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MANAGEMENT REPORT ON THE OPERATIONS OF

RELPOL S.A. AND RELPOL CAPITAL GROUP

FOR THE YEAR 2018



Żary, April 2019

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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 2018 r. The said reports have been drawn up as one document, pursuant to Article 83 (8) of the Regulation of the Minister of Finance of 29 March 2018 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

in PLN 000`

SELECTED FINANCIAL DATA	Relpol S.A.		Relpol capital group	
	For the year 2018 from 01.01.2018 to 31.12.2018	For the year 2017 from 01.01.2017 to 31.12.2017	For the year 2018 from 01.01.2018 to 31.12.2018	For the year 2017 from 01.01.2017 to 31.12.2017
DATA FROM THE PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	126,821	115,533	135,759	123,429
Gross profit on sales	29,725	24,906	32,450	26,578
<i>Gross profit margin on sales</i>	23.44%	21.56%	23.90%	21.53%
Profit (loss) on operating activities	11,091	8,334	11,933	8,250
<i>Operating profit margin EBIT</i>	8.75%	7.21%	8.79%	6.68%
EBITDA	16,866	13,901	17,848	13,968
<i>EBIDTA margin</i>	13.30%	12.03%	13.15%	11.32%
Gross profit (loss)	11,335	7,720	12,076	7,584
Net profit (loss)	9,023	6,052	9,486	5,811
<i>Operating profit margin</i>	7.11%	5.24%	6.99%	4.71%

STATEMENT OF CASH FLOWS				
Net cash flow from operating activity	11,343	4,676	11,696	4,425
Net cash flow from investing activity	(7,432)	(3,284)	(7,526)	(3,803)
Net cash flow from financing activity	(4,249)	(4,693)	(4,330)	(4,745)
Total net cash flow	(338)	(3,301)	(160)	(4,123)
STATEMENT OF FINANCIAL POSITION				
	As at 31.12.2018	Sa at 31.12.2017	As at 31.12.2018	Sa at 31.12.2017
Fixed assets, of which:	39,158	38,788	40,201	39,868
Tangible fixed assets	31,791	30,296	32,843	31,385
Current assets, of which:	62,090	53,593	65,975	57,342
Inventory	30,535	27,508	31,514	28,482
Trade accounts receivable	28,910	23,362	30,371	24,916
Total liabilities, of which:	101,248	92,381	106,176	97,210
Total equity	77,509	72,418	81,263	76,169
Long-term accounts payable	3,877	4,006	3,835	3,941
Short-term accounts payable	19,862	15,957	21,078	17,100
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	0.94	0.63	0.99	0.60
Carrying value per 1 share in PLN	8.07	7.54	8.46	7.93

The principal events which influenced the Capital Group's operations in 2018 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 achieved by the Company and the Capital Group in the years 2018 and 2017 were very good. Both the Company and the Capital Group showed high dynamics of sales revenues and net profit. Consolidated sales revenues amounted to PLN 135,759 thousand and were 10% higher than in 2017. The net profit of the Capital Group amounted to PLN 9,486 thousand and was 63% higher than in the previous year.

92% of the Capital Group's products are sold on the European market. The remaining about 8% of the products are exported to Asia, the Americas, Australia and Africa. The biggest share in the sales structure is held by the German and Polish markets. This is 37% and 29% of the Capital Group's sales revenues, respectively.

Both the Company and the Capital Group generated positive cash flows on operating activities, and negative cash flows on investment and financial activities, 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 at a good 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	
	2018	2017	2018	2017
Gross return on sales	23.44%	21.56%	23.90%	21.53%
Return on sales	9.32%	7.90%	9.50%	7.34%
Net return	7.11%	5.24%	6.99%	4.71%
ROE	12.08%	8.48%	12.11%	7.68%
ROA	9.33%	6.56%	9.30%	5.97%

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%

Profitability ratios are at a high level and improved in relation to 2017.

b) Efficiency indicators

Indicator	Relpol S.A.		Capital group	
	2018	2017	2018	2017
Assets turnover ratio	1.31	1.25	1.33	1.27
Inventory turnover ratio	106.0	106.7	102.5	103.7
Accounts receivable turnover ratio	78.4	73.9	77.7	72.7
Accounts payable turnover ratio	31.9	29.2	33.0	30.0

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

The average level of inventories, receivables and payables is calculated from data obtained at the end of each quarter of a given year.

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 by about 5 days and the accounts payable turnover ratio by 3 days. Inventory turnover ratio was close to 2017.

c) Debit indicators

Indicator	Relpol S.A.		Capital group	
	2018	2017	2018	2017
Debt ratio	23.45%	21.61%	23.46%	21.64%
Debt to equity ratio	30.63%	27.57%	30.66%	27.62%
Liability structure ratio	3.26	3.63	3.26	3.62
Equity to fixed assets ratio	2.08	1.97	2.12	2.01

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.

In relation to the balance as at 31/12/2017, the debt of the capital group increased by PLN 3.9 million, and the debt of Relpol S.A. by PLN 3.8 million. Liabilities increased, deliveries, other liabilities and provisions for other liabilities.

d) Liquidity indicators

Indicator	Relpol S.A.		Capital group	
	2018	2017	2018	2017
Current ratio	3.13	3.36	3.13	3.35
Quick ratio	1.59	1.63	1.63	1.69
Working capital	122	119	121	119

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 situation of the Capital Group and the prospects for its further operations are stable. The most important from the point of view of the Capital Group's operations is the parent company. i.e. Relpol S.A. Its financial results are very good and sales revenues are record high.

The year 2018 was also better for the Russian company Relpol Eltim. In 2018, the company generated sales revenues of PLN 11,468 thousand, thus earning a net profit of PLN 694

thousand.

In 2017, sales revenues amounted to PLN 9,448 thousand and a net profit amounted to PLN 175 thousand, respectively. The company regularly pays out a dividend.

Relpol Elektronik also achieved better results than in 2017. It generated sales revenues of PLN 3,720 thousand, thus earning a net profit of PLN 91 thousand. In 2017, revenues amounted to PLN 2.867 thousand and a net loss amounted to PLN 263 thousand, respectively.

DP Relpol Altera achieved weaker results in comparison to 2017. In 2018, its sales revenues increased and amounted to PLN 4,679 thousand. However, the company recorded a net loss of PLN 450 thousand. In 2017, its sales revenues amounted to PLN 2.963 thousand and a net loss – PLN 240 thousand.

The two remaining foreign companies, Relpol M in Belarus and Relpol Altera in Ukraine, are of marginal importance for the Capital Group's operations. They generate minor revenues and low profits. In 2018, Relpol M in Belarus generated sales revenues of PLN 678 thousand, thus earning a net profit of PLN 37 thousand. However, Relpol Altera in Ukraine generated sales revenues of PLN 66 thousand and a net profit of PLN 0.1 thousand. The main source of income of this company is rental of production property.

The aim of the Capital Group is to achieve increasingly higher revenues, gain new markets, generate net profit and pay dividends to the shareholders. If the market situation in the locations where the Capital Group operates does not change significantly in relation to 2018, the results in subsequent years should also be good.

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

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

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 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.

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

Some of the elements of that environment, such as the growth rate and structure of GDP or the price of raw materials on global stock exchanges, influence the operating activities. Other elements, such as the cost of money on the banking market, influence the financial activities. The currency exchange levels and fluctuations impact both the operating and financial 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.

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

Selected indicators	Poland	European Union 28 countries	Germany	United Kingdom
Increase in GDP 2018/ 2017 *	5.1%	2.0%	1.4%	1.4%
Annual average unemployment rate *	3.9%	6.8%	3.4%	4.0%
Annual average inflation rate *	1.2%	1.9%	1.9%	2.5%
Industrial production XII 2018/ XII 2017 *	2.8%	-2.8%	-3.2%	-1.0%
PMI for industry in February 2019 **	47.6	49.3	47.6	52.0
PMI for industry in March 2019 **	48.7	47.6	44.1	55.1

* Source: Eurostat, retrieved on 12.04.2019.

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

Unemployment http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_a&lang=en

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

Industrial production

<https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=teis080&language=en>

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

** Source: Markit Economics, <https://www.markiteconomics.com/Survey/Page.mvc/PressReleases> Value above 50,0 indicates an improvement in the conditions in the sector.

In many European countries, PMIs suggest a downturn. PMIs deteriorated in March compared to the reading of the previous months. In the euro area, the PMI for industry was 47.6 points in March 2019 and was the lowest since April 2013. The largest European economies recorded a decline with the PMI below 50 points. The PMI for Germany was 44.1 points, for France 49.7 points and for Italy 47.4 points.³ Research indicates a decline in production. Such countries as for

IHS Markit Eurozone Manufacturing PMI



³ <https://www.markiteconomics.com/Survey/PressRelease.mvc/fec34453d624bf6888a8841055e6954>

example, Greece (54.7 points), Ireland (53.9 points), the Netherlands (52.5 points), Spain (50.9 points) and Austria (50.0 points) have PMIs above 50 points. PMIs of 55.1 points were recorded by the United Kingdom. This is due to the accumulation of stocks and an increase in production before Brexit.⁴

The PMI for Poland also suggests a deterioration of economic conditions in the industrial sector. In March 2019, the PMI remained below 50 points. Production, new orders and employment decreased and stocks increased⁵. On the other hand, the global PMI for the global economy strengthened in March 2019 to 52.8 points. A month earlier, it was 52.6 points.⁶ This is mainly due to an improvement in the services sector, as industrial production increased slightly. The US economy and the acceleration of the economy in China, Brazil and Russia had a positive impact. Each time the index exceeds the value of 50 points, it indicates that the conditions for the carrying out of business activity have improved.



Despite the low PMI, Polish entrepreneurs look to the future with optimism and positively assess the business situation in the next 6 months. In March 2019, the Entrepreneurs' Optimism Index of Employers of Poland increased to 126.8 points from 124.6 points in February.⁷ 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 was 115.8 points in March, as compared to 115.4 points in February.

The increase in the optimism indicators is a desirable phenomenon; however, it is not yet known how the situation is actually going to develop in the upcoming months. In the opinion of the Company's Management Board, the situation in domestic investments in the electrical engineering and power sectors is still weak. The slowdown in the European market, especially in countries of the greatest importance for the Company's and the Capital Group's operations, may also cause concern.

b) currency exchange level

Taking into consideration that nearly 70% of sales revenues are generated from foreign markets, the situation in the foreign exchange market, and in particular the EUR to PLN and USD to PLN

⁴ <https://www.markiteconomics.com/Survey/PressRelease.mvc/8062928457f94913931debe1e7d75855>

⁵ <https://www.markiteconomics.com/Survey/PressRelease.mvc/7e7d2396a6c8431c9250b87472ef421e>

⁶ <https://www.markiteconomics.com/Survey/PressRelease.mvc/0db3741a42a04095825f736f65c9a6da>

⁷ <https://pracodawcyrp.pl/aktualnosci/kontynuacja-odbicia-najnowsze-wskazania-indeksu- optymizmu-przedsiębiorców-pracodawców-rp>

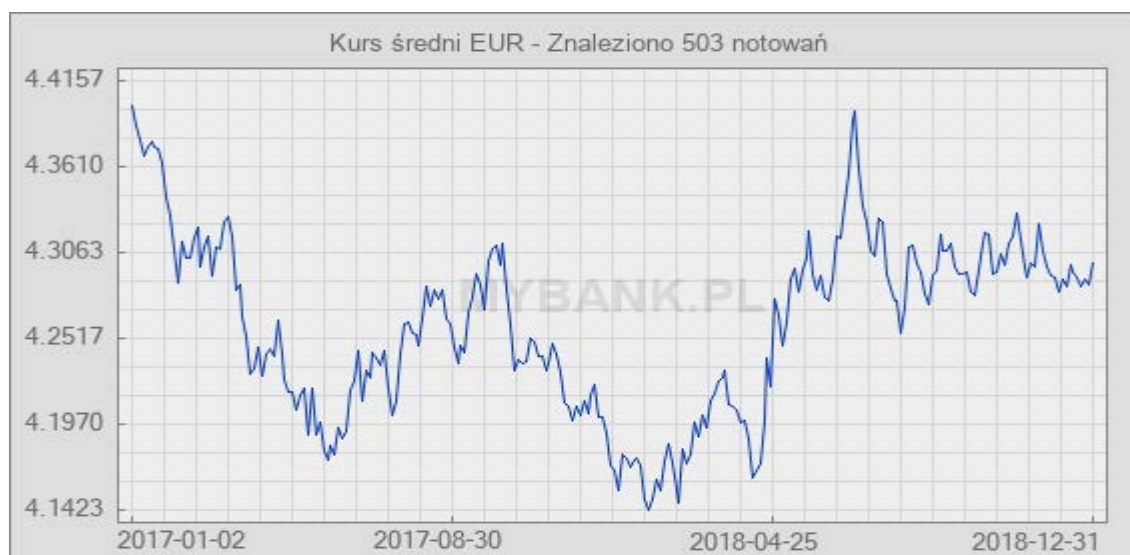
exchange rates, is one of the key factors of the macroeconomic environment. A stable level of foreign currency exchange rates in relation to the Polish zloty reduces the fluctuations of the Capital Group's financial result.

