

FINANCIAL STATEMENTS OF RELPOL S.A.

FOR THE YEAR 2017
from 1 January 2017 to 31 December 2017

in accordance with IFRSs of the EU



Żary, April 2018

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I. INTRODUCTORY INFORMATION

1. On the company

As of the date of publication of the financial statements.

Issuer's name, registered office and address	Registering authority	Share capital	Core business activity according to the Polish Classification of Business Activity (PKD)			
Relpol S.A. ul. 11 Listopada 37 68-200 Żary www.repol.pl sekretariat@repol.com.pl	District Court in Zielona Góra, VIII Commercial Division of the National Court Register KRS (National Court Register) number: 0000088688	<table border="1"> <tr> <td data-bbox="932 804 1147 875">PLN 48,045,965</td> <td data-bbox="932 882 1147 954">9,609,193 bearer shares</td> <td data-bbox="932 960 1147 1106">9,609,193 votes at the General Meeting of Shareholders</td> </tr> </table>	PLN 48,045,965	9,609,193 bearer shares	9,609,193 votes at the General Meeting of Shareholders	27.12.Z Manufacture of electricity distribution and control apparatus
PLN 48,045,965	9,609,193 bearer shares	9,609,193 votes at the General Meeting of Shareholders				
Composition of the Management Board		Composition of the Supervisory Board				
Sławomir Bialik – President of the Management Board Krzysztof Pałgan – Vice President of the Management Board		Zbigniew Derdziuk – Chairman Piotr Osiński – Vice Chairman Adam Ambroziak Agnieszka Trompka Dariusz Daniluk				

Short description of the objects of the company

For 60 years, Relpol S.A. has been manufacturing the industrial automation components, in particular electromagnetic relays for various branches of the industry, electronics, photovoltaics and railways, electric car charging stations, control and monitoring relays, as well as plug-in sockets for relays.

Since 2000, Relpol S.A. has also been manufacturing, installing and maintaining gamma-neutron radiation portal monitors and digital protection systems CZIP, used in medium voltage switchboards.

The description of the business model, the product groups and their applications has been provided in the report on the operations of the company and the capital group for 2017, in the section pertaining to non-financial information.

2. On the financial statements

Format of the financial statements

The present financial statements have been prepared based on the historical cost principle, except for the revaluation of buildings, to which the fair value principle was applied.

The company's duration is unlimited.

Reporting period

The reporting periods are quarterly (at the end of each calendar quarter), half-year (at the end of a calendar half of the year) and annual periods (at the end of each calendar year). The company's financial year is the calendar year.

These financial statements have been drawn up for the annual period from 1 January 2017 to 31 December 2017.

The **comparative data** pertain to the period from 1 January 2016 to 31 December 2016.

Audit of the financial statements

The presented financial data as at 31 December 2017 and 31 December 2016 has been verified by an expert auditor.

Approval of the financial statements

The financial statements for 2016 were approved by the General Meeting of Shareholders on 23 June 2017.

The financial statements for 2017 were approved by the Management Board on 18 April 2018 and will be published on 25 April 2018.

Currency: unless indicated otherwise, all financial data in the consolidated financial statements has been provided in PLN thousand.

The functional currency of Relpol S.A. is Polish zloty (PLN).

Significance

For the purposes of these financial statements, a significance of 1% of the balance sheet total has been adopted.

Place of keeping the accounting ledgers

The accounting ledgers of the company are kept at its registered office in Żary.

Contents of the financial statements

The financial statements drawn up as at the date of closing the accounting ledgers or as at any other balance sheet date consist of:

- a statement of financial position,
- a profit and loss account,
- a statement of comprehensive income,
- a statement of cash flows,
- a statement of changes in equity,
- notes to the financial statements.

3. Statements of the Management Board

On the compliance of the financial statements with IFRS

These financial statements have been drawn up in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the EU.

On the going concern assumption

These financial statements have been drawn up with the assumption that Relpol S.A. will continue their operations as a going concern in the foreseeable future and as at the date of drawing up hereof, there are no circumstances which would indicate a threat to the continuation of such operations.

On the correctness of selection of the entity to audit the financial statements

The entity entitled to audit the financial statements of Relpol S.A. for 2017 was selected in accordance with the provisions of the law. That entity and the expert auditors who carried out the audit of the annual financial statements met the requirements which allow them to express an unbiased and independent opinion on the audited financial statements, in accordance with the applicable provisions and professional standards.

