contributes to the sustainable growth, compliant with the applicable law and consistent with international standards.

Relpol identifies the opportunities for sustainable growth in:

- the reduction of costs through the optimisation of processes, which results in lower material and energy consumption in the supply chains,
- the increase in the involvement and creativity of the employees, as well as in the building of an image of a reliable employer and business partner,
- the development of environmental and social innovations in relation to the product and its usability, which allows it to stand out on the market and adapt to the dynamically changing needs of its customers.

The risk management in the capital group is based on the adopted capital group management

system and the profile of activities of individual companies¹³.

Relpol has included the risk management in the currently used organisation management model. The system applies to all levels of management, from the Management Board and the Supervisory Board, through the managerial staff to all other employees. As part of the management system, the Management Board and the key managers identify the risks – including those related to the society and environment – which could jeopardise the implementation of the company's plans.

The following risks have been identified in the capital group:

1. Business risk, related to the taking of strategic decisions and the implementation thereof.
2. Financial risk, related to the maintenance of liquidity and the securing of the sources of financing.
3. Operational risk, related to the current manufacturing operations, loss of key employees, and equipment breakdowns.
4. Market risk, related to the macroeconomic situation and the condition of the market, the activities of the competitors and loss of key suppliers or customers.
5. Risk of product liability, related to the proper and safe operation of the products in the devices in which they have been installed.
6. Legal risk, related to the observance of domestic and EU regulations regarding, for instance, the environmental requirements, the labour law, the OHS, taxes and accounting or the capital market.
7. Reputational risk or the risk of unethical conduct of companies within the supply chain.
8. Risk of low purchasing power of the customers, resulting in the price and not the way of production being the main factor considered during the selection of products.
9. Risk related to the need to manage a larger number of interactions between the stakeholders.
10. Risk related to the low awareness among the market participants of what a socially responsible company is and how valuable it is for the society, environment and economy.
11. Risk related to the competitors, trade unions, consumer organisations etc. publicising the instances of inconsistency in the application of the CSR principles, as well as the risk of an action being brought by a person or a group of persons aggrieved by the company's operations.

Based on the aforementioned identified risk sources and the assessment of their potential impact and likelihood, risk registers are created which take into account the applied FMEA (the Failure Mode and Effect Analysis); in relation to each register, the owners of individual processes are obliged to undertake actions aimed at reducing or mitigating the risk. The risk identification and the assessment process have been described in a relevant procedure.

During the audits of quality and environmental management systems, the internal and external auditors verify whether the risk management objectives are assessed and whether the undertaken activities related to the identified risks are effective and efficient.

There is no risk management system in place at the subsidiaries. In their operations, they observe

¹³ G4-2

the applicable provisions of the law in all areas of activity, thus minimising the possible risk factors.

The capital group does not apply the precautionary principle¹⁴.

7. Stakeholders

While identifying the stakeholders, the capital group took into consideration the persons and organisations which have significant influence on the company and the capital group, determine the decisions it takes, influence its ability to fulfil its objectives, participate in the product development process, as well as use those products and services.

Based on that criteria, a group of key stakeholders was determined¹⁵.

Stakeholders of Relpol CG



The level of involvement of the stakeholders is diverse. The form, frequency and subject matter of the dialogue with the stakeholders is individual and depends on their expectations, role and influence on the performance and operations of the company and the capital group.

The meetings and talks with certain groups of stakeholders, such as the employees, customers, suppliers and shareholders are more frequent. The forms of contact with those stakeholders include talks, meetings, presentations, information exchange via electronic mail and the update of information on the company's website.

¹⁴ G4-14

¹⁵ G4-24, G4-25, G4-26, G4-27

The communication with local authorities and community is less frequent and depends on the circumstances.

8. Economic results and non-economic activity indicators

The detailed economic and financial results have been presented in separate and consolidated financial statements for 2017 and 2016. The statements are available on the company's website at www.relpol.pl

The tables below illustrate selected consolidated economic and financial data of the capital group after adjustments and intercompany eliminations. The data are also presented by country (without consolidation adjustments and intercompany eliminations)¹⁶.

8.1. Direct economic value of the CG, generated and distributed

in PLN '000

	2017	2016
Net revenues from sales of products, goods and materials	123,429	114,430
Costs of principal activity	114,368	105,499
Costs of employee benefits	33,160	32,067
Payment to shareholders	3,898	5,035
Payment to the state	1,738	1,772
Social investments, donations	111	94
Research and development expenditures	651	1,302
Investment expenditures	4,995	10,622
Consolidated gross profit (loss)	7,584	8,107
Consolidated net profit (loss)	5,811	6,373

8.2. Economic and financial results by country of business

Without consolidation adjustments or intercompany eliminations

in PLN '000

	2017			2016		
	Poland	Ukraine	Russia	Poland	Ukraine	Russia
Net revenues from sales of products, goods and materials	118,400	2,963	9,448	109,447	3,335	10,312
Operating expenses	109,541	3,159	9,216	101,685	2,556	9,745
Remunerations and employee benefits	29,641	2,534	985	29,358	1,928	781

¹⁶ G4-EC1

Payment to shareholders	3,843	0	136	4,805	0	575
Payment to the state	1,668	24	46	1,491	156	125
Social investments, donations	111	0	0	94	0	0
Gross profit (loss)	7,457	-216	223	7,598	873	622
Net profit (loss)	5,789	-241	176	6,107	716	496

8.3. Significant indirect economic influence of the capital group on the environment.

Through its production and commercial activities, the Relpol capital group exerts a significant impact on its immediate and wider surroundings.

That influence takes the form of:

- The development of the capital group, reflected in its performance and economic and financial indicators, the provision of jobs and growth opportunities for many employees and their families, as well as the generation of profit for the shareholders.
- The development of the industry, where we offer high-quality products, acquire customers from around the world, and search for and create new applications of our products.
- The improvement of technology, where we incur investment expenditures for research and development and the design of new products. By improving the parameters and technical features of our products, we increase the areas and possibilities of their application.
- The economic and social development of the local environment, where we are involved in the life of the community by paying taxes and local charges. We also sponsor organisations, schools and sports and cultural events.
- The development of the economy by the regular payment of taxes to the state budget¹⁷.

III. Environmental impact

The capital group exerts impact on the environment at various stages of its operations, from the purchasing of materials, through the production process, to the use of our products.

Relpol has implemented an environmental management system, compliant with the PN EN ISO 14001:2015 standard, as described above. One of the obligations resulting from this system is the formulation of the environmental management system policy. The outcomes of the environmental policy include all programs, procedures and specific related actions, aimed at minimising the negative impact of the company on the environment¹⁸.

As part of its environmental protection efforts, Relpol uses the following procedures:

- while introducing a new supplier of an existing raw material or introducing a new raw material, the company carries out a supplier qualification process and requires the

¹⁷ G4-EC8

¹⁸ G4-DMA

supplier to document at each time the issues related to the written confirmation of compliance with RoHS (restriction of the use of certain hazardous substances in electrical and electronic equipment), REACH (better protection of the environment and the human health against the risks posed by chemical substances – Registration, Evaluation, Authorisation and Restriction of Chemicals) and Conflict Minerals (rules for safe extraction of minerals from conflict and high-risk zones within the entire supply chain).

- waste management,
- management of chemical substances and mixtures,
- procedures in case of an environmental emergency,
- identification of environmental aspects.

The risks of Relpol identified in the area of environmental management include:

- a lack of alternative raw material suppliers who meet the environmental requirements,
- inadequate protection against the effects of environmental emergencies,
- increase in the prices of electricity,
- improper waste storage and disposal,
- non-compliance with legal requirements or inadequate knowledge of new legal requirements,
- comments or grievances from the stakeholders.

The primary goals of Relpol include the reduction of the energy consumption, the rational use of raw materials and materials, being in agreement with the stakeholders of the capital group, in particular regarding the environmental protection, the safety of the company and its employees, as well as the quality of our products and the observance of the applicable standards and provisions of the law.