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 represents the largest share in total sales; therefore, the level and fluctuations of the EUR exchange rates are important. The exchange rates of all the currencies presented below have showed a downward trend since January 2017. In 2017, the EUR exchange rate dropped from PLN 4.41 in January to PLN 4.17 in December, and then returned to PLN 4.40 in mid-2018. Since August 2018 it has fluctuated at an average level of about PLN 4.30. After all, the average EUR exchange rate in 2018 was only 0.5% higher than the average rate in 2017.

The charts below illustrate average exchange rates of EUR, USD, RUB and UAH in 2018 and 2017.

The average EUR exchange rate in the period from 02.01.2017 to 31.12.2018



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

A downward trend in 2017 was also observed in relation to the USD exchange rate. The exchange rate of this currency dropped from PLN 4.10 at the beginning of 2017 to PLN 3.48 at the end of the year and remained at such a low level in Q1 2018. After an increase from May 2018, the USD exchange rate fluctuated between PLN 3.70 and 3.80. Ultimately, the average US dollar exchange rate in 2018 was lower than in the corresponding period of 2017 by 3.3%.

Approximately 54% of the Capital Group's revenues are generated in EUR and approximately 8% – each in RUB (after consolidation adjustments) and USD.

The average USD exchange rate in the period from 02.01.2017 to 31.12.2018



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

The RUB currency chart is quite different than the EUR and USD currency charts. The exchange rate of the Russian currency remained at a high level until the end of 1Q 2017, and then it started to decrease to PLN 0.0604 at the end of 2017. Ultimately, the average exchange rate of the rouble in 2018 was 10.4% lower than the average exchange rate of the rouble in that period of 2017. Revenues in RUB are generated by the Russian company, and are then converted into PLN in the consolidated financial statements. The higher the rouble exchange rate, the more favourable its conversion in the consolidated financial statements.

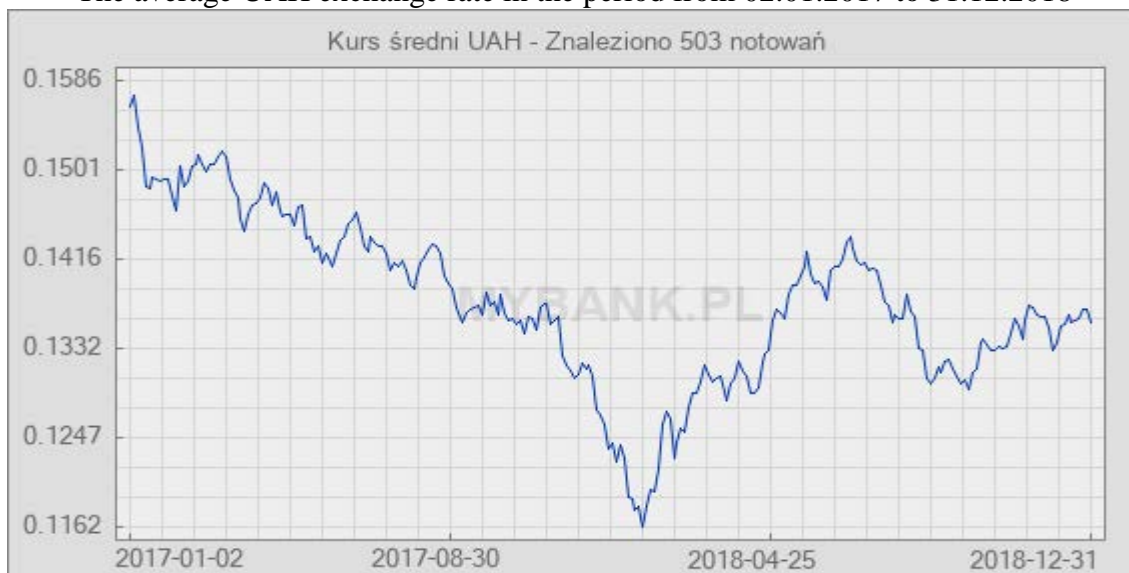
The average RUB exchange rate in the period from 02.01.2017 to 31.12.2018



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

In 2017, the Ukrainian hryvnia had a downward trend with a clear rebound in Q1 2018. The average UAH exchange rate in 2018 was PLN 0.1330 and was lower than the average exchange rate of that currency in 2017 by 5.1%. Revenues in UAH are generated by the Ukrainian company, and are then converted into PLN in the consolidated financial statements.

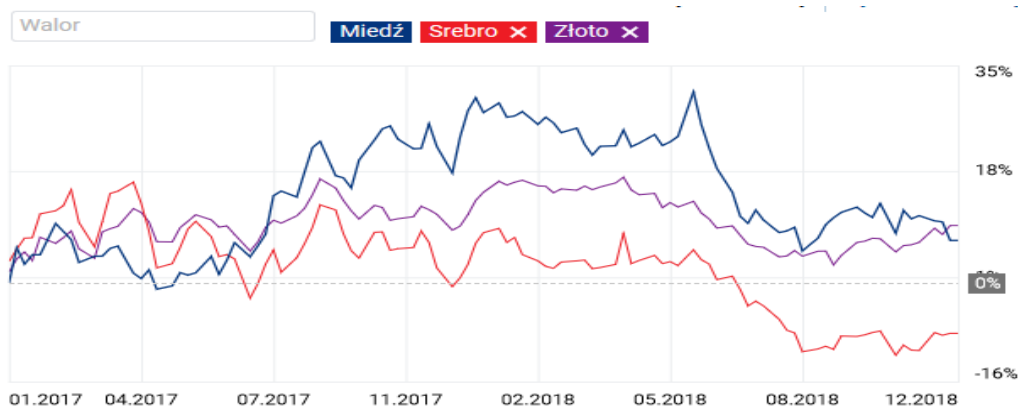
The average UAH exchange rate in the period from 02.01.2017 to 31.12.2018



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

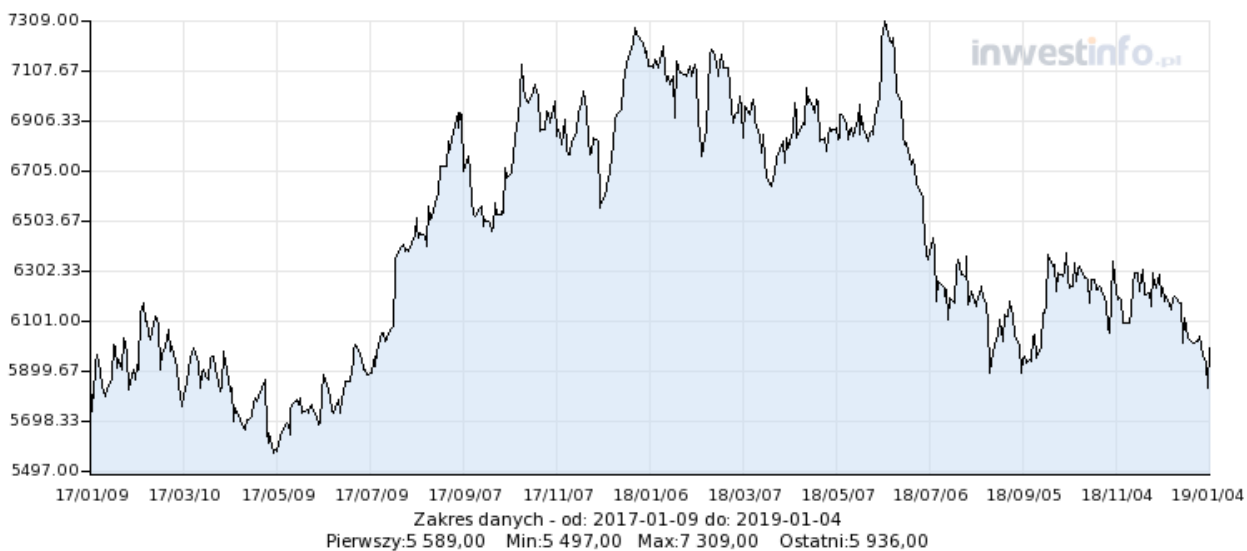
c) raw material price level.

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. The prices of copper, silver and gold in 2017 and 2018 were very different, which can be seen in the charts below.



Source: <https://www.money.pl/gielda/surowce/dane.miedz.html>

Copper prices – London (in USD/tonne) in the period from 09.01.2017 to 04.01.2019



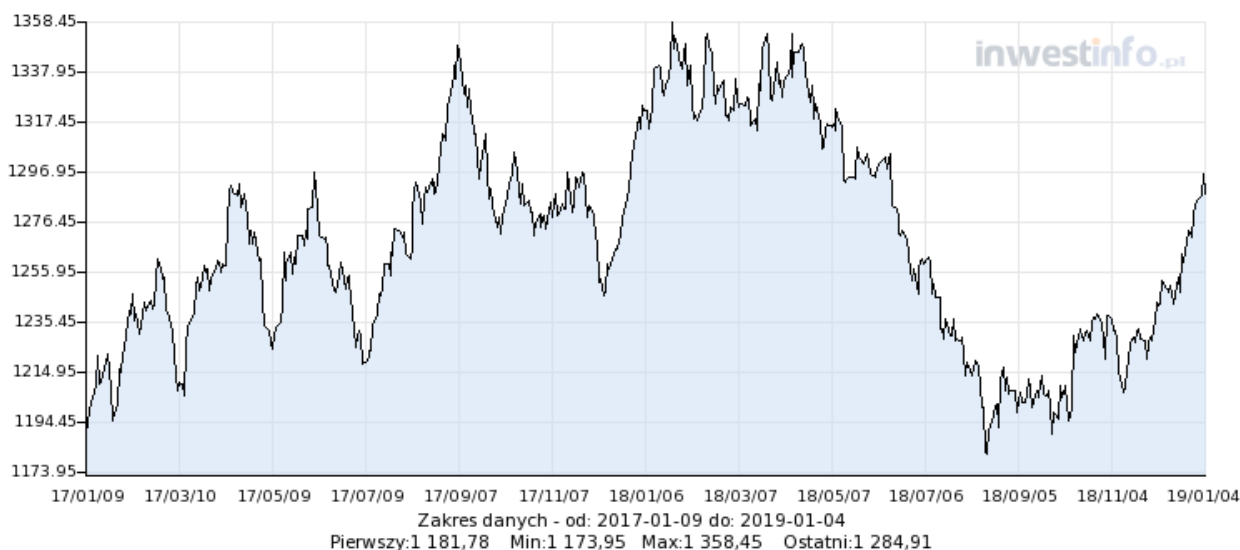
Source: <http://www.inwestinfo.pl/surowce/notowania-surowcow/wykres/Miedz.htm>

Silver prices – London (in USD/ounce) in the period from 09.01.2017 to 04.01.2019



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

Gold prices – London (in USD/ounce) in the period from 09.01.2017 to 04.01.2019



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

An increase in the prices of raw materials adversely affects the results of the Company and the Capital Group, reducing the profitability of its sales. It is also reflected in 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 core areas of operations

6.1 Manufacturing activity

The activities of the manufacturing departments in 2018 were focused on timely and quantitative implementation of sales plans, shortening delivery times for customers, lowering the technical production cost for the RS50 relay family, as well as on launching the production of a new RCP relay. In order to achieve the assumed objectives, works were carried out related to changes in technological processes and an increase in production capacity. Actions were also taken to adapt to the conditions of a dynamic labour market, by changing the organisation of workstations, implementing procedures and training employees. The aim of the training is to adapt their skills to the changing market needs and changes in technological processes.

The implemented activities include:

1. A new family of RPC time relays for time control in industrial and home automation systems was introduced into production. The new time relays are characterised by a modern design and the style of the prints is consistent with the industrial relays.
2. An automatic electromagnet assembly machine for a group of photovoltaic relays was made and implemented for production in order to increase the production capacity and improve the quality of the relays.
3. A chamber for conditioning plastic parts of a group of polyamides - one of the basic groups of plastics used in Relpol - was purchased and implemented for production. This equipment will enable very close supervision of the process of conditioning parts. This operation is aimed at obtaining good mechanical properties of polyamide parts from the point of view of dimensional stability.
4. A washer was purchased using water agents for cleaning metal parts after punching and before the further stage of the production process.
5. An automatic machine for galvanic nickel coatings was purchased and commissioned. This will make it possible to increase the production capacity and at the same time increase the supervision over this process.
6. The analytical tools allowing the observation of stock market quotations for raw materials and their potential influence on the current and future technical cost of production continued to be used. The aim of this activity is to be able to react to the changing prices of strategic raw materials at the operational level as soon as possible.
7. The organisational and technological changes were introduced in the manufacturing departments such as:
 - works related to the visualisation of goals and cascading of tasks for 2018,
 - activities consisting in the implementation of changes in technological processes, aimed at reducing their labour-intensive character and improving their quality,
 - activities aimed at reducing the 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,
 - activities consisting in the continuation of the above-standard consumption of materials at the level of 2017,

- activities consisting in the maintenance of the productivity of the employees involved directly in the manufacture at the level of 2017,
- activities consisting in the 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, which in turn led to greater availability of products offered to customers.

In 2019, activities related to the supervision of production processes and the simultaneous implementation of investment plans and detailed tasks planned for 2019 will be continued.

6.2 Logistics activity

With changing costs of raw materials necessary for production, such as: copper, silver, plastics, etc., the analysis of prices and market trends for these raw materials is carried out on an ongoing basis. Taking the foregoing into consideration, numerous activities were carried out to reduce purchase costs, improve cooperation with suppliers and optimise deliveries.