On the correctness of drawing up the financial statements

To the best of the Management Board's knowledge, the annual financial statements of Relpol S.A. for 2017, as well as the comparative data used in the statements, have been drawn up in accordance with the accounting principles applicable to the company. They reflect the property and financial position, as well as the financial result achieved by the company in the specified reporting periods in a true, accurate and clear way.

The management report on the operations of the issuer and the capital group gives a true image of the development and achievements of the company and its economic and financial condition, including the characteristics of the basic risk and threat factors. Due to the fact that Relpol S.A. is the parent company whose revenues from sales constitute 90% of the consolidated revenues and the net result – over 90%, as well as pursuant to Article 83(7) of the Regulation of the Minister of Finance of 19 February 2009 on Current and Periodical Information Provided by Issuers of Securities, the Management Board of Relpol S.A. has decided to draw up the management report on the operations of Relpol S.A. and the Relpol capital group for 2017 as one document. The data presented in a separate management report on the operations of Relpol S.A. would constitute a duplicate of the data provided in the report on the operations of the capital group and would not add any relevant information.

Krzysztof Pałgan
Vice President of
the Management Board

Sławomir Białik
President of
the Management Board

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II. FINANCIAL DATA

SELECTED FINANCIAL DATA	in PLN '000	in PLN '000	in EUR '000	in EUR '000
	For 2017 from 1.01.2017 to 31.12.2017	For 2016 from 1.01.2016 to 31.12.2016	For 2017 from 1.01.2017 to 31.12.2017	For 2016 from 1.01.2016 to 31.12.2016
PROFIT AND LOSS ACCOUNT				
Sales revenues of products, goods and materials	115,533	106,089	27,218	24,245
Profit (loss) on operating activities	8,334	6,919	1,963	1,581
Gross profit (loss)	7,720	7,657	1,819	1,750
Net profit (loss)	6,052	6,166	1,426	1,409
STATEMENT OF CASH FLOWS				
Cash flow from operating activity	4,676	11,249	1,102	2,571
Cash flow from investing activity	-3,284	-3,372	-774	-771
Cash flow from financing activity	-4,693	-8,287	-1,106	-1,894
Total cash flow	-3,301	-410	-778	94
STATEMENT OF FINANCIAL POSITION				
	Balance as at 31.12.2017	Balance as at 31.12.2016	Balance as at 31.12.2017	Balance as at 31.12.2016
Total assets	92,381	90,004	22,149	20,344
Long-term liabilities	4,006	4,718	960	1,066
Short-term liabilities	15,957	14,709	3,826	3,325
Equity capital	72,418	70,577	17,363	15,953
Share capital	48,046	48,046	11,519	10,860
OTHERS				
Number of shares	9,609,193	9,609,193	9,609,193	9,609,193
Weighted average number of shares	9,609,193	9,609,193	9,609,193	9,609,193
Annualized profit (loss) per ordinary share (in PLN / EUR)	0,63	0,64	0,15	0,15
Profit (loss) for the reporting period per ordinary share (PLN / EUR)	0,63	0,64	0,15	0,15
Book value per share (in PLN / EUR)	7,54	7,34	1,80	1,66
Diluted book value per share (in PLN / EUR)	7,54	7,34	1,80	1,66
Declared or paid dividend per share (in PLN / EUR)	0,40	0,50	0,09	0,11

Manner of conversion of the amounts included in the table "Selected financial data" into Euro

In order to convert the above amounts we applied an average exchange rate of the National Bank of Poland for Euro applicable for individual balance sheet dates and time frames:

	Average exchange rate from 1.01.2017 to 31.12.2017	Average exchange rate from 1.01.2016 to 31.12.2016	Exchange rate as at 31.12.2017	Exchange rate as at 31.12.2016
EUR/PLN exchange rate	4.2447	4.3757	4.1709	4.4240