1. Materials and raw materials

In order to effectively use the materials and semi-finished products, a materials management system has been introduced. It allows the optimisation of the materials consumption and the reduction of the amount of generated waste. We have implemented a waste sorting programme and return the packaging instead of disposing of it. During its production process, Relpol uses various types of materials, the most important of which are the processed materials¹⁹.

Consumption of the principal materials by year

Material group	UoM	Consumption in 2017	Consumption in 2016
Contact materials	thousands of pcs	99.01	106.12
Coil wires	kg	116,552	113,338
Copper-derivative bands	kg	180,070	165,543
Plastics	kg	290,033	281,154
Packaging, labels, bags	pcs	1,793,194	1,697,477
Steel bands	kg	190,607	162,616

¹⁹ G4-EN1

Electronic materials	pes	3,080,451	1,936,134
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The percentages of strategic processed materials used at Relpol S.A. during the manufacture of the basic products are as follows²⁰:

Material group	% in 2017	% in 2016
Contact materials	23.04%	24.80%
Coil wires	11.40%	12.32%
Copper-derivative bands	9.00%	10.82%
Plastics	8.34%	8.68%
Steel rods, cores	2.02%	2.17%
Packaging, labels, bags	3.37%	3.37%
Screw products	0.76%	0.78%
Steel bands	2.04%	2.40%
Chemical materials	2.17%	2.25%
Electronics	9.06%	7.20%
Other	32.17%	28.58%

2. Energy

2.1. Total energy consumption within the organisation

In order to carry out its business activity, the capital group uses energy from non-renewable sources. The types of fuel include: electricity, thermal energy, liquefied petroleum gas and nitrogen-rich natural gas²¹.

Energy consumption by types

Types of energy consumed	UoM	2017	2016
Electricity consumption	MWh	4,603.5	4,729.9
Thermal energy consumption	GJ	8,097	7,862
Liquefied petroleum gas	tonnes	1.82	1.74
Nitrogen-rich natural gas	m ³	284224	264395
Cooling energy consumption	-	-	-
Steam consumption	-	-	-

Thermal energy is produced by boilers which process the nitrogen-rich natural gas. Additionally, thermal energy is recovered during the compressed air production, i.e. the air compressors are fitted with heat recovery devices.

²⁰ G4-EN2

²¹ G4-EN3

Fuel consumption by the car fleet

Types of energy consumed	UoM	2017	2016
Unleaded petrol	tonnes	16.76	20.47
Diesel fuel	tonnes	36.81	38.23

2.2. Electricity consumption

Based on the energy consumption in each area, an electricity balance of the company has been prepared at Relpol S.A. The results are presented in the table below. The majority of the energy is used during the production process, but the compressors which produce compressed air, as well as the lighting, also consume significant amounts of the energy. Due to the diversity of the manufactured electronic elements in terms of the number of components, their size and the assembly process, the determination of the specific energy consumption per a produced piece would not be reasonable. A better indicator of the company's energy intensity is a year-to-year analysis of the total electricity consumption.

Electricity consumption at Relpol S.A.

	2017	2016
Electricity consumption [MWh]	4,449.8	4,560.2

The year-on-year reduction of the electricity consumption is attributable to the investments made in 2016 and 2017 (replacement of the lighting fixtures with LED fixtures in the production halls).

Electricity consumption at DP Relpol Altera

	2017	2016
Electricity consumption [KWh]	153,670	169,731

In 2016 and 2017, Relpol Elektronik and Relpol Eltim did not carry out the energy consumption analysis.

2.3. Thermal energy consumption at Relpol S.A.

A balance for Relpol S.A. was prepared based on the usable thermal energy consumption in individual areas. The results are presented in the tables below. The technological heat consumption means the energy necessary to prepare warm utility water and the energy necessary to heat the inlet air in the air handling units. The majority of the energy is used to heat the premises. In order to evaluate the facility's energy intensity, the amount of the energy necessary to heat a unit of the usable floor area, e.g. GJ/m², should be used. In 2016 and 2017, the average annual value of this ratio amounted to 0.04 GJ/m². The highest values of the ratio are observed during the winter months and the lowest – in the summer, as a result of the outside temperature.

Total heat consumption at Relpol S.A.

Useful heat consumption	2017	2016
Useful heat consumption in GJ	8,097	7,862

Ratio of useful energy input per unit of area

Useful heat consumption	2017	2016
Useful heat consumption per m ²	0.043	0.044

In 2016 and 2017, the subsidiaries did not carry out the heat consumption analysis.

2.4. Reduction of the electricity consumption at RELPOL S.A.

In order to reduce the electricity consumption at the company, the lighting fixtures in two production departments were modernised in 2016.

The return on the investment in the assembly department is expected within approximately 6 years and the savings resulting from the replacement of the existing lighting fixtures with LED fixtures amount to 40,621 MWh per year²².

Planned investment aimed at reducing the electricity consumption

The replacement of lighting fixtures in the production hall has been planned for 2018. The return on the investment is expected within approximately 5 years and the savings resulting from the replacement of the existing lighting fixtures with LED fixtures amount to 19,217 MWh per year.

The subsidiaries do not make any investments aimed at reducing the energy consumption.

2.5. Reduction of the thermal energy consumption at RELPOL S.A.

The company has also made investments aimed at reducing the thermal energy consumption. The project consisted in the installation of three heat recovery devices on the GA75+, Ga75+ and VSD75 air compressors.

Thermal energy savings after the installation of heat recovery devices on air compressors

	2017	2016
Annual useful energy consumption in GJ	8,097	7,862
Energy saved [GJ]	1,720	1,687

Planned investment aimed at reducing the thermal energy consumption by 2020

Due to their high temperature, the exhaust fumes constitute a source of waste heat which can be further utilized. In order to evaluate how much energy the exhaust gases contain, it is necessary to determine the temperature of the fumes. The company has carried out an analysis of the

²² G4-EN6

chemical composition and took measurements which showed the temperature of 148.6°C. This value indicates that heat can be recovered from the exhaust fumes. It is possible by using an appropriate economiser which, once added to the working system, can lead to energy savings. Consequently, the loss of exhaust energy will decrease, thus reducing the amount of gas needed to heat the water. The achievable savings resulting from the recovery of heat from the exhaust fumes are presented below.

The subsidiaries make no similar investments.

The expected energy savings after the use of an economizer:

According to data in 2016	GJ
Annual useful energy consumption (data from the balance) [GJ]	7,862
Annual final energy consumption (taking into account the measured performance) [GJ]	8,472
Final energy after modernisation (after activating the economizer) [GJ]	8,164
Energy saved [GJ]	308

3. Impact of products and services on the environment

3.1. Reduction of the impact of products on the environment

In order to protect the environment, in 2017 we undertook the following activities in relation to the products we manufacture and the technology we use:

1. Relpol S.A. limited the use of chromic acid anhydride in the galvanic technologies. The technology was modified, a nickel machine was purchased and the use of the zinc machine was discontinued. This activity covered 100% of the galvanized parts. The project also resulted in the reduction of water consumption by 50%.
2. Relpol S.A. eliminated cadmium from the relay contacts for the following products: RM84/5/7, R2/3/4-N, RM96, RY2, R15 4P, R15 WK, R10/16, RUC, RU400. Alternative materials have been developed and implemented for those product groups. Instead of the AgCdO contacts (after the inventory of those contacts is used up in full), we are going to use the AgNi and AgSnO contacts, beginning in April 2018. The cadmium-free contacts have been introduced for 100% of relays²³.

The aforementioned activities apply also to the production subsidiaries, i.e. Relpol Elektronik and DP Relpol Altera, since those companies assemble the relays using raw materials and parts provided by Relpol S.A.

Relpol S.A. keeps a register of grievances and comments regarding the instances of environmental non-compliance²⁴.

²³ G4-EN27

²⁴ G4-EN34

In 2017, the company did not receive any notices from third-party institutions regarding the meeting of requirements of the environmental protection laws in relation to the submitted statements. The stakeholders did not file any grievances. The company did not identify any instances of the monitored environmental parameters being exceeded.

3.2. Material recovery

Relpol S.A. collects metallic waste which is subsequently resold for as much as 99% of the stock exchange price. In the presented calendar periods, over 200 kg of metallic waste were sold²⁵.