In 2018, activities were carried out in order to:

- 1) Qualify alternative suppliers of strategic raw materials.
- 2) Negotiate prices, delivery terms and conditions and conclude agreements.
- 3) Introduce raw materials that make it possible to replace several materials with one, reducing at the same time the unit purchase price.
- 4) Sign trade agreements with strategic suppliers of raw materials, aimed at defining mutual responsibility as part of cooperation.

In addition, works in the following fields are carried out on an ongoing basis:

- a) optimisation of the use of raw materials throughout the production process,
- b) looking for alternatives to using the stock of stored materials,
- c) recovery and sale of precious metals from scrap parts,
- d) maintaining smooth inventory turnover,
- e) searching for alternative suppliers of strategic raw materials.

6.3 Commercial and marketing activities

In 2018, the structure in the commercial department at Relpol S.A. was reorganised. The execution of orders acquired by the domestic and export sales departments was assigned to the customer service department. The level of executed orders higher by 10% in relation to 2017 was the result of the adopted strategy, organisational changes and a favourable market.

Revenue growth was almost proportionally distributed both domestically and in exports. The highest growth dynamics in terms of value was observed in the case of major and key customers, however, the share of fragmented and smaller customers was also visible in relative terms.

The highest growth dynamics was recorded in the Russian market. Sales increased there by as

much as 24%. This was the result of closer cooperation with key partners in that market and extensive joint market activities. Companies from the Capital Group took part in fairs and meetings with end users of its products.

The German market, which is the main export market of the parent company, was also characterised by high growth dynamics. The key relay groups, i.e. miniature relays and industrial relays, sold well. The sales dynamics of relay types intended for growing segments such as photovoltaic systems and e-mobility were higher than in other product groups. However, in the last months of 2018 the market situation changed. The level of orders coming from Western European markets indicated signs of overstocking by customers in the distribution market and lower dynamics of production development in this geographical area. Despite lower sales in the Italian market in 2018, compared to 2017, a significant improvement in the prospects and recovery of this market should be noted.

In the Polish market, in the main group of products, i.e. electromagnetic relays, sales increased both in the groups of products intended for the metal industry and the power industry. The sale of CZIP-PRO digital security systems dedicated to medium voltage networks also increased for the power industry. In this area, intensive commercial and marketing activities were carried out. The instability related to the announcements of compensations to companies for increased electricity charges may have an impact on the behaviour of energy companies in terms of planning and implementing the directions of investments in the power sector in 2019. This can translate into demand for electromagnetic relays as well as for protection for medium voltage networks. There are also delays in the construction of power facilities for the modernisation of railways, where electromagnetic relays are also used. In the area of niche and specialised production of radiation portal monitors making it possible to detect radioactive elements, sales remained at a similar level as in 2017, but with a clear growth perspective, due to negotiated contracts with suppliers and production planned for 2019.

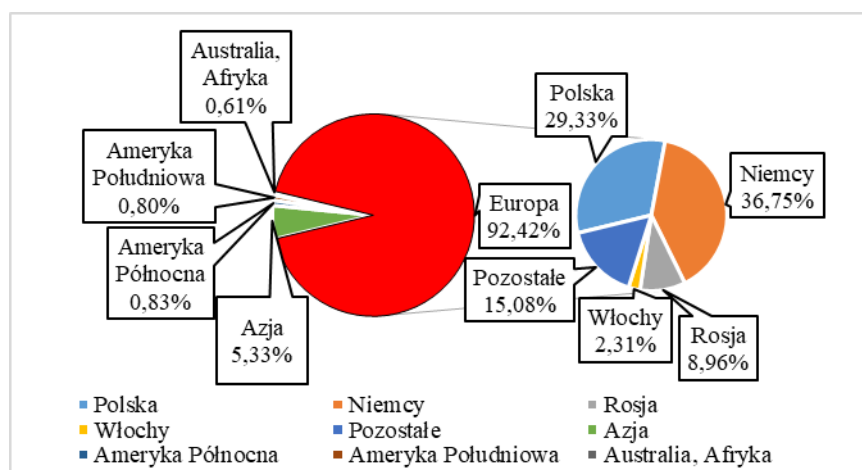
Promotional and marketing activities are continued in relation to new product groups already introduced to the commercial offer, as well as supplementing and extending this offer with a group of monitoring relays, signal lamps and relays for the railway industry. Promotional and marketing activities are also carried out in the area of digital security systems designed for medium voltage power grids.

The parent company operates deposit warehouses for large domestic and foreign customers. Through regionally oriented sales organisation focused on the domestic market and export, not only are sales activities carried out, but also direct meetings with users, designers and manufacturers of all types of equipment, in which the Capital Group's relays are used. The purpose of those meetings is training, education and help regarding the issue of appropriate selection of products to match the assumed solutions in specific applications. Improvements will be continued in the area of marketing information on the Internet and in the area of direct exchange of information at the level of management systems between the parent company and distribution partners.

Marketing activities in 2018 focused on the promotion of new products in the commercial offer and support for the organisation of domestic and export sales, through product promotions, company days at distributors and participation in major trade fairs both in Poland and abroad. The products of the Capital Group were presented at foreign fairs in Germany, Dubai, the Czech Republic, Russia, Belarus, Turkey and at domestic fairs in Bielsko-Biała and Warsaw.

Analysts' forecasts for 2019 regarding GDP or inflation are rather positive. Production, optimism and PMI indicators, in turn, have been on a downward trend in recent months. The corridor of opportunities and threats in the implementation of sales plans for 2019 is much wider due to different data on GDP and PMI, announcements of development of innovative directions of industry such as e-mobility or photovoltaic systems and industrial automation on the one hand, and delays and overstocked distribution market warehouses in relation to actual demand on the other hand. The year 2019 will require careful observation and targeted and adequate action in the area of trade and marketing.

The geographical sales structure of the capital group in 2018 r.



- The revenues reached a record high in the history of the Capital Group's operations.
- The European market accounts for 92% of sales.
- Poland accounts for 29% of total sales and foreign markets - 71%.
- Sales in Russia increased by 24%.
- Sales in Germany increased by 17%, reaching 37% of the Capital Group's sales.

Structure of sales by product

	in PLN '000			
	Relpol S.A.		Capital group	
	2018	2017	2018	2017
Products and services	111,641	99,046	109,413	97,698
Goods and materials	15,180	16,487	26,346	25,731
Total	126,821	115,533	135,759	123,429

- The sale of products constitutes about 80% of the share in the Capital Group's sales
- The consolidated revenues from the sale of products increased by 12% in 2018.
- The consolidated revenues from the sale of goods and materials increased by 2%.

6.4 Research and development activity

The most significant achievements in the area of research and development

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 2018, as in previous years, the employees of the development department carried out work related to the improvement of the product range and the introduction of new solutions in the currently manufactured products. Work was carried out and completed on new products as well as technical assumptions and documentation to implement new products that respond to market trends in the coming years. The aim of this work is also to acquire new customers.

In 2018, PLN 2,862 thousand was spent on research and development work as part of the projects carried out. The main items of expenditure include:

Subject	Expenditure in PLN '000
Sockets - expansion of the product range	902
Monitoring relays	375
Relay coil winder as above	608
Device for production of a set of contact springs for miniature relays	587
Modification of a device for marking sockets	390
Total	2,862

The projects and tasks provided for in the plan for 2018 were implemented. The result of those activities is the optimisation of manufacturing processes of the currently offered products, as well as the launching of new products. In particular:

1. Design works were carried out to introduce a new type of sockets to the product range. The aim of the investment is the development of the structure and implementation into production of new sockets for direct mounting on a 35 mm rail. The project involves the development of a structure and a manufacturing process for two types of sockets:
 - GZP4 socket designed for use with industrial relays,
 - GZP80 socket designed for use with miniature relays.

As a result of the design works carried out, including analyses of product design solutions, the structure was created and the scope of the production process was defined, machines and equipment, as well as means of production allowing the start of production were purchased. Prototypes were made and tested in a research laboratory according to the requirements of European standards. The launch of series production is planned for the second quarter of 2019.

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.
The purpose of monitoring relays is to monitor and protect the power supply of single-phase and three-phase electrical equipment. This makes it possible to provide this equipment with functions such as: mains voltage monitoring, overvoltage and undervoltage monitoring and delaying the restart of the equipment to avoid high switching current. The use of these relays also makes it possible to detect excessive phase imbalance.
Installation relays are used to switch single- or three-phase circuits, and thanks to their universal applicability they can be used in residential and industrial buildings to perform the following functions: switching on lighting and heating devices, switching on ventilation and air conditioning, switching on central heating, switching on incandescent lamps and gas lamps, etc.
3. An invariable part of the ongoing research and development works are also product modifications and improvements, which significantly contribute to maintaining a high level of recognition of the RELPOL brand as a supplier of certain solutions of the highest quality.
4. In GZT/GZM relay sockets, in order to improve quality and increase production capacity, work was carried out to replace the marking of these products with pad printing and laser marking.
5. Industrial relays with contacts containing cadmium were withdrawn from production and replaced with non-cadmium equivalents. The galvanic coating process for parts was also changed, eliminating chromium previously used in passivation.

The Capital Group strives to use only modern, environmentally friendly materials in the manufacture of its products.

An invariable element of development work and production departments is the commissioning of work to the own tool shop department. In this way, 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, and at the same time designs and manufactures new tools for the needs of new projects.

The tasks of the tool shop department in 2018 mainly concerned servicing the production departments, due to very high production levels in many product groups and the introduction of new products (injection moulds for new plug-in sockets and RPN monitoring relays).

The main objective of the works planned to be carried out in 2019 is to increase the efficiency of production. It is planned to increase production capacity through the purchase of new machines and assembly equipment and organisational changes. The parent company strives to unify raw materials used in various product versions, to unify certain components in a given product family and to further automate assembly processes.

6.5 Other operating activities

Other operating activities in 2018 decreased the result of the Capital Group by PLN 969 thousand, mainly due to write-offs of receivables, inventories, research and development works and provisions created in other operating costs.

In 2017, the result on other operating activities was also negative and amounted to PLN 811 thousand. The main reasons were also revaluation write-offs, creation of provisions and scrapped inventories.

6.6 Financing activities

The financial activities in 2018 increased the result of the Capital Group by PLN 143 thousand, which was most affected by the surplus of positive exchange rate differences over negative ones.

In 2017, the result on the financial activities was positive and amounted to PLN 666 thousand, which was primarily influenced by the surplus of negative exchange rate differences over positive ones.

6.7 Net result

In 2018, the Capital Group generated a net profit of PLN 9,486 thousand, which constituted an increase by 63% in comparison to PLN 5,811 thousand of net profit in 2017. The net profit for the shareholders of the parent company amounted to PLN 9,208 thousand and was higher than in 2017 by 60%. The higher level of net profit is due to high sales dynamics, activities carried out in the areas of production, logistics and marketing, as well as improved results at Relpol Eltim.

	Relpol S.A.		Capital group	
	2018	2017	2018	2017
Net financial result	9,023	6,052	9,486	5,811
Net result attributable to non-controlling interest	---	---	278	70
Net result attributable to parent company's shareholders	9,023	6,052	9,208	5,741

7. Description of the basic 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 hedging 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. In 2018, the parent company had working capital facility agreements with Raiffeisen Bank Polska with the limit of PLN 2.5 million and working capital facility agreements with BGŻ BNP PARIBAS Polska SA, also with the limit of PLN 2.5 million.

In addition, the parent company had an investment loan agreement with Raiffeisen Bank with the limit of PLN 3 million, of which PLN 0.28 million remained to be repaid as at the balance sheet date. Capital instalments are regularly repaid. The subsidiaries do not have 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 connection with variable interest rate liabilities).

For Relpol S.A. and the capital group as at 31.12.201 in PLN 000`

Item in the statement of financial position as at 31.12.2018 r.	Value	Impact on the net result	
		decrease by 1 percentage point	increase by 1 percentage point
Bank deposits	0	0	0
Bank credits	2,992	(30)	30
Loans granted	0	0	0
Accounts payable arising from leases	1,233	(12)	12
Accounts payable arising from factoring	0	0	0
Total assets and liabilities	4,225	(42)	42

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)

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 28.6%.