1. Profit and loss statement

in PLN '000			
PROFIT AND LOSS STATEMENT	NOTE	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Net revenues from sales of products, goods and materials	2	115,533	106,089
Costs of products, goods and materials sold	3	90,627	81,638
Gross profit on sales		24,906	24,451
Selling costs	3	905	920
Overheads	3	14,873	15,702
Profit (loss) on sales		9,128	7,829
Other operating income	4	452	271
Other operating expenses	4	1,246	1,181
Profit (loss) on operating activities		8,334	6,919
Financial revenues	5	265	941
Financial costs	5	879	203
Gross profit (loss)		7,720	7,657
Taxes	6	1,668	1,491
Other reductions in profit		0	0
Net profit (loss) on continuing operations		6,052	6,166
Net profit (loss) on discontinued operations	7	0	0
Net profit, including 1 share (PLN / share):		6,052	6,166
- ordinary	9	0,63	0,64
- diluted	9	0,63	0,64

2. Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Net profit (loss) on continuing operations	6,052	6,166
of which net profit/loss on discontinued operations	0	0
Components of other comprehensive income,	-368	-467
a) which will not be subsequently reclassified into profit or loss	-368	-467
Actuarial gains and losses	-454	-576
Income tax on other comprehensive income	86	109
b) which will be subsequently reclassified into profit or loss under specific conditions	0	0
Total comprehensive income	5,684	5,699

3. Financial statement

FINANCIAL STATEMENT	NOTE	31.12.2017r.	31.12.2016r.
ASSETS			
(Long-term) fixed assets		38,788	39,863
Tangible fixed assets	10	30,296	30,695
Investment property	11	0	0
Intangible assets	12	8,020	8,622
Financial assets	13	385	385
Long-term accounts receivable	16	87	161
Deferred tax assets	6	0	0
(Short-term) current assets		53,593	50,141
Inventory	14	27,508	26,213
Trade accounts receivable	15	23,362	18,295
Other accounts receivable	16	1,835	1,413
Short-term investments	13	0	0
Cash and cash equivalents	17	484	3,869
Prepayments and accruals	18	404	351
Long-term assets classified as held for sale	7	0	0
TOTAL ASSETS		92,381	90,004
Equity attributable to parent company's shareholders			
Share capital		72,418	70,577
Retained earnings:	19	48,046	48,046
-Supplementary capital	19	24,372	22,531
-Revaluation reserve		17,982	15,659
-Reserve capital	19	338	706
-Profit/ loss brought forward		0	0
-Current year result		6,052	6,166
Long-term accounts payable		4,006	4,718
Interest-bearing bank credits and loans	21	282	1,154
Lease liabilities	22	371	562
Other accounts payable	24	29	0
Deferred income tax reserve	18	0	0
Provision for deferred income tax	6	1,736	1,672
Provisions for other liabilities	20	1,588	1,330
Short-term accounts payable		15,957	14,709
Trade accounts payable	23	7,394	6,714
Lease liabilities	22	347	481
Other accounts payable	24	4,296	4,126
Current portion of interest-bearing bank credits and loans	21	2,516	2,050
Deferred revenue	18	85	0
Provisions for other liabilities	20	1,319	1,338
TOTAL EQUITIES AND LIABILITIES		92,381	90,004

4. Condensed statement of cash flows

CONDENSED STATEMENT OF CASH FLOWS	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
A. Cash flows from operating activities	4,676	11,249
I. Profit before income tax	7,720	7,657
II. Total adjustments	-3,044	3,592
1. Share of losses of joint ventures accounted for using the equity method	0	0
2. Amortisation and depreciation	5,567	5,753
3. Exchange gains (losses)	84	-13
4. Interest and profit sharing (dividend)	-394	-128
5. (Profit) loss on investment activities	-130	310
6. Change in provisions	-129	-255
7. Change in inventory	-1,295	-2,633
8. Change in receivables	-5,415	1,949
9. Change in short-term liabilities excluding credits and loans	156	-787
10. Change in prepayments and accruals	-53	-36
11. Income tax paid / refunded	-1,435	-568
12. Other adjustments	0	0
B. Cash flows from investment activities	-3,284	-3,372
I. Inflows	722	628
1. Disposal of intangible and tangible fixed assets	210	328
2. Disposal of investment in real property and in intangible assets	0	0
3. From financial assets including:	512	300
- disposal of financial assets	0	0
- dividends	512	296
- interest	0	0
- other receipts from financial assets	0	4
4. Other inflows:	0	0
II. Outflows	-4,006	-4,000
1. Purchase of intangible assets and tangible fixed assets	-4,006	-4,000
4. Other outflows from investment activities	0	0
C. Cash flows from financial activities	-4,693	-8,287
I. Inflows	1,643	0
1. Net inflows from issuance of share and other capital instruments and from capital contributions	0	0
2. Credits and loans	1,643	0
3. Other inflows from financial activities	0	0
II. Outflows	-6,336	-8,287
1. Purchase of own shares	0	0
2. Dividend and other payments to shareholders	-3,844	-4,805
3. Profit distribution liabilities other than profit distribution payments to shareholders	0	0
4. Repayment of credits and loans	-2,050	-2,493
5. Redemption of debt securities	0	0
6. Payment of other financial liabilities	0	0
7. Payment of liabilities arising from financial leases	-324	-765
8. Interest	-118	-168
9. Other outflows from financial activities	0	-56