	UoM	2017	2016
Volume of metallic waste sold	kg	244,123	223,507

In order to reduce the disposal costs of raw material packaging, Relpol S.A. chooses reusable packaging whose recovery value amounted to:

	2017	2016
Share of the waste sales in %	1.87%	1.90%
Return on sales of packaging in %	0.13%	0.15%

The subsidiaries do not carry out this type of analysis or it is not applicable to them.

4. Supply chain

The supply chain of Relpol S.A. comprises the following processes: supplier qualification, acquisition of raw materials and components, purchase, production, distribution, transport and, at the last stage, retail sale in individual shops and wholesale stores. The company has developed strategies within the supply chain with its strategic suppliers, which are effectively used. As a result, the costs at all stages of the operations have been reduced, in the form of the just-in-time deliveries or inventory kept on the suppliers' premises²⁶.

The wholesale stores and distribution centres, which serve from a few to several points of sales, play an important role within the supply chain of Relpol S.A. Those centres act as intermediaries between the manufacturer and the end customer.

Within its supply chain, Relpol S.A. has approximately 80 qualified suppliers of strategic materials and approximately 500 suppliers of auxiliary materials.

The purchasing strategy is based on the cooperation with the qualified suppliers. The process consists in the verification of the supplier in relation to the quality of the offered material and the capabilities of their machinery stock in terms of ensuring effective and flexible production, as well as a procedural, measurable and repetitive process.

An additional aspect is the meeting of all environmental requirements and ethical standards at the supplier's organisation and a positive result of the supplier evaluation, carried out after each year of cooperation or in the case of grievances – after the end of each quarter.

²⁵ G4-EN28

²⁶ G4-12

The location of the suppliers by material group is presented below:

Material group	Supplier's country of origin
Contact materials	Spain, China
Coil wires	Germany, Italy
Copper-derivative bands	Poland, Germany, Slovakia
Plastics	Poland, Germany, China
Packaging, labels, bags	Poland
Steel bands	Germany
Steel rods, cores	Poland, Germany
Screw products	Poland, China
Chemical materials	Poland, Germany
Electronic materials	Poland
Other metallurgical materials	Poland
IT materials	Poland

While taking decisions regarding the selection of the suppliers of raw materials, materials, goods and services, the company takes into account the guarantee of quality of the ordered materials and services, as well as the ability to ensure flexible and uninterrupted deliveries. The costs are also an important factor. The supplier qualification process described above is carried out.²⁷

In order to avoid becoming dependent on one supplier and search for competitive suppliers who meet the quality requirements of the company, Relpol S.A. systematically diversifies its suppliers, reaching beyond Poland and Europe. As a result, the company adds the regions of Asia to its purchasing network. On the one hand, this approach ensures the retention of alternative suppliers, guaranteeing uninterrupted deliveries of raw materials and materials used in production, and on the other hand – helps reduce the costs of purchasing strategic raw materials.

The selection of foreign suppliers may have an adverse effect on the local environment and economy, causing an increase in unemployment or a decrease in the region's attractiveness.

Approximately 33% of the purchases of Relpol S.A. are made from the domestic suppliers. In terms of value, it corresponds to the cost of PLN 18 million. The local environment means the suppliers from the entire territory of Poland. The nature of the business activity of Relpol S.A. is global.

²⁷ G4-13, G4-EC9

IV. Employees and the social environment

One of the most crucial assets of the capital group is the staff. The companies observe the provisions of the law pertaining to the working environment, legal protection and rules of remuneration. Those regulations include, in particular, the Labour Code, the Work Regulations, the Remuneration Rules, the OHS provisions and the legislation on trade unions. They apply to 100% of the staff. There are no collective labour agreements at the company²⁸.

A key element of the development of strong relationships is engaging in dialogue with the employees. The Management Board of Relpol S.A. regularly meets with the staff representatives, i.e. the Works Council and the trade unions. The subject matter of those meetings includes the issues related to the current financial standing of the company and the capital group, as well as the planned modifications, with particular focus on the changes in the number of employees or the salary levels. During those meetings, also the OHS, the staff-related matters and the investments are discussed.

Operational meetings at various levels of management take place on an ongoing basis. The electronic mail, bulletin boards and the company's website are used to communicate with the employees.

For over 50 years, the TKKF – Towarzystwo Krzewienia Kultury Fizycznej (The Society for the Promotion of Sport and Physical Activity) has been operating at the company. Its objective is to integrate the employees through skiing or hiking trips and the participation in sports activities.

The company's trade unions are involved in the organisation of recreational and sightseeing trips, summer camps for children and Christmas presents.

The company offers a comprehensive social benefit package which includes, for instance, financial support for the summer camps for the employees' children, repayable loans for housing purposes, non-repayable hardship benefits and subsidies on sports and recreation.

The employees have access to preventive healthcare services which exceed the scope of occupational medicine. As part of the preventive healthcare, the company finances additional diagnostic packages for the employees over 40 years of age.

The company provides its employees with opportunities for growth and development of their professional qualifications by financing their participation in courses, training sessions and postgraduate studies.

1. Employment

At the end of 2017, the capital group employed 816 people, of which 69% were women. The production companies in Poland and the Ukraine have the largest numbers of employees²⁹. There is no seasonality of employment at the capital group.

²⁸ G4-DMA

²⁹ G4-10, G4-11

Number of employees of the capital group, including the companies excluded from consolidation.

Number of employees at end of the year	2017		2016	
	Women	Men	Women	Men
Relpol S.A. Poland	245	228	234	228
Relpol Elektronik Poland	66	2	69	3
Relpol Eltim Russia	5	6	5	6
DP Relpol Altera Ukraine	242	14	224	14
Total in the consolidated companies	560	250	532	251
Relpol Altera Ukraine *	0	1	0	1
Relpol M Belarus *	3	2	3	2
Total in the capital group	563	253	535	254

* companies excluded from consolidation

The employment structure by gender at the capital group is uneven, with a predominance of women. The largest number of women is employed in the assembly and administration departments, such as finances, accounting, staff-related matters or logistics. In turn, men are employed primarily in the indirect production departments, such as the tool-shop, repair departments or warehouses, as well as occupy administrative positions in the design, technology and trade units, service and the IT department.

The staff is employed primarily on the basis of full-time employment contracts of indefinite duration. We chose this approach, since it provides our employees with a sense of security, stability of employment and the ability to exercise their rights to the fullest extent.

The employees of external companies (outsourcing) represent a small percentage of the total number of employees. They include the production employees, cleaning staff and security guards.

Number of employees by employment contract type	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Employment contracts of indefinite duration	435	221	453	230
Employment contracts of definite duration	125	29	79	21
Total in the capital group	560	250	532	251

Number of employees by weekly working time	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Full-time	553	246	527	246
Part-time	7	4	5	5
Total in the capital group	560	250	532	251

Number of employees by employment type	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Production employees	508	168	475	174
Administrative employees	48	75	54	71
Directors	4	7	3	6
Total in the capital group	560	250	532	251

Number of employees by work experience	31.12.2017		31.12.2016	
	Women	Men	Women	Men
from 0 to 5 years	277	78	264	78
from 6 to 15 years	153	59	127	51
from 16 to 25 years	45	49	51	49
over 26 years	85	64	90	73
Total in the capital group	560	250	532	251

Gender structure of the capital group's governing bodies

Number of employees in the governing bodies by gender	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Management Board	0	5	0	5
Supervisory Board	1	4	1	4
Total in the capital group	1	11	1	11

Total number and rates of new employee hires by age group, gender and region³⁰.

Employment rates by gender

Gender	Number of persons employed in 2017	Employment rate in 2017	Number of persons employed in 2016	Employment rate in 2016
Relpol S.A. Poland				
Women	47	9.9%	21	4.1%
Men	40	8.4%	26	4.4%
Total	87	18.3%	47	10.2%
Relpol Elektronik Poland				
Women	7	10.1%	27	36.0%
Men	1	1.4%	1	1.3%
Total	8	11.5%	28	37.3%

³⁰ G4-LA1

DP Relpol Altera Ukraine				
Women	90	35.2%	74	31.1%
Men	8	3.1%	8	3.4%
Total	98	38.3%	82	34.5%

In DP Relpol Altera, the staff turnover concerns mostly women due to the manual and monotonous character of work which the men are reluctant to perform.