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 1,393 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 4,225 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 2018 and 2017, 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 31.12.2018 and 31.12.2017, 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 31.12.2018

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Item in the financial statements Relpol CG as at 31.12.2018	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	133	(133)	1	(1)	134	(134)
Financial assets	0	0	7	(7)	0	0	0	0	0	0	7	(7)
Cash and cash equivalents	1	(1)	0	0	0	0	80	(80)	14	(14)	95	(95)
Trade accounts receivable and other accounts receivable	2,050	(2,050)	79	(79)	0	0	160	(160)	35	(35)	2,324	(2,324)
Credits and loans	(45)	45	(116)	116	0	0	0	0	0	0	(116)	116
Trade accounts payable and other accounts payable	(386)	386	(91)	91	0	0	(63)	63	(28)	28	(612)	612
Total increase / (decrease)	1,576	(1,576)	(121)	121	0	0	310	(310)	22	(22)	1,832	(1, 832)

Report on the Operations of Relpol S.A. and Relpol Capital Group in 2018
Part I – Commentary on the property and financial condition, and notes

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)

Report on the Operations of Relpol S.A. and Relpol Capital Group in 2018 r.
Part I – commentary on the property and financial condition, and notes

Data for the capital group as at 31.12.2018 in PLN `000

Assets in foreign currency	31.12.2018 (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	24,560	65
	<i>in reporting currency</i>	0	0	0	1,329	9
Trade accounts receivable	<i>in foreign currency in '000</i>	4,646	210	0	27,934	1,883
	<i>in reporting currency</i>	19,978	789	0	1,511	256
Other accounts receivable	<i>in foreign currency in '000</i>	121	0	0	1,743	632
	<i>in reporting currency</i>	520	0	0	94	86
Short-term financial assets	<i>in foreign currency in '000</i>	0	18	0	0	0
	<i>in reporting currency</i>	0	68	0	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	3	0	0	14,736	998
	<i>in reporting currency</i>	11	0	0	797	135
Total assets	<i>in foreign currency in '000</i>	4,770	228	0	68,973	3,578
	<i>in reporting currency</i>	20,509	857	0	3,731	486

Data for the capital group as at 31.12.2018 in PLN `000

Liabilities in foreign currency	31.12.2018 (current year)	Currency				
		EUR	USD	GBP	RUB	UAH
Credits and loans	<i>in foreign currency in '000</i>	106	305	0	0	0
	<i>in reporting currency</i>	454	1,156	0	0	0
Finance lease	<i>in foreign currency in '000</i>	102	0	0	0	0
	<i>in reporting currency</i>	441	0	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	898	242	0	9,313	0
	<i>in reporting currency</i>	3,861	910	0	504	0
Other accounts payable	<i>in foreign currency in '000</i>	0	0	0	2,364	2,073
	<i>in reporting currency</i>	0	0	0	128	281
Total liabilities	<i>in foreign currency in '000</i>	1,106	547	0	11,677	2,073
	<i>in reporting currency</i>	4,756	2,066	0	632	281
Assets – Liabilities	<i>in foreign currency in '000</i>	3,664	(319)	0	57,296	1,505
	<i>in reporting currency</i>	15,753	(1,209)	0	3,100	204

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

Data for Relpol S.A. as at 31.12.2018 in PLN `000

Item in the financial statements as at 31.12.2018	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	7	(7)	0	0	7	(7)
2. Cash and cash equivalents	1	(1)	0	0	0	0	1	(1)
3. Trade accounts receivable and other accounts receivable	2,050	(2,050)	79	(79)	0	0	2,129	(2,129)
4. Credits and loans	(45)	45	(116)	116	0	0	(161)	161
5. Finance lease	(44)	44	0	0	0	0	(44)	44
6. Trade accounts payable and other accounts payable	(386)	386	(91)	91	0	0	(477)	477
Total increase / (decrease)	1,576	(1,576)	(121)	121	0	0	1,455	(1,455)

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%
7. Financial assets	0	0	10	(10)	0	0	10	(10)
8. Cash and cash equivalents	30	(30)	8	(8)	0	0	38	(38)
9. Trade accounts receivable and other accounts receivable	1,624	(1,624)	41	(41)	0	0	1,665	(1,665)
10. Credits and loans	0	0	(18)	18	0	0	(18)	18
11. Finance lease	(46)	46	0	0	0	0	(46)	46
12. 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 31.12.2018 in PLN `000

Assets in foreign currency	31.12.2018 (current year)	Currency			
		EUR	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>	4,646	210	0	0
	<i>in reporting currency</i>	19,978	789	0	0
Other accounts receivable	<i>in foreign currency in '000</i>	121	0	0	0
	<i>in reporting currency</i>	520	0	0	0
Short-term financial assets	<i>in foreign currency in '000</i>	0	18	0	0
	<i>in reporting currency</i>	0	68	0	0
Cash and cash equivalents	<i>in foreign currency in '000</i>	3	0	0	0
	<i>in reporting currency</i>	11	0	0	0
Total assets	<i>in foreign currency in '000</i>	4,770	228	0	0
	<i>in reporting currency</i>	20,509	857	0	0

Data for Relpol S.A. as at 31.12.2018 in PLN `000

Liabilities in foreign currency	31.12.2018 (current year)	Currency			
		EUR	USD	GBP	Other
Credits and loans	<i>in foreign currency in '000</i>	106	305	0	0
	<i>in reporting currency</i>	454	1 156	0	0
Finance lease	<i>in foreign currency in '000</i>	102	0	0	0
	<i>in reporting currency</i>	441	0	0	0
Trade accounts payable	<i>in foreign currency in '000</i>	898	242	0	0
	<i>in reporting currency</i>	3,861	910	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>	1,106	547	0	0
	<i>in reporting currency</i>	4,756	2,066	0	0
Assets – Liabilities	<i>in foreign currency in '000</i>	3,664	(319)	0	0
	<i>in reporting currency</i>	15,753	(1,209)	0	0

Data for Relpol S.A. as at 31.12.2017 in PLN `000

Assets in foreign currency	31.12.2017 (current year)	Currency			
		EUR	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)	Currency			
		EUR	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

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.

Concentration of cash	In PLN `000			
	Relpol S.A.		Capital Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Bank A	17	166	17	166
Bank B	40	121	40	121
Bank C	0	20	0	20
Bank D	70	45	130	51
Bank E	16	82	16	82
Bank F	0	0	797	725
Bank G	0	0	370	279
Cash in hand	23	50	23	89
Total cash	166	484	1,393	1,533

7.2 Non-financial risk.

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	in PLN `000			
	Relpol S.A.		Capital group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debt	18,559	15,235	19,562	16,337
Cash and cash equivalents	166	484	1,393	1,533
Net debt	18,393	14,751	18,169	14,804
Equity	77,509	72,418	79,944	74,922
Debt to equity	23.73%	20.37%	22.73%	19.76%

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 2018 r. amounted to 19.2% i 11.5%, 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.

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 2018, 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 system 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 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 9001:2015-10 and PN-EN ISO 14001:2015-09 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 19.2% and 11.5% respectively of the consolidated revenues from sales in 2018. 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 loan agreement with the limit of PLN 3 million and collaterals:

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

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 project.

Organisational and capital ties	Carrying value In PLN `000		Share in (%)	Consolidation method
	31.12.2018	31.12.2017		
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*	0	0	100.0	Full consolidation method
Relpol Elektronik Sp. z o.o. Mirostowice Dln.*	0	0	100.0	Full consolidation method

* value of shares after making write-downs.

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 2018, 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 01.01.2018 and 31.12.2018, 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 2018 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 to 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 2018, 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 2018. 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 Supervisory Board

Data as the report signature date	Number of shares of relpol S.A. (in pcs)	Nominal value of shares held (in PLN `000)	Number 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	613,943	3,070	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. 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 3 Q 2018 (15.11.2018)
Ambroziak Adam	3,171,000	3,171,000	33.00%	15,855	33.00%	0
Osiński Piotr	613,943	613,943	6.39%	3,070	6.39%	0
Rockbridge TFI S.A.	2,663,403	2,663,403	27.72%	13,317	27.72%	+1,703,631
TFI BGŻ BNP Paribas S.A.	541,115	541,115	5.63%	2,706	5.63%	-28,352
Altus TFI S.A.	bd	Less than 5%	Less than 5%	bd	pon. 5%	-1,819,416

In connection with the transfer by Altus TFI S.A. to Rockbridge TFI S.A. of the management of selected funds that held shares of Relpol S.A., the holding of shares by Altus TFI decreased in December 2018, to a level below 5% and by Rockbridge TFI increased to 27.72%.

In connection with the merger on 29/03/2019 of Riviera Towarzystwo Funduszy Inwestycyjnych S.A. (formerly Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.) and Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A., there was a change in the shareholder holding more than 5% of votes at the General Meeting of Shareholders of Relpol S.A.

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

Share price chart of Relpol S.A. in 2018



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

	2018	2017
Auditor	UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. z siedzibą w Krakow	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. w Warsaw*
Date of conclusion of the agreement	19.01.2018	28.06.2017, amendment 12.12.2017
Subject matter of the agreement	Review of the half-yearly and audit of the annual financial statements for 2018 and 2019	Review of the half-yearly and audit of the annual financial statements for 2017
Net remuneration under the agreement	Net PLN 93,000 (46,500 each year) + business trip costs	net PLN 59,000 + business trip costs
Costs incurred in the given year according to invoices	Net PLN 32,407	net PLN 36,912, of which PLN 19,109 for the audit of 2016
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 2018 r.

1. In February 2018, Relpol S.A. appointed Mr Sławomir Bialik as President of the Management Board of Relpol S.A. and Krzysztof Pałgan as Vice-President of the Management Board.
2. In September 2018, Relpol received an annex signed by Relpol S.A. and Raiffeisen Bank Polska S.A. to the debt limit agreement. The annex relates to the extension of the deadline for the final repayment date of the limit (including the use and repayment of the credit) from 14/09/2018 to 29/03/2019. However, in March 2019, another annex to the debt limit

agreement concluded with Raiffeisen Bank Polska S.A. was signed. The annex was signed between Relpol S.A. and Bank BGŻ BNP Paribas S.A. as the bank taking over Raiffeisen Polbank's services. The annex concerned the determination of the limit amount of PLN 4 million and the date of repayment of the limit (also the use and repayment of the credit) on 15/09/2020. The limit concerns the financing of current operations.

3. In December 2018, there were changes in the shareholding structure of the Company, as described above in section 17.
4. In December 2018, the Management Board of Relpol S.A. decided to initiate actions aimed at expanding the production area and increasing the production potential of miniature relays. The aim of the investment is to obtain additional production space and to increase the production potential of miniature relays by approx. 30%. The total cost of the planned investment was estimated at approx. PLN 13 million, and its completion in the second half of 2020. The investment is to be financed from own and external resources.
5. In 2018, Relpol celebrated the 60th anniversary of the relay plant.

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.

1. In March 2019, Mr Dariusz Daniluk resigned from the position of Member of the Supervisory Board of Relpol S.A. for personal reasons.
2. In April 2019, the Supervisory Board of Relpol S.A., acting pursuant to § 24(4) of the Company's Articles of Association, by way of co-option appointed Mr Jacek Gdański to the Supervisory Board.

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

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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”.

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 2018. 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.⁸

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	✓	
Equal remuneration for women and men	✓	
Respect of human rights	✓	✓

⁸ G4-18, G4-19, G4-20, G4-21, G4-22, G4-23, G4-28, G4-29, G4-30, G4-33

Anti-corruption policies and procedures	✓	✓
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II. Business characteristics

1. Approach to the sustainable development

In the case of the Relpol Capital Group, building a long-term company strategy in the perspective of sustainable development means the ability to identify key aspects in the economic, labour, social and environmental areas, and to search for a balance between them⁹.

Within these areas, the Group focuses on the aspects relevant to it. The objectives are defined, activities, monitoring and evaluation of the effects achieved are carried out. In business operations, the expectations of particular stakeholder groups are taken into account. The choice of these aspects depends on the size, nature and profile of the activities of the companies belonging to the Capital Group.

In the case of the economic aspect, efforts are made to ensure that business activities with positive financial results take into account the interests of all stakeholders, from employees to shareholders, customers, suppliers, institutions and the local community. The objective of the Capital Group is to build long-term business relations based on trust, dialogue and mutual understanding. The companies make every effort to comply with all applicable national and international standards. The aim is to ensure that the Relpol Group is perceived as a reliable manufacturer and supplier of high-quality products that are safe for users.

The environmental aspect is the striving to minimise the impact of the Capital Group on the environment through the introduction of a material management system which allows the optimisation of material consumption and reduction of waste. As part of the environmental aspect, measures are also taken to reduce the consumption of heat and electricity. In the last two years, the parent company replaced general lighting with energy-saving linear fluorescent lamps, improved thermal insulation of buildings, changed the technology by introducing new ecological solvents, changed the technology of marking products replacing pad printing technology with laser marking technology, and also made investments in a modern machine park.

Relpol S.A. participates in the “Nature Friendly Company” environmental responsibility programme, which is run by “AURAEKO Electrical and Electronic Equipment Recovery Organisation”. Under the agreement concluded with Relpol S.A., this company conducts educational campaigns such as: Kwiaty za elektrograty (flowers for electrowaste) or the Poland-wide ecological contest “Dobre Rady na Elektroodpady” (“Good Solutions for Electrowaste”). It also prepares educational calendars and teaching materials on how to deal with waste equipment. In the area of waste electrical and electronic waste management, Relpol, also cooperating with MB Recykling, supports the “Jesteśmy Blisko” foundation, established by ZPUE S.A., which carries out many social activities and which aim is to improve the living conditions of the poorest and socially excluded people.

The Capital Group attaches great importance to maintaining proper relations with its employees. This is reflected in respect for human rights, application of equal opportunities principles, transparent payroll policy, counteracting mobbing, etc. We take care of safety and decent

⁹ G4-1

working conditions as well as professional development of our employees.

Employee involvement translates into results achieved by the Company and the entire Capital Group. Relpol received several awards for its financial results in 2017 and 2018. The award of Gazele Biznesu (the Business Gazelles) of the Lubuskie Voivodeship 2017, Gepard Biznesu (the Business Cheetah) 2017, Brylant Polskiej Gospodarki (the Diamond of Polish Economy) 2017. Nagroda Gospodarcza (the Economic Award) - a distinction for the leading companies of the Lubuskie Voivodeship.