D. Total net cash flows	-3,301	-410
E. Balance sheet change in cash including:	-3,385	-397
- change in cash due to foreign exchange differences	126	-13
F. Cash opening balance, including:	3,869	4,266
- foreign exchange differences	-105	-92
G. Closing balance, including:	484	3,869
- foreign exchange differences	21	-105

5. Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY	Share capital	Other capitals				Total equity
		Supplementary capital	Revaluation reserve	Previous years' profit (loss)	The result of the current year	
<u>As at 1 January 2017</u>	48,046	15,659	706	6,166	0	70,577
Cover the loss	0	0	0	0	0	0
Dividend payment	0	0	0	-3,843	0	-3,843
Differences from revaluation	0	0	0	0	0	0
Previous years' profit (loss)	0	2,323	0	-2,323	0	0
Other comprehensive income including:	0	0	-368	0	6,052	5,684
- net profit (loss) for the year	0	0	0	0	6,052	6,052
<u>As at 31 December 2017</u>	48,046	17,982	338	0	6,052	72,418
<u>As at 1 January 2016</u>	48,046	13,486	1,173	6,978	0	69,683
Cover the loss	0	0	0	0	0	0
Dividend payment	0	0	0	-4,805	0	-4,805
Differences from revaluation	0	0	0	0	0	0
Previous years' profit (loss)	0	2,173	0	-2,173	0	0
Other comprehensive income including:	0	0	-467	0	6,166	5,699
- net profit (loss) for the year	0	0	0	0	6,166	6,166
<u>As at 31 December 2016</u>	48,046	15,659	706	0	6,166	70,577

III. NOTES TO THE FINANCIAL STATEMENTS

1. Business segments

An operating segment is a component of the entity:

- a) which engages in business activities, as a result of which it may generate revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- b) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to take decisions on the allocation of resources to the segment and assess its performance, and
- c) for which separate financial information is available.

In accordance with the requirements of IFRS 8, the operating segments should be identified based on the internal reports pertaining to those elements and evaluating their financial results which are regularly verified by the management board of the entity in terms of the allocation of resources to a given segment.

In view of the foregoing it should be concluded that the company operates on the market of industrial automation components and it is its main operating segment.

Segments' revenues and results	Revenues		Result in the segment	
	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Industrial automation components	112,583	101,703	23,433	22,043
Other segments	2,950	4,386	1,473	2,408
Total from continuing operations	115,533	106,089	24,906	24,451

Unallocated items

Selling costs	905	920
Overheads	14,873	15,702
Profit (loss) on sales	9,128	7,829
Other operating income	452	271
Other operating expenses	1,246	1,181
Profit (loss) on operating activities	8,334	6,919
Financial revenues	265	941
Financial costs	879	203
Gross profit (loss) on continuing operations	7,720	7,657
Taxes	1,668	1,491
Other reductions in profit	0	0
Net profit (loss) on continuing business operations	6,052	6,166
Net result on the activity sold	0	0
Net profit	6,052	6,166

In order to monitor the results achieved in the operating segment and allocate the resources to the reporting segments, the company allocates all assets, except for the investments in subsidiaries and current and deferred income tax assets.

The company has no possibility of separating accounts payable pertaining to individual operating segments.

The revenues by regions are presented below in Note no. 2 on sales.