In Relpol Eltim there were no changes in the number of employees.

Employment rates by age

Age in years	Number of persons employed in 2017	Employment rate in 2017	Number of persons employed in 2016	Employment rate in 2016
Relpol S.A. Poland				
19–29	34	7.1%	29	6.3%
30–50	34	7.2%	13	2.8%
> 50	19	4.0%	5	1.1%
Total	87	18.3%	47	10.2%
Relpol Elektronik Poland				
19–29	5	7.2 %	15	20.0 %
30–50	1	1.4 %	11	14.7 %
> 50	2	2.9 %	2	2.7 %
Total	8	11.50 %	28	37.34 %
DP Relpol Altera Ukraine				
19–29	45	17.6%	36	15.1%
30–50	49	19.1%	38	16.0%
> 50	4	1.6%	8	3.4%
Total	98	38.3%	82	34.5%

Total number of employees and staff turnover by gender, age group and region

Staff turnover by gender

Gender	Number of persons made redundant in 2017	Turnover ratio 2017	Number of persons made redundant in 2016	Turnover ratio 2016
Relpol S.A. Poland				
Women	35	7.0%	16	3.5%
Men	33	7.4%	34	7.4%
Total	68	14.3%	50	10.8%

Relpol Elektronik Poland				
Women	10	2.9%	13	17.4%
Men	2	14.5%	0	0%
Total	12	17.4%	13	17.4%
DP Relpol Altera Ukraine				
Women	76	29.7%	91	38.2%
Men	8	3.1%	7	2.9%
Total	84	32.8%	98	41.1%

Staff turnover by age

Age in years	Number in 2017	Turnover ratio in 2017	Number in 2016	Turnover ratio in 2016
Relpol S.A. Poland				
19–29	23	4.9%	16	3.5%
30–50	24	5.1%	18	3.9%
> 50	21	4.4%	16	3.5%
Total	68	14.3%	50	10.8%
Relpol Elektronik Poland				
19–29	8	11.6%	8	10.7%
30–50	4	5.8%	5	6.7%
> 50	0	0%	0	0%
Total	12	17.4%	13	17.4%
DP Relpol Altera Ukraine				
19–29	48	18.7%	46	19.3%
30–50	34	13.3%	47	19.8%
> 50	2	0.8%	5	2.1%
Total	84	32.8%	98	41.2%

No employees were recruited or made redundant at Relpol Eltim.

Equal remuneration for women and men

Relpol S.A. follows an adequate remuneration policy³¹. The following criteria are taken into account while determining the individual level of remuneration: the nature of work, the employee's qualifications, professional experience and the results of the work evaluation. The basic remuneration consists of the base salary and the appreciation bonus. The basic remuneration of the employees occupying a given position must be within the salary range specified in the Remuneration Rules. Each year, the Management Board conducts negotiations with the trade unions regarding the increase in remunerations. The subsidiaries pay remuneration to their employees in accordance with the applicable internal rules and provisions of the law.

³¹ G4-LA13

The table below illustrates the ratio of the remuneration of men to the remuneration of women.

At Relpol S.A.	2017	2016
Production employees	136%	130%
Administrative employees	118%	162%
Directors	96%	138%

Relpol Elektronik	2017	2016
Production employees	98.43%	106.83%
Administrative employees	n/a	n/a
Directors	n/a	n/a

The above figures include all remunerations paid, including the retirement benefits; therefore, a one-time distortion of the structure may occur. The difference between the remuneration of men and women results primarily from the nature of work and the bonus system. There are certain positions occupied solely by men, such as technologists, product designers, polishers, turners, machine setters, warehousemen and sales representatives. Women are employed particularly as fitters and machine operators in the production departments, office employees in the departments of finance, accounting, logistics, sales, staff-related matters and the head office.

2. Occupational health and safety

Relpol S.A. pays particular attention to the occupational health and safety. All activities are carried out in accordance with the applicable laws and regulations in this regard. Harmful factors at the workplace are measured on an ongoing basis. The occupational risk assessments are carried out and updated regularly³².

The employees are provided with personal protective equipment, workwear and safety footwear based on the workwear allocation chart specified in the Work Regulations.

³² G4-LA5

Percentage of employees represented in joint formal OHS commissions, including employees and managers, which help monitor and implement OHS-related programmes.

Relpol S.A.	2017	2016
Percentage of staff represented in joint formal OHS commissions, including employees and managers.	1.69 %	1.74 %

Type and rate of injuries, occupational diseases, lost days and absences from work, as well as work-related fatal accidents by region³³

Accidents at work	2017		2016	
	Women	Men	Women	Men
Number of minor accidents at work	1	1	2	5
Number of major accidents at work	0	0	0	0
Number of fatal accidents at work	0	0	0	0

Accident rate	2017	2016
Accident severity rate	9	8.4
Accident frequency rate	4.2	14.8
Occupational disease rate	0	0

Accident severity rate = total number of days of unfitness to work / number of accidents at work – number of fatal accidents.

Accident frequency rate = number of injured employees * 1000 / number of employees

3. Local community

Relpol S.A. and the companies undertake various initiatives for the employees, the local community, the students of primary and secondary schools, universities etc. Those initiatives usually consist in providing financial support, covering the costs of events, financing awards, purchasing equipment and materials, and providing products.

The sponsoring activity is just one of the forms of social involvement. The group also counteracts unemployment and offers stable employment and decent working conditions. We organise internships and on-the-job training for pupils and students. In 2017, we began cooperating with Organizacja Pracodawców Ziemi Lubuskiej (the Organisation of Employers of the Lubusz Land) on a project entitled “Modernisation of the continuing education in the Żary district.” We regularly participate in the Żary job fair and in the “Entrepreneurial Week”

³³ G4-LA6

organised in high schools.

We promote the company, the region and the country by presenting our products during domestic and international trade fairs, such as Automaticon in Warsaw, Energetab in Bielsko-Biała, Energetics in Lublin, Messe in Hannover, Electronica in Munich, Amper in Brno and Electrical Networks of Russia. In 2018, we will additionally participate in the Middle East Electricity fair in Dubai and WIN Eurasia in Istanbul.

	2017	2016
Donations and sponsoring in zloty	111,000	94,000
Donations and sponsoring in hryvnia	17,300	5,560

Name of the organisation or institution	Name of the event, type of donation
Runners Team Żary Sports Club	Dycha po Żarach (running event)
Związek Wędkarski (Angling Association) – open-air picnic	Prizes for children
Runners Team Żary Sports Club	Cross po Zielonym Lesie (cross-country running event)
Voluntary Fire Brigade in Dębinka	Purchase of equipment
Łódź Solar Team	Support for a group of students from Łódź University of Technology who are building the first solar-powered vehicle in Poland (provision of products)
Municipal Public Library in Żary	Donation
Mam Marzenie Foundation, Wrocław	Donation
Parish Caritas Team in Żary	Purchase of Christmas presents
“The Most Beautiful Garden, Balcony, Terrace and Backyard” contest	Sponsor of two awards
Assumption of the Blessed Virgin Mary Parish in Żary	Donation
St. Brother Albert’s Aid Society	Hospice in Żary
Municipal Public Library in Żary	Contests for children
A play for children in the Zielona Góra hospital	Prekursor Artystyczny (Artistic Precursor)
Voluntary Fire Brigade in Złotnik	Donation
Bolesław Prus High School in Żary	Graduate reunion
BOLKO Students Sports Club in Żary	Financial support for the participation in a sports competition
Parents’ Council of the Special Schools Complex in Żary	Donation
Serwus Żary Association	Equipment for the community centre
Caritas Żary	Holiday campaign “Tak, pomagam” (“Yes,

	I am helping ³⁴)
Assumption of the Blessed Virgin Mary Parish in Żary	Donation

4. Membership in associations

Relpol is a member of Polska Izba Gospodarcza Elektrotechniki (the Polish Economic Chamber of Electrotechnical Engineering) which represents the Polish electrotechnical industry. The other companies are not members of any organisations³⁴.