The awards were also granted to the Company's products: The Cup of the President of the Polish Power Transmission and Distribution Association received “The new generation field controller CZIP®-PRO”. The Association of Polish Electrical Engineers awarded the engineer Kazimierz Szpotański medal in recognition of merits in the production of relays for industry and power engineering, and in the competition Nasze Dobre Lubuskie 2018, in the category “Industrial Product / Modern Technologies” Radiation Portal Monitor systems SMP, detecting gamma and neutron radiation, emitted by radioactive and nuclear materials was ranked 1st.

The social aspect in the case of the Group is participation in the life of the immediate environment. As an important business entity in the region, Relpol maintains regular contact with the authorities and social organisations. Through grants and sponsorship for the local community, it supports the organisation of cultural, educational and sports events. It supports schools and kindergartens.

2. Business model

Our enterprise has operated since 1958, initially as a branch of Zakład Wytwórczych Przekładników Refa, then as a branch of Lubuskie Zakłady Aparatów Elektrycznych LUMEL, subsequently as Zakład Przekładników 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.¹⁰

Companies of the Relpol capital group



¹⁰ G4-3; G4-4, G4-5, G4-6; G4-8; G4-9

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.

2.1. Business profile

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



The companies of the Capital Group are flexible and open to cooperation. Relpol meets the individual expectations of its customers. It modifies and develops products according to their individual and specific needs. This approach allows further growth of business and the enhancement of cooperation, as well as gives an opportunity to find new applications for the Group's products. Relays are produced both under the Group's own brand and under the brand of 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	•in device automation and processing line systems, as well as in industrial safety and signalling systems
Miniature and subminiature relays	•in electronic circuits and telecommunication systems, automation systems, measuring and transport devices
Interface relays	•in industrial automation systems as galvanic separation units
Automotive relays	•in automotive electric circuits (e.g. lamps, power door locks, heating systems, windscreen wipers, indicator lamps etc.)
Solid state relays and switches	•in various electronic circuits and telecommunication systems, measuring devices, medical and transport devices
Programmable relays	•in automation systems, transport devices, machines controlling technological processes
Solar relays	•in solar system inverters, as well as in electric and hybrid car chargers
Time and monitoring relays	•in automation systems and household systems, measuring and control systems, for supervision of engine parameters
Relay sockets	•in connections with relays and modules
CZIP Digital Medium Voltage Protection Systems	•in medium voltage switchboards
Automatic backup supply automation systems	•as ready-made supply voltage loss management systems in low voltage systems
Gamma and neutron radiation portal monitors	•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:	•in designated car charging spots
Other products	•in various areas of industrial automation

2.3 Scale of operations and target customer groups

The business activities of the Group are carried out all over the world. The 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.



The Group's products are sold in over 50 countries all over the world. The largest trade market is Europe. In 2018, Relpol's products were sold in total in 33 European and 24 non-European countries. The Capital Group has two prominent foreign customers. Each of them represents over 10% of the total revenues. The remaining group, about 950 active customers in Poland and abroad account for about 75% of the total revenues.

2.4 Channels used to reach customers

The Capital Group applies various methods of reaching the customer. One of them is individual meetings with constructors, designers and representatives of companies from various branches of industry and power engineering. In addition, customer contact is achieved through the development of a sales and distribution network, participation in national and international trade fairs and exhibitions, the organisation of training courses and lectures, the preparation of articles in the trade press on the technical parameters of products and their application possibilities, as well as through our own and third party websites.

Customers are served directly by the parent company, subsidiaries, as well as by a network of long-standing business partners, wholesalers and distributors of electrical and electrotechnical products.

2.5 Sources of revenues

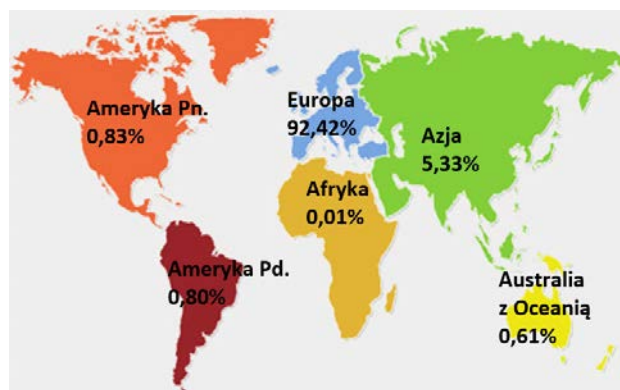
Various electromagnetic relays (both industrial and miniature), as well as plug-in sockets for relays constitute the primary source of revenues of the Capital Group. Other products include radiation portal monitor systems SMP, CZIP PRO – medium voltage protection systems, contactors, soft starters, switched-mode power supplies, automation modules etc. The product portfolio is complemented by electric car chargers and 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	2018	2017
Industrial automation	131,135	120,479
Other segments	4,624	2,950
Total	135,759	123,429

in PLN `000

Sales revenues structure by location	2018	2017
Europe	125,474	112,402
Asia	7,241	8,036
North America	1,125	1,147
South America	1,086	1,094
Africa and Australia	833	750
Total	135,759	123,429



2.6 Resources used for conducting business activities



Relpol has 60 years of experience in the manufacture of relays. It has skilled employees, our own research and development facilities, as well as our own laboratories and machinery stock. It allows the Company to design, manufacture and market new products, search for new applications and meet the individual needs of customers in the area of design and properties of relays and sockets.

In the production process, the Group uses steel bands, coil wires, contacts, plastics and other materials, the majority of which is imported.

The convenient location of the parent company in western Poland, close to the international Wrocław-Berlin route, allows direct contact with customers from Western Europe, facilitates the delivery of products and the purchase of materials.

2.7 Main development activities

1. The Capital Group focuses on its core business. Particular attention is paid to internal development regarding the market and technologies, as well as to the introduction of new products and offering them to the existing and potential customers.
2. Sales in the domestic market are developed through the distribution network and online store.
3. The management processes for the Company and the Capital Group are improved.
4. The Group develops its 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 partners in Asian markets.

5. Engineering and design offices are supported by transferring the knowledge and experience of the Company's technical advisors to them.
6. The quality of products is improved 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 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 9001:2015 and PN-EN ISO 14001:2015 standards. Those systems include the continuous improvement processes.
7. Employees are provided with opportunities for development and comfortable working conditions.
8. The RELPOL brand is promoted through various marketing activities.

2.8 Key suppliers

Relpol has 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 800 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	2018		2017	
	In PLN `000	%	In PLN `000	%
Consumption of materials and energy	60,091	43.71%	51,919	42.55%
Wages and salaries	30,260	22.01%	27,126	22.23%
Outsourcing	20,184	14.68%	16,032	13.14%
Costs of goods and materials sold	11,003	8.00%	11,972	9.81%
Social insurance and benefits	6,527	4.75%	5,901	4.84%
Amortisation and depreciation	5,897	4.29%	5,695	4.67%
Taxes and fees	1,665	1.21%	1,698	1.39%
Other costs	1,841	1.35%	1,677	1.37%
Total costs by type	137,468	100.00%	122,020	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 people¹¹.

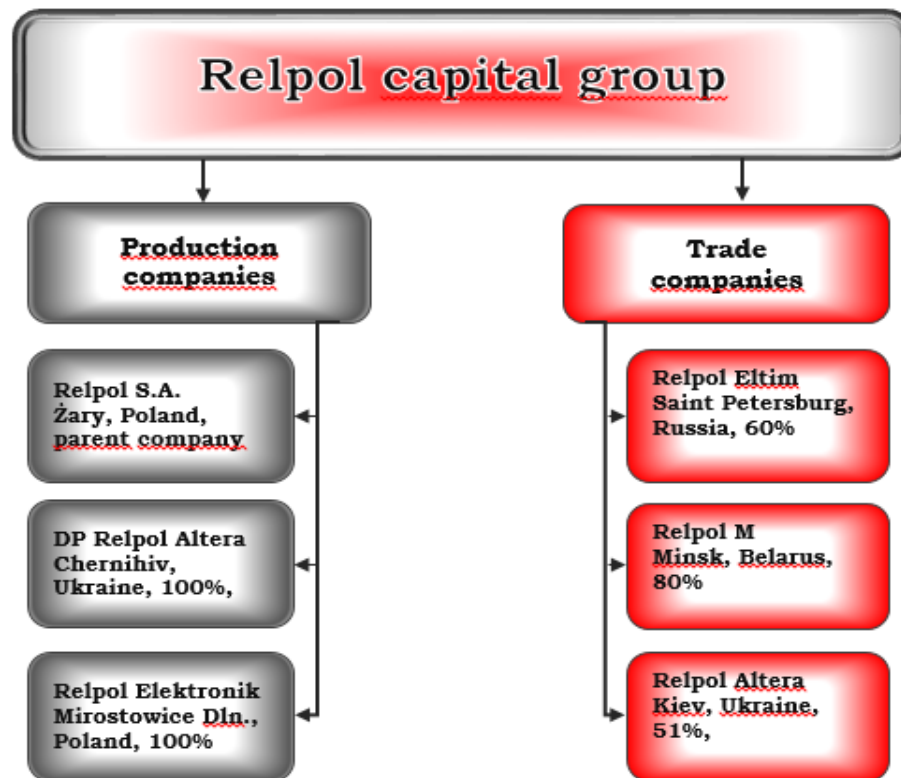
Among the subsidiaries, two other production companies, i.e. DP Relpol Altera in the Ukraine and Relpol Elektronik in Poland, are of major importance. Both companies assemble the products using the provided elements, as commissioned by Relpol S.A. and in accordance with the quality standards it specifies. DP Relpol Altera employs approximately 280 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 this statement exceeds the financial and organisational capacities of these companies. In addition, in July 2018 the Management Board of Relpol S.A. decided to sell its shares in Relpol M. For the above reasons, these companies were excluded from consolidation and the data of these companies are not included in this report.

In 2018, 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.

Organisational changes in the structure of the Capital Group may occur in 2019. In connection with the decision taken by Relpol S.A. to sell its shares in Relpol M., this company was founded and established as a commercial company to sell Relpol in the Belarusian market. However, due to the change in the market situation since the company was established in 1997, a small volume of sales of goods by Relpol S.A. by this entity, a decreasing significance of this company for the operations and development of the Capital Group, lack of prospects for its dynamic development and generation of profits, as well as increasing reporting obligations incumbent on the operating costs of both Relpol M and Relpol S.A., the Management Board of Relpol S.A. decided to sell its shares. The Management Board made a proposal to buy back the shares to the second shareholder of Relpol M and to the company itself. These parties did not take advantage of this proposal, so the Management Board of Relpol S.A. is looking for another buyer of these shares. The sale of this company will not affect the results of Relpol S.A. or the consolidated results of the Relpol Capital Group. Relpol M was not consolidated. Relpol S.A. will continue and develop its trading activities in the Belarusian market through further cooperation with the company, as well as with current and new distributors under the terms of trade agreements concluded between the parties.

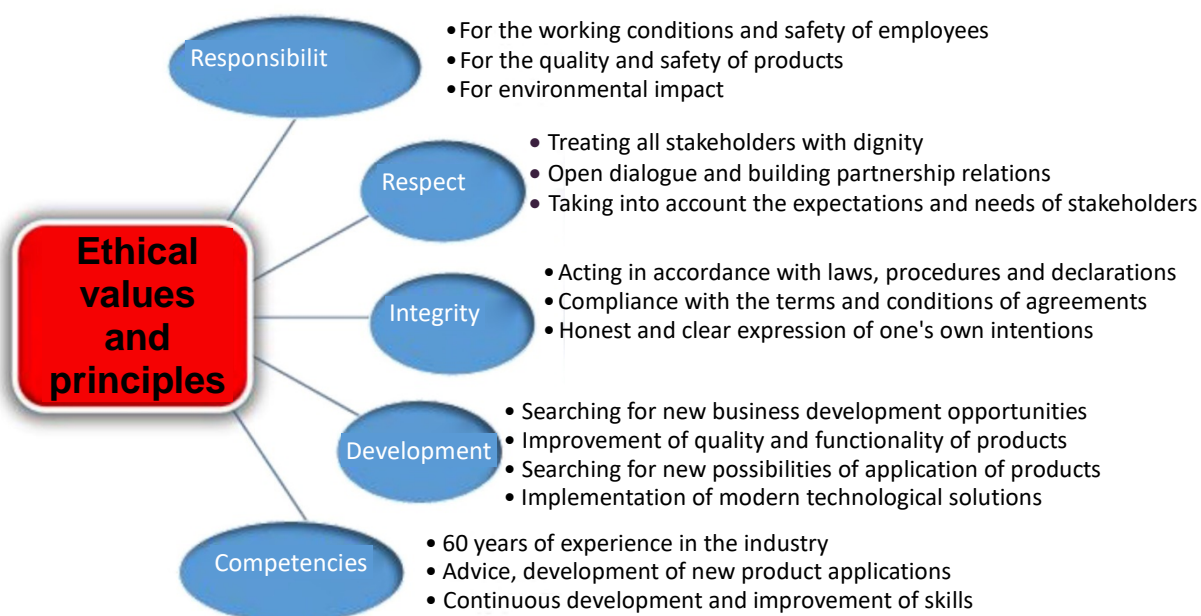
¹¹ G4-7; G4-13, G4-17



4. Ethical values and principles

While carrying out its activities, the Relpol Capital Group applies ethical values and principles which describe the conduct, attitude and beliefs during the fulfilment of business objectives. Business activity is conducted with respect for the highest ethical standards, in a transparent, responsible, honest, reliable and credible manner. The companies operate in accordance with the provisions of the Polish legislation and the regulations of the countries in which production or commercial activities are conducted. The Capital Group observes the principles of fair competition and does not violate the rights of third parties. As a rule, the companies from the Capital Group oppose the use of forced and child labour. The employees' freedom of association in trade union organisations is respected. The rights of employees and the local community are respected¹². Relpol S.A. has implemented an anti-mobbing policy.