Assets and liabilities of the segments	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Industrial automation components	88,250	85,222
Other segments	3,746	4,397
Total assets of the segments	91,996	89,619

Other information on the segments	Amortisation and depreciation		Increase in fixed assets	
	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Industrial automation components	5,221	5,342	4,151	3,980
Other segments	346	411	34	116
Total continuing operations	5,567	5,753	4,185	4,096

2. Revenues from sales

NOTE NO. 2

Revenues from sales – by item	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Revenues from sales of products	98,134	91,741
Revenues from sales of services	912	1,131
Total revenues from sales of products and services	99,046	92,872
- of which from related parties	1,632	2,277
Revenues from sales of goods	11,869	10,588
Revenues from sales of materials	4,618	2,629
Total revenues from sales of goods and materials	16,487	13,217
- of which from related parties	232	244
Total revenues from sales	115,533	106,089
- of which from related parties	1,864	2,521

Revenues from sales – by region	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Poland		
Revenues from sales of products	24,253	25,397
Revenues from sales of services	659	623
Revenues from sales of goods	8,260	7,651

Revenues from sales of materials	2,804	2,248
Total revenues from domestic sales	35,976	35,919
- of which from related parties	0	0
Export		
Revenues from sales of products	73,881	66,344
Revenues from sales of services	253	508
Revenues from sales of goods	3,609	2,937
Revenues from sales of materials	1,814	381
Total revenues from export sales	79,557	70,170
- of which from related parties	1,864	2,521
Total revenues from sales	115,533	106,089
- of which from related parties	1,864	2,521

In 2017, the company generated revenues from sales in the amount of PLN 115,533 thousand, which constitutes an increase of 8.9% in comparison to 2016. The primary source of revenues are products and services – they account for 85.7% of the total revenues. The increase in this group amounted to 0.7%. The goods and materials constitute 12.5% of the revenues, having increased by 6.6%. The goods complement the commercial offer of the company.

Revenues from sales

in PLN '000

Content	Year		Change
	2017	2016	
Products and services	99,046	92,872	106.6%
Goods and materials	16,487	13,217	124.7%
Total	115,533	106,089	108.9%

Sales structure of the company

in PLN '000

Description	2017	Share in %	2016	Share in %	Dynamics 2017/2016
Poland	35,976	31.14%	35,919	33.86%	35,976
Sales on foreign markets, of which:	79,557	68.86%	70,170	66.14%	79,557
Europe, of which:	68,530	59.32%	63,476	59.83%	68,530
Germany	42,523	36.81%	37,269	35.13%	42,523
France	2,267	1.96%	2,311	2.18%	2,267
Russia	1,837	1.59%	2,268	2.14%	1,837
Italy	5,218	4.52%	5,075	4.78%	5,218
Asia	8,036	6.96%	4,400	4.15%	8,036
North America	1,147	0.99%	820	0.77%	1,147
South America	1,094	0.94%	834	0.79%	1,094
Australia and other	750	0.65%	640	0.60%	750
Total	115,533	100.00%	106,089	100.00%	115,533

In 2017, the export sales amounted to PLN 79,557 thousand, which constitutes an increase of 13.4% in comparison to 2016. The domestic sales were marginally higher than in the preceding year.

Currently, the largest commercial market of the company is Germany. The sales in Germany increased by PLN 5,254 thousand (14%) and now amounts to over 36% of the total sales. Due to a difficult situation in Russia, the sales on that market decreased by 19% as compared to 2016. A dynamic growth has been observed on the Asian markets. In 2017, the sales in Asia increased by 83%.

3. Costs of operating activities

NOTE NO. 3

Selling cost – by item	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Cost of products sold	78,630	71,324
Cost of services sold	25	0
Total cost of products and services sold	78,655	71,324
- of which from related parties	1,137	1,467
Acquisition cost of goods sold	8,352	7,822
Acquisition cost of materials sold	3,620	2,492
Total acquisition costs of goods and materials	11,972	10,314
- of which from related parties	167	177
Total selling cost	90,627	81,638
- of which from related parties	1,304	1,644