5. Awards and distinctions

The activities and performance of Relpol S.A. and its subsidiaries have been noticed and recognised by local authorities and organisations, as well as by independent companies which analyse the companies' results and subsequently select and reward thriving enterprises. As a result, the company has received several awards and titles during the last few years.



**BRYLANT POLSKIEJ
GOSPODARKI 2016**



**Gepard Biznesu
2016**

Awards	Granting authority	Year of award
Brylant Polskiej Gospodarki (the Diamond of Polish Economy) 2017	Instytut Europejskiego Biznesu (the European Business Institute)	2018
Gazele Biznesu (the Business Gazelles) 2017 of the Lubusz Voivodeship	Puls Biznesu	2018
Żarska Róża Biznesu (the Business Rose of Żary) Gospodarcza Nagroda Specjalna (the Special Economic Award) 2016	Social Council of Entrepreneurs and the Mayor of Żary	2017

³⁴ G4-15, G4-16

Efektywna Firma (the Effective Company) 2016	Instytut Europejskiego Biznesu (the European Business Institute)	2017
Gepard Biznesu (the Business Cheetah) 2016	Instytut Europejskiego Biznesu (the European Business Institute)	2017
Gepard Biznesu (the Business Cheetah) 2015	Instytut Europejskiego Biznesu (the European Business Institute)	2016
Efektywna Firma (the Effective Company) 2015	Instytut Europejskiego Biznesu (the European Business Institute)	2016
Leader of Russia for Relpol Eltim		2016
The title of the Manager of the Year of the Electrotechnical Industry 2014 for Rafał Gulka, CEO	Rynek elektryczny (Electrical Market magazine)	2015
Skrzydła Biznesu (the Business Wings) 2015 – an honourable mention in the category of medium companies of the Lubusz Voivodeship	Gazeta Prawna (Legal Bulletin newspaper)	2015

V. Respect of human rights

One of our top priorities is to respect human rights and create an atmosphere of trust, equal opportunities and fair treatment of all employees, irrespective of their age, gender, position, seniority, membership in trade unions, denomination, political views, nationality, disability, appearance etc. We recruit new employees according to the same principles. We do not tolerate mobbing, child employment, exploitation and forced labour. We treat our employees with responsibility and respect and observe all standards and norms, provide decent and safe working conditions, working hours, the right to rest, holiday leave, healthcare, professional development opportunities and remuneration which reflects their skills and work performance. We follow fair rules of remuneration, taking into consideration the nature and effectiveness of the work performed by the employee, the company's capabilities and the local labour market conditions. We observe the provisions of the law in this regard.

The issues of intracompany relations and the relations with the external environment have been specified in the document entitled "Ethical Principles of the Employees of Relpol S.A.", which constitutes an appendix to the Work Regulations. The subsidiaries respect human rights and the principles of fair treatment of the employees; however, they have not developed a formal policy in this regard.

VI. Anti-corruption policies and procedures

Relpol S.A. follows the principles of integrity and trustworthiness in all of its activities. We carry out our business activity in accordance with the highest ethical standards, in a transparent

and responsible manner. Therefore, Relpol S.A. has implemented an anti-corruption policy and declares that it uses its best efforts in order to prevent the occurrences and attempts of corruption and bribery. In accordance with the anti-corruption policy, the employees must not:

- a) offer or hand any physical or financial benefits to the counterparties, customers, officials or other persons participating in the company's operations,
- b) accept any benefits, valuable presents, offers and other forms of bribes.

According to the policy, seeking any forms of bribes for one's own benefit while acting on behalf of the company is prohibited. Any and all forms of bribes must be immediately reported to the direct superior. It is acceptable to receive and offer only small gifts or promotional gadgets, including invitations to meals or refreshments, provided that there is no suspicion that such form of a small gift or hospitality may be perceived as undue influence on the business decision-taking process.

The anti-corruption policy applies to all employees of Relpol S.A., irrespective of the place of work and the scope of duties. It requires the employees to observe the rules specified therein and any violation in this regard results in a disciplinary action. Any activities non-compliant with the anti-corruption policy are reported to the direct superior or a higher-level superior, or are sent via electronic mail to etyka@relpol.com.pl. In 2016 and 2017, there were no reports of unethical conduct. The subsidiaries have no such policies in place.

VII. GRI Index

Profile indicators ³⁵	INDICATOR DESCRIPTION	Page no.
Strategy and analysis		
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy	Letter from the CEO and 45
G4-2	Description of key impacts, risks, and opportunities	56
Organisational profile		
G4-3	Name of the organisation	46
G4-4	Primary brands, products, and services	46
G4-5	Location of the organisation's headquarters	46
G4-6	Number of countries where the organisation operates	46
G4-7	Nature of ownership and legal form	52
G4-8	Markets served, including geographic breakdown	46
G4-9	Scale of the organisation	46
G4-10	Total number of employees by type, gender, and seniority	68
G4-11	Percentage of total employees covered by collective bargaining agreements	68
G4-12	Organisation's supply chain	66
G4-13	Significant changes regarding the organisation's size, structure,	52, 67

³⁵ G4-32

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Part II – Statement on non-financial information

	ownership, or its supply chain	
G4-14	Application of the precautionary principle	57
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	77
G4-16	List memberships of associations and national or international organisations	77
Identified material aspects and boundaries		
G4-17	Information on all entities included in the consolidated financial statements	52
G4-18	Information on the process for defining the report content, the aspect boundaries, and the implementation principles	44
G4-19	Material aspects identified in the report	44-45
G4-20	Influence of the aspect within the organisation	44-45
G4-21	Influence of the aspect outside the organisation	44-45
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	44
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	44
Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organization	58
G4-25	Basis for identification and selection of stakeholders with whom to engage	58
G4-26	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	58
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	58
Report profile		
G4-28	Reporting period	44-45
G4-29	Date of most recent previous report, if any	44-45
G4-30	Reporting cycle	44-45
G4-31	Contact point for questions regarding the report or its contents	79
G4-32	GRI Content Index	78
G4-33	External assurance of the report	44
Governance		
G4-34	Structure of the highest governance body	53
Ethics		
G4-56	Organization's values, principles, standards and norms of behaviour	53

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Specific indicators	INDICATOR DESCRIPTION	Page no.
	Economic	
G4-EC1	Economic results	59
G4-EC8	Indirect economic impacts	60
G4-EC9	Procurement practices	67
	Environmental	
G4-EN1, G4-EN2	Materials and raw materials	61-62
G4-EN3, G4-EN6	Energy	62, 64
G4-EN27, G4-EN28	Products and services	65-66
G4-EN34	Environmental grievance mechanisms	65
	Social	
G4-LA1	Employment	70
G4-LA5, G4-LA6	Occupational health and safety	73-74
G4-LA13	Equal remuneration for women and men	72
	Respect of human rights	77
	Anti-corruption policies and procedures	77

Contact point of the company and for questions regarding the CSR statement or its contents³⁶.

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³⁶ G4-5, G4-31

V. Statement on the application of corporate governance principles

1. Identification of corporate governance principles adopted by Relpol S.A.

According to the Regulation of the Minister of Finance of 19 February 2009 on Current and Periodical Information Provided by Issuers of Securities and on Conditions for the Recognition of Information Required in Accordance with the Law of non-Member States as Equivalent (Dz. U. [*Polish Journal of Laws*] No. 33 Item 259) and according to Article 29(3) of the Stock Exchange Rules, the Management Board of Relpol S.A. hereby presents its statement on the application of corporate governance principles at the company.

Relpol follows the corporate governance principles published in the document entitled “Best Practices of Companies Listed on the WSE 2016”, adopted by way of Resolution no. 26/1413/2015 of the Council of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) on 13 October 2015.

Pursuant to Article 29(3) of the Rules of Giełda Papierów Wartościowych w Warszawie S.A., on 13 January 2016 Relpol S.A. submitted the Information on the application of recommendations and rules specified in “Best Practices of Companies Listed on the WSE 2016” by the company. The document is available on the company's website: <http://www.relpol.pl/pl/Relacje-Inwestorskie/Lad-korporacyjny/Oswiadczenia-sprawozdania-Rady-Nadzorczej/2016>

The majority of the rules are followed by the company in their entirety, with several exceptions described below.