¹² G4-56



5. Management systems

The Capital Group takes a comprehensive, professional and responsible approach to business. It acts according to the adopted management system. The conduct in various areas of activity is determined by the implemented regulations, procedures and policies. The Management Boards of individual companies are responsible for taking decisions which influence the economy, environment and society¹³.

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 candidates' qualifications and professional experience, it is important that they meet the independence criteria, as 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, regardless of gender, age, disability, political opinion, religion or nationality.

¹³ G4-34

5.1 Division of powers in Relpol S.A.

General Meeting of Shareholders	
Supervisory Board	
Audit Committee: Zbigniew Derdziuk, Agnieszka Trompka, Dariusz Daniluk to 11.03.2019 r. Jacek Gdański from 04.04.2019 r.	Remuneration Committee: Zbigniew Derdziuk Adam Ambroziak Agnieszka Trompka Dariusz Daniluk to 11.03.2019 r. Piotr Osiński Jacek Gdański from 04.04.2019 r.
In 2018, there were no changes in the Supervisory Board of Relpol SA	
Management Board	
President of the Management Board Sławomir Bialik	Vice President of the Management Board Krzysztof Pałgan
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.
<p>Changes in the Management Board of Relpol S.A. in 2018: On 6 February 2018, the Supervisory Board appointed Sławomir Bialik President of the Company's Management Board (previously he was Vice-President of the Management Board) and Krzysztof Pałgan Vice-President of the Company's Management Board.</p> <p>Until 6 February 2018, the duties of the President of the Company's Management Board were performed by Adam Ambroziak – temporarily assigned Member of the Supervisory Board.</p>	

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.

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 9001:2015 and PN-EN ISO 14001:2015 standards.

The quality management policy is implemented through:

- Continuous improvement of the implemented quality and environmental management system ensuring functionality and safety of the Company's products and reducing their negative impact on the environment.
- Constant cooperation with qualified suppliers to maintain the highest quality level of products, materials and services received.
- Increase in sales through expansion into existing and new markets.
- The increase of employees' awareness of the implemented systems and knowledge about the impact of their work on the improvement of the Company's condition.
- Systematic improvement of the timeliness of deliveries.
- Improvement of the production process and application of modern technological solutions.

Maintaining full compliance of 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 latest integrated audit of management systems according to the new revisions of standards: PN EN ISO 9001:2015 and PN EN ISO 14001:2015 was conducted in January 2019. The audit result is positive. No instances of non-compliance were found. The certification covers 100% of the processes taking place in the Company.

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. This is a narrower management system than in the case of Relpol S.A., which focuses on the production of products and their control. It includes, in particular, regular inspections, product testing, inspections of technical equipment, testing of raw materials, input materials and production processes, storage of products, packaging and training of personnel. 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 May 2018. 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 2018.

6. Risk management

Relpol Capital Group 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. Stakeholder expectations are taken into account. Such behavior contributes to sustainable development, is compliant with 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 companies¹⁴.

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

¹⁴ G4-2

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.

In 2019, the risk management system will be reviewed and the risk map updated.

There is no risk management system in place at the subsidiaries. In their operations, they observe 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 principle ¹⁵.

¹⁵ G4-14

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 determined¹⁶.

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.

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

¹⁶ G4-24, G4-25, G4-26, G4-27

8. Economic results and non-economic activity indicators

The detailed economic and financial results have been presented in separate and consolidated financial statements for 2018 and 2017. The statements are available on the company's website at www.repol.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)¹⁷.

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

	in PLN `000	
	2018	2017
Net revenues from sales of products, goods and materials	135,759	123,429
Costs of principal activity	122,857	114,368
Costs of employee benefits	36,911	33,160
Payment to shareholders	3,926	3,898
Payment to the state	2,529	1,738
Social investments, donations	53	111
Research and development expenditures	447	651
Investment expenditures	7,144	4,995
Consolidated gross profit (loss)	12,076	7,584
Consolidated net profit (loss)	9,486	5,811

8.2. Economics and financial results by country of business

Without consolidation adjustments or intercompany eliminations in PLN `000

	2018			2017		
	Poland	Ukraine	Russia	Poland	Ukraine	Russia
Net revenues from sales of products, goods and materials	130,541	4,679	11,468	118,400	2,963	9,448
Operating expenses	118,607	4,897	10,583	109,541	3,159	9,216
Remunerations and employee benefits	31,838	4,186	886	29,641	2,534	985
Payment to shareholders	3,845	0	168	3,843	0	136
Payment to the state	2,312	42	175	1,668	24	46
Social investments, donations	53	0	0	111	0	0
Gross profit (loss)	11,426	(407)	870	7,457	(216)	223
Net profit (loss)	9,023	(450)	694	5,789	(241)	176

¹⁷ G4-EC1

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 budget¹⁸.

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 and maintains an integrated quality and environmental management system compliant with PN EN ISO 9001 and PN EN ISO 14001. In January 2018, the Company changed to new revisions of PN EN ISO 9001:2015 and PN EN ISO 14001:2015. These standards are more business-oriented. Risk management and change management have become inseparable elements of the approach to the aforementioned management systems. In February 2019, the certification body PCBC S.A. re-certified the integrated management systems in accordance with the new requirements of the PN EN ISO 9001:2015 and PN EN ISO 14001:2015 standards. 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 environment¹⁹.

¹⁸ G4-EC8

¹⁹ G4-DMA

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 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 Company undertakes a number of actions to minimise these risks. It meticulously selects suppliers by maintaining two or three alternative suppliers for the basic or raw material, stores materials properly, complies with regulations in each area of its business activity, conducts control tests, implements instructions and procedures and monitors their compliance, finances courses and training for employees to improve their knowledge, awareness and qualifications.

The main objectives of the Capital Group companies include minimising the costs of energy consumption, rational use of raw materials and materials, compliance with the environment and stakeholders, especially regarding environmental protection, employee safety, product quality and compliance with applicable standards and legal regulations.

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 materials²⁰.

²⁰ G4-EN1

Consumption of the principal materials by year

Material group	UoM	Consumption in 2018	Consumption in 2017
Contact materials	in thousand units	107.53	99.01
Coil wires	kg	131,060	116,552
Copper-derivative bands	kg	200,805	180,070
Plastics	kg	337,822	290,033
Packaging, labels, bags	units	1,960,737	1,793,194
Steel bands	kg	192,362	190,607
Electronic materials	units	5,849,779	3,080,451

The percentages of strategic processed materials used at Relpol S.A. during the manufacture of the basic products are as follows ²¹:

Material group	% in 2018	% in 2017
Contact materials	18.63%	23.04%
Coil wires	12.07%	11.40%
Copper-derivative bands	10.89%	9.00%
Plastics	8.75%	8.34%
Steel rods, cores	2.03%	2.02%
Packaging, labels, bags	3.48%	3.37%
Screw products	0.93%	0.76%
Steel bands	2.33%	2.04%
Chemical materials	2.40%	2.17%
Electronics	6.99%	9.06%
Other	31.50%	32.17%

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 gas²².

²¹ G4-EN2

²² G4-EN3

Energy consumption by types

Types of energy consumed	UoM	2018	2017
Electricity consumption	MWh	4,772.7	4,679.9
Thermal energy consumption	GJ	7,957	8,097
Liquefied petroleum gas	tony	2.05	1.82
Nitrogen-reach natural gas	m ³	273,887	284,224
Cooling energy consumption	-	-	-
Steam consumption	-	-	-

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

Fuel consumption by the car fleet

Types of energy consumed	UoM	2018	2017
Unleaded petrol	tonnes	22.12	16.76
Diesel fuel	tonnes	27.61	36.81

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

Electricity consumption [MWh]	2018	2017
W Relpol S.A.	4 504.7	4 449.8
W DP Relpol Altera	188.0	153.7
W Relpol Elektronik	80.0	76.4

In 2018 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 - 2018, 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	2018	2017
Useful heat consumption in GJ	7,957	8,097

Ratio of useful energy input per unit of area.

Useful heat consumption	2018	2017
Useful heat consumption per m ²	0.043	0.043

In 2017 and 2018, 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 year²³.

In 2018, the lighting on the production hall was replaced. The return on investment is expected for a period of around 5 years, and the savings due to the modernization of the luminaires for LEDs is 19.217 MWh per year.

Planned investment aimed at reducing the electricity consumption

No investments to reduce energy consumption are planned for 2019, except for organizational activities.

²³ G4-EN6

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

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

	2018	2017
Annual useful energy consumption in GJ	7,957	8,097
Energy saved [GJ]	1,602	1,720

In 2018, no investments were made to reduce heat consumption.
The table shows the savings due to investments made in 2015.

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 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 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

In 2019, the company plans to carry out research in order to estimate economic viability of the economizer's application. In the case of a positive opinion, the investment will be planned in the budget for 2020.

Subsidiaries do not realise investments that reduce the consumption of thermal energy.

3. Impact of products and services on the environment

3.1. Reduction of the impact of products on the environment

The Capital Group has high environmental awareness. For many years, pro-environmental activities have been conducted to minimise the impact of its operations on the environment.

Taking care of the environment, in 2018, the activities in the field of technology were implemented aimed at:

1. Reducing the use of chemicals in the production department through:
 - the change in the technology of printing on GZT and GZM sockets from pad printing technology (paints and chemicals after activation of the surface) to laser marking technology.
2. Eliminating chromate passivation in the production department through:
 - the purchase of a new nickel plating machine and the elimination of zinc,
 - the elimination of chromium in galvanic technology.
3. Eliminating the consumption of tetrachloroethylene through:
 - the purchase of a new water cleaner²⁴.

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.

In 2019, a number of activities related to environmental protection are planned in relation to the products manufactured by the Company:

1. Rationalisation of electricity consumption through:
 - replacement of general lighting with LED linear fluorescent lamps in the Plant in Zielona Góra,
 - measurement of systems supplying compressed air to production lines.
2. Improvement of the working environment and environmental protection conditions through:
 - modernisation of the cooling system by installing point air conditioners in one of the production buildings,
 - renovation of production and office premises,
 - development of a complete fire alarm system - the next stage of work,
 - installation of a graphite milling machine for the extraction of graphite dust in a closed and tight system.
3. Improvement of the conditions of emission of pollutants to the air through:
 - renovation and modernisation of exhaust ventilation in the galvanising plant - replacement of emitters and installation of a scrubber,
4. Reduction of the use of chemicals in the DPP1 department through:
 - the change of the technology of marking relay enclosures, modules, interface relays from screen and pad printing to laser marking technology.
 - elimination of dichloromethane from the production process.

²⁴ G4-EN27

Relpol S.A. keeps a register of grievances and comments regarding the instances of environmental non-compliance ²⁵.

In 2018, three inspections on working conditions and environmental protection were carried out:

- in February, an inspection of the Voivodeship Inspectorate for Environmental Protection from Zielona Góra. The purpose of the inspection was compliance with environmental protection regulations with respect to emissions and dusts into the air and compliance with the provisions of the Waste Electrical and Electronic Equipment Act. No violations were found.
- in April an inspection of the National Labour Inspectorate from Zielona Góra with respect to exposure to carcinogens - no violations were found in the area covered by the inspection,
- in October an inspection of the District Sanitary and Epidemiological Station from Żary. The inspection included: chemical agents, storage of hazardous substances and mixtures, supervision over safety data sheets for hazardous substances and mixtures, noise tests. No violations were found in the inspection areas mentioned above. However, it was ordered to renovate 3 hygienic and sanitary rooms and adjust them to the applicable regulations. The renovation of these rooms was already included in the Company's renovation plan for 2019 and was mostly carried out in the first quarter of 2019.

In 2018, the Company did not receive any comments from external institutions regarding the submitted reports.

The Company monitors the following environmental parameters:

- water consumption in the galvanising plant - no values exceeded,
- consumption of tetrachloroethylene in the galvanising plant - decommissioned washer,
- electricity consumption - no values exceeded,
- consumption of industrial gases - the gas flow and proportions are within normal limits,
- operating hours of the equipment - the permissible value resulting from the performance of the machine in the normal range,
- quantity of non-ferrous scrap metal, steel scrap, plastic scrap - the quantities are within the limits, in accordance with the waste generation permit,
- analyses of galvanic wastewater - the permissible values are within the limits, in accordance with the applicable water permit.

In accordance with legal requirements and the water permit, in April, July, September and November 2018 sewage tests were conducted in the Company. The sampling and examination were carried out on the basis of accreditation No. AB 1254 and AB 079. It was carried out by a specialised external company. No excess values were found in the measurements.