2. Departures from the corporate governance principles.

In 2017, the company did not apply or partially applied the following principles of best practices:

Rule I.Z.1. The company maintains a corporate website where it publishes – in a legible form and in a separate space – the following data, in addition to the information required under the provisions of the law:

Rule I.Z.1.10. financial forecasts – if the company decided to publish the same – published for at least the previous 5 years, with the information on the degree of their fulfilment.

The rule is not applied. The company did not publish and did not decide to publish financial forecasts.

Rule I.Z.1.15. information containing a description of the diversity policy followed by the company in relation to the company's governing bodies and key managers; the description should include the elements of the diversity policy, such as gender, field of study, age, professional experience, as well as specify the objectives of the followed diversity policy and the manner of its implementation in the given reporting period; if the company has not developed or implemented a diversity policy, it publishes the grounds for that decision on its website.

The rule is partially applied. The company does not follow a formally described diversity policy. The personnel decisions related to the nomination of the members of the Supervisory Board are taken by the General Meeting of Shareholders, and the Supervisory Board selects the members of the Management Board. The basic criteria for the selection of an appropriate candidate are their qualifications and experience. In the case of selection of the members of the Supervisory Board, also the criterion of independence is of importance – at least half of the members of the Supervisory Board should be independent. At the company, all employees are treated equally, irrespective of their gender, age, disability, political views, religion, nationality etc.

Rule I.Z.1.16. information on the planned broadcast of the General Meeting of Shareholders – no later than 7 days prior to the date of the General Meeting.

The rule is not applied. So far, the Company has not broadcasted any General Meetings of Shareholders. The shareholders of the company participate in the General Meetings in person.

Rule I.Z.1.20. an audio or video recording of the General Meeting of Shareholders.

The rule is not applied. The company has not registered any General Meetings of Shareholders in audio or video format. The information on the adopted resolutions provided immediately in the form of current reports and published on the company's website, thus allowing the shareholders to quickly access all relevant information.

Rule I.Z.2. The company whose shares qualify for the WIG20 or WIG40 index must make their website available also in the English language, at least to the extent specified in Rule I.Z.1. This rule should also be applied by companies whose shares do not qualify for the above-mentioned indices, if it is warranted by their shareholder structure or the nature and scope of operations.

The rule is partially applied. The company's shares do not qualify for the above-mentioned indices and the shareholder structure also does not warrant making the website available in the English language. However, due to the low share liquidity, since October 2017 the company has been publishing certain information in the English language, such as current and interim reports, the composition of the company's governing bodies, corporate documents, the shareholder structure or the timeline of events.

Rule II.Z.10. In addition to the activities undertaken pursuant to the provisions of the law, once per year the Supervisory Board draws up and presents to the Ordinary General Meeting of Shareholders:

Rule II.Z.10.4. the evaluation of the reasonableness of the company's policy specified in Recommendation I.R.2, or the information on the lack of such policy.

The rule is not applied. The company does not follow a formally described policy on the sponsoring, charitable or similar activities. The expenditure on this type of activity is low. The Supervisory Board presents to the General Meeting of Shareholders the evaluation of the reasonableness of the actual expenditure incurred by the company for the sponsoring, charitable

and similar activities.

Rule IV.Z.2. If warranted by its shareholder structure, the company publicly broadcasts the General Meetings of Shareholders in real time.

The rule is not applied. The company does not broadcast the General Meetings of Shareholders in real time. The shareholders of the company participate in the General Meetings in person. The information on the adopted resolutions is provided immediately in the form of current reports and published on the company's website.

Rule V.Z.6. The internal regulations of the company specify the criteria and circumstances under which a conflict of interest may arise, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations include, for instance, the methods for preventing, identifying and solving conflicts of interests, as well as the rules for excluding a member of the Management Board or the Supervisory Board from the participation in the consideration of the issue to which the conflict of interest applies or may apply.

The rule is not applied. The current internal regulations of the company do not specify the criteria, circumstances or rules of conduct where a conflict of interest has arisen or may arise. The company shall consider whether the introduction of such regulations is justified.

Rule VI.Z.1. The incentive programmes should, inter alia, make the level of remuneration of the members of the company's Management Board and of its key managers conditional upon the actual, long-term financial standing of the company, the long-term increase in value for the shareholders and the stability of the company's operations.

The rule is not applicable to the company. The company has not developed a remuneration policy and there are no incentive programmes for the members of the Management Board.

Rule VI.Z.2. In order to align the remuneration of the Management Board members and of the key managers with the long-term business and financial objectives of the company, the period between the granting of share options or other share-related instruments as part of the incentive programme and the exercise of the said share options should not be shorter than 2 years.

The rule is not applicable to the company. The company has not implemented any incentive programmes based on shares or other share-related financial instruments.

3. Description of the main characteristics of the internal control and risk management systems in relation to the drawing up of financial statements and consolidated financial statements by the issuer.

The internal control system applied at Relpol S.A. allows a flow of information which ensures that the prepared financial statements are accurate. The company has implemented a multi-module, integrated IT system, the access to which is restricted and adjusted to the needs of particular persons arising from their duties and responsibilities. The data within the system is

secured and archived.

The accounting ledgers, and in the case of consolidated financial statements – the statements and notes received from the subsidiaries, constitute the basis for the preparation of the financial statements.

Prior to posting each source document to a ledger, it is verified from the formal and substantive standpoint and approved by the authorised persons. The circulation of documents at the company has been described in the Document Circulation Procedure. Postings are made in accordance with the adopted accounting principles.

The prepared financial statements are subject to multi-stage control and verification. The half-yearly financial statements are reviewed and the annual financial statements are audited by an expert auditor.

The regulations in force at the company include, without limitation:

- Work Regulations,
- Organisational Rules,
- Remuneration Rules,
- Document Circulation Procedure,
- Safety Policy,
- Internal Instructions and Orders

4. Shareholders who directly or indirectly hold significant blocks of shares

In accordance with the information available to the company, the following shareholders hold the shares which entitle them to exercise at least 5% of the voting rights at the General Meeting of Shareholders.

Shareholder	Number of shares held (pcs)	Number of votes at the GMS	Share in the total number of votes at the GMS	Share in the share capital
Ambroziak Adam	3,171,000	3,171,000	33.00%	33.00%
Osiński Piotr	608,943	608,943	6.34%	6.34%
Altus TFI S.A.	2,027,358	2,027,358	21.10%	21.10%
Rockbridge TFI S.A.	959,772	959,772	9.99%	9.99%
Raiffeisen TFI S.A.	569,467	569,467	5.93%	5.93%

There are no holders of securities which would grant any special control rights.

In accordance with the Statutes, the company's shares are not subject to any restrictions related to the transfer of ownership or the exercise of voting rights. All issued shares are ordinary bearer shares and each share carries one vote.

5. Description of the rules governing the appointment and dismissal of the managerial staff, as well as their powers.

Supervisory Board

The Supervisory Board is a permanent supervisory and control authority of the company.

The rules of functioning of the company's Supervisory Board, its responsibilities and powers are specified in the Articles 24–25 of the Statutes and in the Regulations of the Supervisory Board. Furthermore, the Supervisory Board acts in accordance with the corporate governance principles of joint-stock companies, adopted by the Council and the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), within the scope specified in the statement submitted by the Management Board. For well-founded reasons, the Supervisory Board may choose to depart from selected corporate governance principles applicable to supervisory boards. In that case, the Management Board publicly announces such decision.

Pursuant to Article 21 of the Company's Statutes, members of the Supervisory Board are appointed and dismissed by the shareholders at the General Meeting of Shareholders.

The resolutions on the appointment of the members of the company's governing bodies are adopted by an absolute majority of votes. The Regulations of the General Meeting of Shareholders provide that in the third round of voting, the resolutions on the appointment of the members of the governing bodies are adopted by a simple majority of votes.