3.2. Material recovery

Relpol S.A. collects metallic waste which is subsequently resold for as much as 96% of the stock

²⁵ G4-EN34

exchange price. In the presented calendar periods, over 200 of metallic waste were sold²⁶.

	UoM	2018	2017
Volume of metallic waste sold	kg	279,948	244,123

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

	2018	2017
Share of the waste sales in %	3.00%	1.87%
Return on sales of packaging in %	0.16%	0.13%

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' premises²⁷.

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.

²⁶ G4-EN28

²⁷ G4-12

The location of the suppliers by material group is presented below. This structure is the same as in 2017.

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 out²⁸.

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 37% of the purchases of Relpol S.A. are made from the domestic suppliers. In terms of value, it corresponds to the cost of PLN 23 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.

²⁸ 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 company²⁹.

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. Also by supporting organizations such as „Jesteśmy Blisko”, set up by PZUE S.A., the Company highlights in its environment that it remains sensitive to society and sustainable development.

²⁹ G4-DMA

1. Employment

At the end of 2018, the capital group employed 845 people, of which 71% were women. The production companies in Poland and Ukraine have the largest number of employees³⁰. There is no seasonality of employment at the capital group.

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

Number of employees at end of the year	2018		2017	
	Women	Men	Women	Men
Relpol S.A. Poland	257	219	245	228
Relpol Elektronik Poland	69	2	66	2
Relpol Eltim Russia	5	6	5	6
DP Relpol Altera Ukraine	269	12	242	14
Total in the consolidated companies	600	239	560	250
Relpol Altera Ukraine *	0	1	0	1
Relpol M Belarus *	3	2	3	2
Total in the capital group	603	242	563	253

* 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	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Employment contracts of indefinite duration	516	220	435	221
Employment contracts of definite duration	84	19	125	29
Total in the capital group	600	239	560	250

³⁰ G4-10, G4-11

Number of employees by weekly working time	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Full-time	595	235	553	246
Part-time	5	4	7	4
Total in the capital group	600	239	560	250

Number of employees by employment type	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Production employees	543	164	508	168
Administrative employees	54	70	48	75
Directors	3	5	4	7
Total in the capital group	600	239	560	250

Number of employees by work experience	31.12.2018		31.12.2017	
	Women	Men	Women	Men
from 0 to 5 years	325	63	277	78
from 6 to 15 years	148	59	153	59
from 16 to 25 years	23	51	45	49
over 26 years	104	66	85	64
Total in the capital group	600	239	560	250

Gender structure of the capital group's governing bodies

Number of employees in the governing bodies by gender	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Management Board	0	5	0	5
Supervisory Board	1	7	1	7
Total in the capital group	1	12	1	12

Total number and rates of new employee hires by age group, gender and region³¹.

Gender	Employment rates by gender			
	Number of persons employed in 2018	Employment rate in 2018	Number of persons employed in 2017	Employment rate in 2017
Relpol S.A. Poland				
Women	42	8.8%	47	9.9%
Men	23	4.8%	40	8.4%
Total	65	13.6%	87	18.3%

³¹ G4-LA1

Relpol Elektronik Poland				
Women	12	16.9%	7	10.1%
Men	0	0	1	1.4%
Total	12	16.9%	8	11.5%
DP Relpol Altera Ukraine				
Women	112	39.9%	90	35.2%
Men	4	1.4%	8	3.1%
Total	116	41.3%	98	38.3%

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 2018	Employment rate in 2018	Number of persons employed in 2017	Employment rate in 2017
Relpol S.A. Poland				
19-29	25	5.2%	34	7.1%
30-50	24	5.0%	34	7.2%
>50	16	3.4%	19	4.0%
Total	65	13.6%	87	18.3%
Relpol Elektronik Poland				
19-29	4	5.6%	5	7.2 %
30-50	8	11.3%	1	1.4 %
>50	0	0	2	2.9 %
Total	12	16.9%	8	11.50 %
DP Relpol Altera Ukraine				
19-29	35	12.5%	45	17.6%
30-50	65	23.1%	49	19.1%
>50	16	5.7%	4	1.6%
Total	116	41.3%	98	38.3%

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

Staff turnover by gender

Gender	The number of persons made redundant in 2018	Turnover ratio 2018	The number of persons made redundant in 2017	Turnover ratio 2017
Relpol S.A. Poland				
Women	30	6.3%	35	7.0%
Men	32	6.8%	33	7.4%
Total	62	13.1%	68	14.3%
Relpol Elektronik Poland				
Women	9	12.7%	10	2.9%
Men	0	0	2	14.5%
Total	9	12.7%	12	17.4%
DP Relpol Altera Ukraine				
Women	85	30.2%	76	29.7%
Men	5	1.8%	8	3.1%
Total	90	32.0%	84	32.8%

Staff turnover by age

Age in years	Number in 2018	Turnover ratio in 2018	Number in 2017	Turnover ratio in 2017
Relpol S.A. Poland				
19-29	21	4.5%	23	4.9%
30-50	24	5.0%	24	5.1%
>50	17	3.6%	21	4.4%
Total	62	13.1%	68	14.3%
Relpol Elektronik Poland				
19-29	2	2.8%	8	11.6%
30-50	7	9.9%	4	5.8%
>50	0	0	0	0%
Total	9	12.7%	12	17.4%
DP Relpol Altera Ukraine				
19-29	41	14.6%	48	18.7%
30-50	41	14.6%	34	13.3%
>50	8	2.8%	2	0.8%
Total	90	32.0%	84	32.8%

No employees were recruited or made redundant at Relpol Eltim.

Equal remuneration for women and men

In the capital group, there is a policy of adequate remuneration of employees³². In Relpol S.A. 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.

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

At Relpol S.A.	2018	2017
Production employees	144%	136%
Administrative employees	114%	118%
Directors	95%	96%

At Relpol Elektronik	2018	2017
Production employees	n/a	98.43%
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

The capital group 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 regularly³³.

The employees are provided with personal protective equipment, workwear and safety footwear

³² G4-LA13

³³ G4-LA5

based on the workwear allocation chart specified in the Work Regulations.

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 %	1.69 %

Type and rate of injuries, occupational diseases, lost days and absences from work, as well as work-related fatal accidents by region³⁴

Accidents at work in Relpol S.A.	2018		2017	
	Women	Men	Women	Men
Number of minor accidents at work	3	4	1	1
Number of major accidents at work	0	0	0	0
Number of fatal accidents at work	0	0	0	0

Accidents at work in Relpol Elektronik	2018		2017	
	Women	Men	Women	Men
Number of minor accidents at work	1	0	0	0
Number of major accidents at work	0	0	0	0
Number of fatal accidents at work	0	0	0	0

In 2018, 8 accidents occurred at work in the Relpol Capital Group. These were light accidents, no fatal accidents.

The total number of days of working disability caused by accidents at work was 162 days.

The most frequent causes of those accidents were insufficient attention to the activities performed.

The most common types of injuries:

1. Wounds and superficial wounds,
2. Bruises.
3. Dislocations

³⁴ G4-LA6

Accident rate in Relpol S.A.	2018	2017
Accident severity rate	25.7	9
Accident frequency rate	8.35	2.39
Occupational disease rate	0	0

Accident rate in Relpol Elektronik	2018	2017
Accident severity rate	2%	0
Accident frequency rate	14%	0
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.

There were no accidents in other companies.

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, or making the Company's products available for testing or educational purposes.

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. Apprenticeships and internships are organised for pupils and students. In 2017, the Company 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.” Relpol participates in the Żary job fair and in the “Entrepreneurial Week” organised in high schools.

During the participation and presentation of Relpol’s products at national and international trade fairs such as Automaticon Warszawa, Energetab Bielsko Biała, Energetics Lublin, Hannover Messe, Electronica Munich, Amper Brno, Electrical Networks Russia, Middle East Electricity Dubai, WIN Eurasia Istanbul, the Company, the Capital Group, the region and the country are promoted.

	2018	2017
Donations and sponsoring in zloty	53,000	111,000
Donations and sponsoring in hryvnia	0	17,300

Name of the organisation or institution	Name of the event, type of donation
Primary School No. 2 Żary	Purchase of equipment
City Sports Club Agros Żary	Donation
Związek Wędkarski (Angling Association) – open-air picnic in Żary	Donation
Basketball team at the Primary School No. 8 Żary	Donation
TKKF Refa Żary	Donation
Runners Team Żary Sports Club	“Dycha po Żarach” (running event)
Związek Wędkarski - festyn	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)
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

4. Membership in association

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 organisations³⁵.

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.



³⁵ G4-15, G4-16

Awards	Granting authority	Year of award
Certificate and nomination in the Żarska Róża Biznesu competition in the “Product of the Year 2018” category	Social Council of Entrepreneurs and the Mayor of Żary	2019
Winner in the Żarska Róża Biznesu contest, Certificate and the title of "Company of the Year 2018"	Social Council of Entrepreneurs and the Mayor of Żary	2019
Laureate in the Żarska Róża Biznesu competition, Certificate for the "Economic Event of the Year 2018"	Social Council of Entrepreneurs and the Mayor of Żary	2019
Certificate „Nasze Dobre Lubuskie 2018”	Polska Press sp. z o.o.	2018
Economic Award of Lubuskie Region 2018	Marshal Office of the Lubusz Voivodeship	2018
Cup for CZIP®-PRO - new generation field controller	Energetab 2018, Polish Society for Transmission and Distribution of Electricity	2018
Medal of the name Eng. Kazimierz Szpotański	Association of Polish Power Engineers	2018
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
Efektywna Firma (the Effective Company) 2016	Instytut Europejskiego Biznesu	2017
Gepard Biznesu (the Business Cheetah) 2016	Instytut Europejskiego Biznesu	2017

V. Respect of human right

One of the Capital Group’s 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. New employees are recruited according to the same principles. The

Group does not tolerate mobbing, child employment, exploitation and forced labour.

Employees are treated with responsibility and respect. All norms and standards relating to decent and safe working conditions, working time, the right to rest, holiday leave, medical care, professional development and remuneration commensurate with skills and work performance are respected. The Group follows 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. The laws and regulations governing these areas are respected.

The issues of relations at Relpol S.A. and relations with the external environment have been defined in the document: "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 2018 and 2017, there were no reports of unethical conduct. The subsidiaries have no such policies in place

VII. GRI Index

Profile indicators ³⁶	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 46
G4-2	Description of key impacts, risks, and opportunities	58
Organisational profile		
G4-3	Name of the organisation	47
G4-4	Primary brands, products, and services	47
G4-5	Location of the organisation's headquarters	47
G4-6	Number of countries where the organisation operates	47
G4-7	Nature of ownership and legal form	53
G4-8	Markets served, including geographic breakdown	47
G4-9	Scale of the organisation	47
G4-10	Total number of employees by type, gender, and seniority	73
G4-11	Percentage of total employees covered by collective bargaining agreements	73
G4-12	Organisation's supply chain	70
G4-13	Significant changes regarding the organisation's size, structure, ownership, or its supply chain	53, 71
G4-14	Application of the precautionary principle	59
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	80
G4-16	List memberships of associations and national or international organisations	80
Identified material aspects and boundaries		
G4-17	Information on all entities included in the consolidated financial statements	53
G4-18	Information on the process for defining the report content, the aspect boundaries, and the implementation principles	45
G4-19	Material aspects identified in the report	45-46
G4-20	Influence of the aspect within the organisation	45-46
G4-21	Influence of the aspect outside the organisation	45-46
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	45
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	45
Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organization	60

³⁶ G4-32

G4-25	Basis for identification and selection of stakeholders with whom to engage	60
G4-26	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	60
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	60
Report profile		
G4-28	Reporting period	45-46
G4-29	Date of most recent previous report, if any	45-46
G4-30	Reporting cycle	45-46
G4-31	Contact point for questions regarding the report or its contents	84
G4-32	GRI Content Index	83
G4-33	External assurance of the report	45
Governance		
G4-34	Structure of the highest governance body	55
Ethics		
G4-56	Organization's values, principles, standards and norms of behaviour	54

Specific indicators	INDICATOR DESCRIPTION	Page no.
Economic		
G4-EC1	Economic results	61
G4-EC8	Indirect economic impacts	62
G4-EC9	Procurement practices	71
Environmental		
G4-EN1, G4-EN2	Materials and raw materials	63-64
G4-EN3, G4-EN6	Energy	64, 66
G4-EN27, G4-EN28	Products and services	68-69
G4-EN34	Environmental grievance mechanisms	68
Social		
G4-LA1	Employment	74
G4-LA5, G4-LA6	Occupational health and safety	77-78
G4-LA13	Equal remuneration for women and men	77
	Respect of human rights	81
	Anti-corruption policies and procedures	82

Contact point of the company and for questions regarding the CSR statement or its contents ³⁷.

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³⁷ 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 20 March 2018 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 (Journal of Laws, item 757) 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.

In 2018, Relpol applied corporate governance principles published in the document “Best Practices for WSE Listed Companies 2016” adopted by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015 within the scope indicated in the Information on the state of application by the company of recommendations and rules contained in the set of Best Practices for WSE Listed Companies 2016 sent on 13 January 2016. This document is available on the Company’s website <https://www.relpol.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 2018, 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 developed rules for rewarding Members of the Management Board. These rules depend, among others, on the implementation of the plan adopted for a given year and the tasks assigned by the Supervisory Board. Bonuses of key managers depend on the results of their work and the company's financial outcomes.