The Supervisory Board is composed of 5–7 members, at least half of which should be independent. The detailed criteria of independence are specified in the company's Statutes. The Supervisory Board is appointed for 3 years and its mandate expires on the day of the General Meeting of Shareholders which approves the financial statements for the full previous financial year. A member of the Supervisory Board can be dismissed at any time by the General Meeting of Shareholders.

The members of the Supervisory Board must not engage in any competitive business or participate in a competitive company as shareholders or members of the governing bodies of such a company.

The activities of the Supervisory Board are managed by its Chairman and in their absence – by the Vice Chairman. The Chairman and the Vice Chairman are appointed by the Supervisory Board during the first session, by secret ballot and by an absolute majority of votes.

The Supervisory Board adopts resolutions by an absolute majority of votes.

Without the consent of the majority of independent members, the Supervisory Board cannot adopt resolutions on:

- a) any performance on any account whatsoever by the company or any related entities of the company for the benefit of the members of the company's Management Board,
- b) the consent to the conclusion of a material agreement between the company or its related entity and a related entity of the company, a member of the Supervisory Board or the Management Board and their related entities,

- c) the selection of the expert auditor to audit the financial statements of the company.
1. In addition to the matters specified in the Commercial Companies Code, the following issues require a resolution of the Supervisory Board:
 - the consent to the purchase, disposal, lease or encumbrance of real estate and the subscription for or purchase of stocks or shares in domestic and foreign commercial companies and private partnerships, where the value of the resulting account payable exceeds 1/4 of the share capital,
 - the consent to the incurring of other liabilities which exceed the value of equities,
 - the determination of the legal form of employment of the members of the Management Board and the rules for their remuneration,
 - the selection of the expert auditor to audit the financial statements of the company,
 - the company's investment plans consisting in the acquisition of fixed assets whose value exceeds EUR 150,000.00 and which are not included in the annual investment plans,
 - the appointment and dismissal of the members of the Management Board,
 - the examination of and approval for the company's annual business plans prepared by the Management Board.
 2. For material reasons, the Supervisory Board can suspend the Management Board or its individual members.
 3. In the event of suspension of the Management Board in its entirety, the Supervisory Board delegates its own members to carry out the activities of the Management Board.
 4. In the event of suspension of a member of the Management Board, the Supervisory Board delegates one of its own members to serve on the Management Board.

In addition to the tasks reserved to it pursuant to the Statutes, the duties of the Supervisory Board include, in particular:

- a) auditing and evaluating the financial statements and the management reports on the operations of the company and the capital group,
- b) expressing opinions on the creation of new funds of the company,
- c) auditing the report and motions of the Management Board on the division of profits and the financing of losses,
- d) submitting annual written reports on the results of audits and inspections to the General Meeting of Shareholders,
- e) suspending the Management Board or its individual members for material reasons,
- f) representing the company in agreements and in disputes between the Management Board and the company,

- g) appointing and dismissing the members of the Management Board,
- h) examining and approving the company's annual business plans prepared by the Management Board,
- i) expressing opinions on all documents and motions of the Management Board submitted to the General Meeting of Shareholders as part of the agenda,
- j) requesting the General Meeting of Shareholders to grant the members of the Management Board an approval of the performance of their duties,
- k) supervising the implementation of resolutions of the General Meeting of Shareholders by the Management Board,
- l) examining other matters as requested by the General Meeting of Shareholders.

The Supervisory Board acts as the employer in the matters arising from the employment relationship of the members of the Management Board. The employment contracts with the members of the Management Board are concluded by the Chairman of the Supervisory Board pursuant to the Supervisory Board's resolutions.

Management Board of the Company

The Management Board of the company is an executive body which manages the company's operations and its property, as well as represents it externally. The Management Board takes decisions independently and is held accountable for the same.

The duties of the Management Board include all activities related to the management of the company's affairs, not reserved to other governing bodies.

The Management Board acts in accordance with the company's Statutes, the Commercial Companies Code and the internal regulations of the company. The detailed rules of functioning the Management Board are specified in the Regulations adopted by the General Meeting of Shareholders. Furthermore, the Management Board acts in accordance with the corporate governance principles of joint-stock companies, adopted by the Council and the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), within the scope specified in the statement submitted by the Management Board. For well-founded reasons, the Management Board may choose to depart from selected corporate governance principles applicable to management boards. In that case, the Management Board publicly announces such decision.

The company's Management Board is composed of 2–5 members and comprises the President, the Vice President and the Members of the Management Board. The present Management Board has been appointed by the Supervisory Board for a common term of 3 years. The President of the Management Board is elected in a separate vote.

The members of the company's Management Board simultaneously serve as the Directors of the company, i.e. the heads of the organisational divisions according to the rules set out in the Organisational Rules of the company.

Making declarations of will and signing documents on behalf of the company requires a joint

action of two members of the Management Board or one member with a proxy, or two proxies. The Management Board can appoint attorneys-in-fact to handle certain matters.

The Management Board is obliged to:

- a) maintain a corporate minute book of the General Meeting of Shareholders, draw up certified copies of the resolutions and deliver the same to the authorised persons,
- b) provide the Supervisory Board and the General Meeting of Shareholders with exhaustive explanations and present all documents and other materials pertaining to the company,
- c) prepare and present to the General Meeting of Shareholders the balance sheet for the last financial year, the profit and loss account, the written report on the company's operations after the end of the financial year,
- d) carry out post-inspection recommendations,
- e) present the financial and economic plan and the business plan of the company to the General Meeting of Shareholders once per year for examination and approval,

Resolutions of the Management Board are required for:

- a) the adoption of the draft multi-annual business plan of the company,
- b) the adoption of the annual business plan of the company,
- c) the approval of the financial statements and the management reports on the operations of the company and the capital group for the previous financial year,
- d) the designation of time and place of the General Meeting of Shareholders,
- e) the determinations made in the matters related to the shares and the trading thereof,
- f) the taking out of credits and loans,
- g) the appointment of proxies,
- h) the definition of regulations governing the internal functioning of the company's enterprise, including the regulations resulting from the employing of staff,
- i) the drawing up of consolidated texts of the Statutes and the regulations of the General Meeting of Shareholders, the Supervisory Board and the Management Board, as well as the submission of the same to the Supervisory Board for approval,
- j) the purchase, disposal, lease or encumbrance of real estate and the subscription for or purchase of stocks or shares in domestic and foreign commercial companies and private partnerships, where the value of the resulting account payable does not exceed 1/4 of the share capital.

The resolutions of the Management Board are adopted by an absolute majority of votes.

The Management Board and the Supervisory Board carry out activities and adopt resolutions pursuant to the provisions of the company's Statutes, the Regulations of the Supervisory Board,

the Regulations of the Management Board and the Commercial Companies Code. The said Regulations and the company's Statutes are available at www.relpol.pl

6. Rules for amending the issuer's statutes

Any amendment to the Statutes requires a resolution of the General Meeting of Shareholders, adopted by a majority of 3/4 of the votes. In 2017, there were no amendments to the company's Statutes.

7. Description of the operation of the General Meeting of Shareholders and its fundamental rights, the shareholders' rights and the exercise thereof.

The Ordinary General Meeting of Shareholders is convened by the company's Management Board and the Extraordinary General Meeting of Shareholders is convened by the company's Management Board on its own initiative or upon written request of the Supervisory Board, or upon request of the shareholders representing at least 1/20 of the share capital.

The General Meeting of Shareholders is convened by the Supervisory Board in the form of:

- the Ordinary General Meeting of Shareholders, if the Management Board fails to convene the same within the time limit specified above,
- the Extraordinary General Meeting of Shareholders, if the Management Board fails to convene the same within two weeks of having received the request.

The Extraordinary General Meeting of Shareholders is convened by the shareholders who request that it be convened, after being authorised to do so by the Registry Court. In that case, the Court appoints the chairman of the General Meeting. The Court's decision must be invoked in the notice convening the General Meeting.

The General Meetings of Shareholders are held at the registered office of the company or in Warsaw.

The General Meetings of Shareholders are convened by way of notice published on the company's website and according to the method for providing current information under the regulations on public offering and conditions governing the introduction of financial instruments to organised trading, and on public companies.