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 system 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 Supervisory Board is involved in the company's reporting, and in particular the Audit Committee. The Audit Committee meets with the internal auditor in the company as well as with independent auditors who audit the financial statements of the company and the capital group. The purpose of meetings with the certified auditor is, among others, to familiarize with the course of auditing the financial statements, learn the conclusions, observations and opinions of the auditor about the report, the situation of the company and the capital group, discuss potential areas of risk that may affect the reliability and correctness of financial statements.

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

- Work Regulations,
- Organisational Rules,
- Remuneration Rules,
- Document Circulation Procedure,
- Accounting Policy,
- Policies and procedure regarding the selection of the statutory auditor and services provided by him,
- Safety Policy,
- Other 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.

Shareholders at as 31.12.2018	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	613,943	613,943	6.39%	6.39%
Rockbridge TFI S.A.	2,663,403	2,663,403	27.72%	27.72%
Raiffeisen TFI S.A.	569,467	569,467	5.93%	5.93%

Shareholders at as 18.04.2019	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	613,943	613,943	6.39%	6.39%
Rockbridge TFI S.A.	2,663,403	2,663,403	27.72%	27.72%
TFI BGŻ BNP Paribas S.A.*	541,115	541,115	5.63%	5.63%

As a result of ownership changes, on 29/03/2019, the assets of Riviera Towarzystwo Funduszy Inwestycyjnych SA were transferred (formerly Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.) for Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.

5. Information on holders of any securities that give special control right.

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

6. Information of any restrictions on the exercise of voting rights.

There are no restrictions on the exercise of voting rights. All issued shares are ordinary bearer shares and each share carries one vote.

7. Information of any restrictions concerning the transfer of ownership right to the securities of Relpol S.A.

Under the Articles of Association, the Company's securities are not subject to any restrictions on the transfer of ownership.

8. Description of rules concerning appointment and dismissal of managing persons and their right, in particular the right to make decisions on the issue or redemption of shares.

The Supervisory Board is the body authorised to appoint and dismiss the Management Board of the Company. The Management Board is composed of 2 to 5 members. 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 Management Board is not authorised to take a decision on the issue of shares. Decisions on the issue or redemption of shares are made by the General Meeting of Shareholders.

9. Rules for amending the issuer's statutes of Relpol S.A.

Any amendment to the Statutes requires a resolution of the General Meeting of Shareholders, adopted by a majority of $\frac{3}{4}$ of the votes.

10. 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 six months after the end of the financial year,
- 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 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 of the Company have a number of rights, for example:

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.

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 Code of Commercial Companies and the Regulations of the General Meeting of Shareholders which is available on the company's website at www.relpol.pl

11. Description of the activity of the issuer's management, supervisory or administrative bodies and committees.

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 Articles of Association are available at www.relpol.pl

11.1 Description of the activities of the 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 Articles of Association, 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 present Management Board has been appointed by the Supervisory Board for a common term of 3 years.

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.

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.

Current composition of the Board:

1. Sławomir Bialik - President of the Management Board from 06/02/2018. In the period from 01/06/2017 to 06/02/2018 - Vice President of the Management Board.
2. Krzysztof Pałgan - Vice President of the Management Board from 06/02/2018. In the period from 01/01/2018 to 06/02/2018 - Member of the Management Board.

Other changes in the Management Board of the Company in the period from the 1st January, 2018 to the date of publication of the report.

Adam Ambroziak - seconded Member of the Supervisory Board for temporary performance of the activities of the President of the Management Board of the Company, from 01/01/2018 to 06/02/2018.

11.2 Description of the activities of the Supervisory Board of the Company

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 §24-25 of the Articles of Association 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 § 21 of the Company's Articles of Association, 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 Articles of Association. 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. If the mandate of a member of the Supervisory Board elected by the General Meeting expires during the term of office due to resignation, death or other extraordinary situations that cannot be foreseen and as a result of the above circumstances the composition of the Supervisory Board becomes inconsistent with the Commercial Companies Code and the Company's Articles of Association, the remaining members of the Supervisory Board may by way of co-option appoint by a resolution of the Board a new member of the Supervisory Board, who will perform his/her duties until a new member of the Supervisory Board is elected by the General Meeting.

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 is 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.

In addition to the matters specified in the Commercial Companies Code, the following issues require a resolution of the Supervisory Board:

- a) 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,
- b) the consent to the incurring of other liabilities which exceed the value of equities,
- c) the determination of the legal form of employment of the members of the Management Board and the rules for their remuneration,
- d) the selection of the expert auditor to audit the financial statements of the company,
- e) 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,
- f) the appointment and dismissal of the members of the Management Board,
- g) the examination of and approval for the company's annual business plans prepared by the Management Board.

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.

For material reasons, the Supervisory Board can suspend the Management Board or its individual members. 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. 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 current composition of the Supervisory Board.

Name	Functions in the Supervisory Board	Fulfilment of independence criteria
Zbigniew Derdziuk	Chairman of the Supervisory Board, Chairman of the Audit Committee (AC) and Member of the Remuneration Committee (RC)	Yes
Piotr Osiniński	Vice-Chairman of the Supervisory Board and Chairman RC	No
Adam Ambroziak	Chairman of the Supervisory Board and Chairman RC	No
Agnieszka Trompka	Chairman of the Supervisory Board and Chairman AC and RC	Yes
Jacek Gdański	Chairman of the Supervisory Board and Chairman AC and RC	Yes

Changes in the composition of the Supervisory Board between 01/01/2018 and the date of publication hereof.

On 11/03/2019, for personal reasons, Mr Dariusz Daniluk submitted his resignation from the position of a member of the Supervisory Board. Mr Dariusz Daniluk was a member of the Supervisory Board from 12/10/2017 to 11/03/2019. Mr Dariusz Daniluk met the criteria of independence.

On 04/04/2019, the Supervisory Board by way of co-option appointed Mr Jacek Gdański in his place.

11.3 Committee of the Supervisory Board

The Audit Committee (AC) and the Remuneration Committee (RC) operate within the Supervisory Board.

Audit Committee

Members of the Audit Committee	Function performed	Has knowledge and skills in accounting or auditing financial statements	Has knowledge and skills about the industry in which the Company operates
Zbigniew Derdziuk	Chairman of the AC	Yes	Yes
Agnieszka Trompka	Member of the AC	Yes	Yes
Jacek Gdański	Member of the AC	Yes	

The manner in which the AC members acquire knowledge and skills in accounting or auditing financial statements.

- Zbigniew Derdziuk completed an accounting course. Has experience in managing financial institutions, among others as a member of the Management Board of Bank Pocztowy, he was a member of the ALCO Committee, Credit Committee and in 2009 he obtained the KNF's consent to supervise the risk area in the bank. As a member of supervisory boards of many companies, he participated in the analysis and approval of financial statements. As the President of ZUS, he managed and approved the budget of ZUS and FUS in accordance with the Accounting and Public Finance Act. For 5 years he was the Chairman of the Audit Committee of the ISSA World Social Security Association in Geneva, where he analysed, monitored, approved and presented the financial statements to the General Assembly of ISSA.
- Agnieszka Trompka completed postgraduate studies in Accounting and Corporate Finance, Warsaw School of Economics, Certificate of the Minister of Finance in the field of bookkeeping services No. 30460/2008 (to be verified on the Ministry's website).
- Jacek Gdański holds the title of certified auditor granted by the Polish Chamber of Statutory Auditors (formerly KIBR), postgraduate studies in risk management in financial institutions at the Warsaw School of Economics. He received training in accounting, finance, financial reporting, IAS/IFRS, corporate governance and project management. A long-term member of supervisory boards and audit committees of supervised entities (including Nordea PTE, PKO BP, PKO Życie, PKO TU, Nestbank). A member of the Accounting Standards Committee for the 1st, 2nd and 3rd term of office. A long-term member of the Commission adjudicating on cases of infringement of public finance discipline. A lecturer and coordinator of the block "Public Finance" and a Mentor at the National School of Public Administration.

The acquisition of knowledge and skills about the industry in which the company operates.

- Zbigniew Derdziuk - a graduate of the Electronic Technical High School, a graduate of the University of Warsaw and postgraduate studies in organisation and management. For over 2 years he has been a member of the Supervisory Board of Relpol S.A. where he acquired knowledge about the industry. He was a member of the supervisory board of two companies that used various components from the electrotechnical industry.
- Agnieszka Trompka - has professional experience gained while working for an electrotechnical company (Przedsiębiorstwo Wielobranżowe SEA). For over 2 years she has been a member of the Supervisory Board of Relpol S.A. where she acquired knowledge about the industry.

All members of the Audit Committee meet the independence criteria provided for in the Articles of Association and the Act on Statutory Auditors.

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/ monitoring the effectiveness of the internal audit and, at least once a year, evaluating the internal control system.

The tasks of the Audit Committee resulting from monitoring the work of the statutory auditor in particular include:

- 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.

In 2018, the Audit Committee held a formal meeting on 6 April 2018. The AC acquainted itself with the preliminary financial data and the auditor's opinion on the Company's situation, the audit of the statements for 2017, the results achieved and the risks involved.

The Audit Committee at the meeting of the Supervisory Board on 10 May 2018 presented the recommendation of the AC to the Supervisory Board on the evaluation of the separate financial statements of Relpol S.A. for 2017 and on the evaluation of the consolidated financial statements of the Capital Group and the Management Board's report on the activities of the Company and the Capital Group for 2017.

Moreover, in July 2018 the Audit Committee by circulation participated in answering the auditor's questions during the review of the statements for the first half of 2018.

The members of the Committee and the Chairman also work outside the AC meetings. They have contact with the Company's auditor. In matters relating to auditing financial statements, they contact the auditor in person, by telephone or e-mail. The Audit Committee also contacts other persons in the Company responsible for reporting or auditing. Matters related to the Company's reporting, internal audit, identification and management of risks were discussed at the Supervisory Board meetings attended by members of the Audit Committee. Members of the AC receive monthly reports on the Company's financial standing in the form agreed upon with the Supervisory Board.

Prior to the audit of the statements for 2018, the Audit Committee by circulation had adopted the proposed strategy for auditing the financial statements.

Remuneration Committee

The Remuneration Committee is composed of all members of the Supervisory Board.

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.

12. Indication whether permitted non-audit services were provided to the issuer by an audit firm

In 2018, the audit firm auditing the Company's financial statements for 2018 did not provide any other services to Relpol S.A.

13. Main assumptions of the policy for the selection of an audit firm to carry out the audit

1. The Audit Committee, the Supervisory Board and the Management Board are involved in the process of selecting the entity authorised to audit financial statements of the Company and the Relpol Capital Group.
2. The entity authorised to carry out a statutory audit of financial statements of the Company and the Relpol Capital Group is selected through a tender procedure and in accordance with the audit firm selection procedure applicable in the Company.
3. The Company prepares tender documentation and conducts direct negotiations with interested bidders.
4. As a result of conducted negotiations, the Company makes an initial assessment of bids submitted by audit firms authorised to audit statements and prepares a report for the Audit Committee with conclusions on the selection procedure.
5. Only bids where the audit firm and the key statutory auditor have declared that they meet the independence requirements and that there are no threats to their independence and safeguards have been applied to mitigate them are taken into account for the assessment.
6. The main criteria for the assessment of an audit firm are the gross price proposed for the service, the experience of the audit firm or key statutory auditor in auditing financial statements of public companies and the position of the audit firm in the ranking of audit firms.
7. The entity authorised to carry out a statutory audit of financial statements of Relpol S.A. and the Relpol Capital Group is selected by the Supervisory Board in the form of a resolution, upon recommendation of the Audit Committee.
8. The Audit Committee's recommendation includes:
 - a) an indication of the audit firm to which it proposes to entrust the statutory audit,
 - b) a statement that the recommendation is free from any influence of third parties,
 - c) a statement that Relpol S.A. did not conclude any agreements containing the clauses referred to in Article 66(5a) of the Accounting Act of 29 September 1994.

9. If the selection of an audit firm does not concern the extension of an agreement for auditing financial statements, the recommendation of the Audit Committee is drawn up following the selection procedure and includes at least two proposals for the selection of an audit firm together with a justification and indication of the Audit Committee's preferences in relation to one of them.
10. The Supervisory Board adopts a resolution on the selection of an audit firm taking into account the independence, timeliness and rotation requirements referred to in the Policy for the selection of an audit firm and immediately informs the Company's Management Board of its decision.
11. The Supervisory Board may select an entity other than the one recommended by the Audit Committee to audit statements. In such a case, it communicates the reasons for its decision to the General Meeting of Shareholders.

14. Indication whether the recommendation concerning the selection of an audit firm to carry out the audit met the applicable conditions

UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. which is an entity entered into the list of entities authorised to audit financial statements under No. 3115 was selected to audit the financial statements of Relpol S.A. and the Relpol Capital Group for 2018 and 2019. The selection was made by the Supervisory Board of the Company, following the recommendation of the Audit Committee and the prepared audit firm selection procedure.

15. Description of the diversity policy applied to the issuer's management and supervisory bodies

The company has not developed a formal 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 in accounting or auditing of financial statements.

The Supervisory Board is composed of one woman and four men and the company's Management Board is composed of two men.

Signatures of the Members of the Management Board:

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

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