The notice should specify the date, time and place of the General Meeting of Shareholders, as well as the detailed agenda. In case of a planned amendment to the Statutes, the notice should contain the existing provisions and the proposed changes.

Prior to the General Meeting of Shareholders, a list of shareholders entitled to participate is prepared. The list is signed by the Management Board and placed at the company's registered office for three days prior to the General Meeting of Shareholders. The shareholders may review the list of shareholders and request a certified copy thereof upon covering the costs of making such a copy.

The General Meeting of Shareholders is declared open by the Chairman or the Vice Chairman of the Supervisory Board, and in their absence – by one of the members of the Supervisory Board. The Chairman of the General Meeting of Shareholders is then elected from among the persons entitled to participate.

In addition to the matters reserved to it pursuant to the provisions of the Commercial Companies Code, the following issues require a resolution of the General Meeting of Shareholders:

- the examination of and approval for the financial statements and the management reports on the operations of the company and the capital group for the previous financial year,
- the division of profits or the financing of losses,
- the granting of an approval of the performance of the duties to the members of the Company's governing bodies
- the determination of the remuneration of the members of the Supervisory Board,
- the appointment and dismissal of the members of the Supervisory Board,
- the creation and release of special funds,
- the issuance and redemption of shares,
- the introduction of the company's shares to public trading,
- the issuance of bonds, including convertible bonds.

The resolutions of the General Meeting of Shareholders are adopted by a simple majority of votes, unless otherwise provided in the Commercial Companies Code or the Statutes. The resolutions on the issuance and the method for issuance of shares, amendments to the Statutes, divestiture of the company's business or a change of its objects, mergers of companies, dissolution of the company or its conversion into a limited liability company are adopted by a majority of 3/4 of votes cast.

The voting is open. Secret voting is ordered in the case of elections and motions on dismissing the members of the company's governing bodies or the liquidators, or holding them accountable, as well as in the case of personal and personnel matters.

The shareholders cannot – either in person or by proxy, or as a proxy of another person – vote on resolutions concerning their accountability towards the company on whatever account, the granting of remuneration to them or on resolutions concerning the agreements and disputes between them and the company. The General Meeting of Shareholders acts in accordance with the Regulations of the General Meeting of Shareholders which is available on the company's website at www.relpol.pl

Corporate rights of the shareholders:

1. The right to participate in the General Meeting of Shareholders and the right to vote at the General Meeting of Shareholders.

2. The right to submit a request that an Extraordinary General Meeting of Shareholders be convened and to submit a request that particular items be included in the agenda; this right is granted to the shareholders who hold at least 1/20 of the company's share capital.
3. The right to challenge the resolutions adopted by the General Meeting of Shareholders.
4. The right to request that the members of the Supervisory Board be elected by voting in separate groups.
5. The right to request that an expert auditor audit a specific issue related to the establishment of a public company or the management of its affairs (auditor for special cases).
6. The right to obtain information on the company in the scope and manner specified in the provisions of the law.
7. The right to receive a registered certificate of deposit issued by the entity keeping the securities account.
8. The right to request certified copies of the report on the company's operations and of the financial statements, together with a certified copy of the report of the Supervisory Board and the opinion of the expert auditor no later than 15 days prior to the General Meeting of Shareholders.
9. The right to review the list of shareholders entitled to participate in the General Meeting of Shareholders and to request a certified copy of that list upon covering the costs of making thereof.
10. The right to request certified copies of the motions concerning the items on the agenda one week prior to the General Meeting of Shareholders.
11. The right to submit a request that the attendance list at the General Meeting of Shareholders be checked by a special commission, composed of at least three members.
12. The right to review the corporate minute book and to request that copies of resolutions certified by the Management Board be issued.
13. The right to bring suit for the redress of the damage suffered by the company in accordance with the principles specified in the Code, if the company fails to bring suit for the redress of the damage suffered by it within one year of the disclosure of the action which had caused the damage.
14. The right to request that a commercial company being a shareholder of the Issuer disclose whether it is a parent or a subsidiary company in relation to a specified commercial company or a cooperative being a shareholder of the Issuer or whether it has ceased to be a parent or a subsidiary company in that respect.

Property rights of the shareholders:

1. The right to receive dividend.
2. The pre-emptive right to subscribe for new shares, pro-rata to the number of shares already held.

3. The right to a share in the company's assets remaining after the creditors are satisfied or secured in the event of the liquidation of the company.
4. The right to dispose of the shares held.
5. The right to encumber the shares held with a pledge or usufruct.

8. Composition and changes in the company's governing bodies

Current composition of the Management Board:

Sławomir Białik – President of the Management Board since 6 February 2018. Between 1 June 2017 and 6 February 2018, he served as the Deputy CEO.

Krzysztof Pałgan – Vice President of the Management Board since 6 February 2018. Between 1 January 2018 and 6 February 2018, he served as the Member of the company's Management Board.

Changes in the composition of the Management Board between 1 January 2017 and the date of publication hereof.

Rafał Gulka – President of the Management Board until 31 December 2017.

Mariusz Matejczyk – Member of the Management Board from 1 June 2017 to 31 October 2017.

Adam Ambroziak – Member of the Supervisory Board, delegated to temporarily serve as the President of the company's Management Board between 1 December 2016 and 28 February 2017, from 1 March 2017 to 31 May 2017 and from 1 January 2018 to 6 February 2018.

Current composition of the Supervisory Board:

1. Zbigniew Derdziuk – Chairman of the Supervisory Board
2. Piotr Osiński – Vice Chairman of the Supervisory Board
3. Adam Ambroziak
4. Agnieszka Trompka
5. Dariusz Daniluk

Changes in the composition of the Supervisory Board between 1 January 2017 and the date of publication hereof.

On 12 October 2017, Rafał Mania resigned from the Supervisory Board. Dariusz Daniluk was appointed by the Supervisory Board in his place by way of co-option.

The Audit Committee and the Remuneration Committee operate within the Supervisory Board. The Audit Committee is composed of: Zbigniew Derdziuk, Agnieszka Trompka and Dariusz Daniluk.

The duties of the Audit Committee resulting from the supervision over the financial reporting

processes of the Company and the internal audit include in particular:

- a/ the monitoring of the financial reporting process, including in particular the audits of annual and consolidated financial statements,
- b/ the monitoring of the effectiveness of the internal audit and the performance of an internal control system inspection at least once per year.

The duties of the Audit Committee resulting from the monitoring of the expert auditor's activities include in particular:

- a/ the making of recommendations to the Supervisory Board regarding the appointment and dismissal of the entity acting as the expert auditor,
- b/ the monitoring of the independence of the entity acting as the expert auditor, in particular the monitoring of the provision of additional services to the company,
- c/ the examination of the reasons for the resignation of the entity acting as the expert auditor.

The Remuneration Committee is composed of all members of the Supervisory Board, i.e. Adam Ambroziak, Agnieszka Trompka, Dariusz Daniluk, Piotr Osiński and Zbigniew Derdziuk.

The role of the Remuneration Committee is to assist the Supervisory Board in the performance of its control and supervisory duties regarding the remuneration and bonus policies.

The Remuneration Committee submits:

- a/ proposals regarding the contents of the contracts concluded with the members of the company's Management Board,
- b/ recommendations regarding the remuneration and bonus system for the members of the company's Management Board based on the system of evaluation of the activities and performance of the company's Management Board.

9. Diversity policy

The company has not formulated or implemented a diversity policy. The main criteria for the selection of the members of the Management Board are the skills, experience, qualifications and competencies of the candidate for a given position.

In the case of selection of the members of the Supervisory Board, in addition to the aforementioned criteria it is also crucial that at least half of the members of the Supervisory Board are independent and that at least one of them has knowledge and skills related to the industry in which the company operates, and that at least one of them has knowledge and skills related to the accounting and the auditing of the financial statements.

As at the date of publication hereof, the company's Management Board is composed of two men and the Supervisory Board is composed of one woman and four men.

Signatures of the Members of the Management Board:

.....
Krzysztof Pałgan
Vice President of
the Management Board

.....
Sławomir Bialik
President of
the Management Board

Żary, 18 April 2018