Costs by type	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Amortisation and depreciation	5,567	5,753
Consumption of materials and energy	43,660	41,377
Outsourcing	14,790	15,504
Taxes and fees	1,530	1,453
Wages and salaries	22,213	22,203
Social insurance and other benefits	5,115	4,858
Other costs by nature	1,674	1,611
Costs of goods and materials sold	11,972	10,314
Total costs by nature	106,521	103,073
Change in product inventory, prepayments and accruals	-1,803	3,202
Costs of products manufactured by the entity for its own purposes	1,919	1,611
Selling costs	905	920
Overheads	14,873	15,702
Costs of products, goods and materials sold	90,627	81,638

Depreciation of fixed assets and amortisation of intangible assets, write-offs recognised in the profit and loss account	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Items recognised in own cost of goods and products sold:		
Depreciation of fixed assets	3,943	4,281
Amortisation of intangible assets	375	471
Items recognised in overheads:		

Depreciation of fixed assets	356	354
Amortisation of intangible assets	893	647
Total depreciation and amortisation	5,567	5,753

Costs of employee benefits	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Wages and salaries	22,213	22,203
Social security costs	4,121	3,865
Other benefits	994	993
Total employee benefit costs	27,328	27,061

4. Other operating activities

NOTE NO. 4

Other operating income	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Reduction of impairment losses on receivables	9	20
Reduction of impairment losses on inventories	35	61
Reduction of impairment losses on research and development	200	0
Profit from sales of tangible fixed assets	129	65
Contractual penalties and damages received	2	3
Liabilities cancelled	0	35
Other	77	87
Total other operating income	452	271

Other operating expenses	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Receivables write-off	188	31
Research and development write-off	200	375
Fixed asset and inventory write-off	286	194
Creation of a provision for unused annual leave	109	19
Creation of provisions for one-time retirement benefits	102	79
Creation of a provision for liabilities	0	22
Donations made	111	94
Inventory scrapped	168	213
Due VAT	47	46
Other	35	108
Total other operating expenses	1,246	1,181

5. Financing activities

NOTE NO. 5

Financial revenues	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Dividends	73	739
of which from related parties	73	739
Interest on loans granted	0	2
Other interest	16	29
Excess of foreign exchange gains over foreign exchange losses	0	155
Reversal of loan write-offs	173	14
Other	3	2
Total financial revenues	265	941

Financial costs	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Interest on bank credits and loans	101	132
Interest on other accounts payable	4	2
Excess of foreign exchange losses over foreign exchange gains	744	0
Write-off on accounts receivable on account of interest and loans	4	32
Financial costs arising from financial lease agreements	18	36
Other	8	1
Total financial costs	879	203

6. Income tax

NOTE NO. 6

Income tax	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Current corporate income tax	1,518	1,158
Lump-sum corporate income tax	0	0
Deferred corporate income tax	150	333
Tax burden recognised in the profit and loss account	1,668	1,491

Determination of tax	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Gross profit from continuing operations before tax	7,720	7,657
Gross profit from discontinued operations before tax	0	0
Gross profit before tax	7,720	7,657
Costs not being tax deductible expenses	-5,846	-6,477
Non-taxable revenues	6,554	5,094
Deductions from income	21	0
Total tax base	8,407	6,274
Tax at the rate of 19%	1,597	1,192
Exemptions, tax deductions	-79	-34
Income tax recognised in the profit and loss account	1,518	1,158

Reconciliation of effective tax rate	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
Gross profit from continuing operations before tax	7,720	7,657
Tax according to the tax rate of 19% applicable in Poland	1,597	1,192
Unrecognised tax losses brought forward	0	0
Non tax-deductible expenses – permanent differences	152	460
Paid tax on dividends	-79	-34
Tax according to the effective tax rate	1,668	1,491
Net result	6,052	6,166
Effective tax rate	21.6%	19.5%

The applied income tax rate compliant with the current legislation concerning the corporate income tax amounted to 19% in 2017 and 2016. The effective tax rate for 2017 amounted to 21.6% and for 2016 – 19.5%.

Deferred income tax provision before setoff	<i>Balance sheet</i>		<i>Profit and loss account</i>	
	31.12.2017	31.12.2016	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
<i>Deferred tax provision</i>				
Measurement of fixed assets	2,798	2,729	69	-60
Measurement of intangible assets	403	265	138	37
Other	0	0	0	0
Gross deferred tax provision	3,201	2,994	207	-23

Deferred income tax assets before setoff	<i>Balance sheet</i>		<i>Profit and loss account</i>	
	31.12.2017	31.12.2016	from 1.01.2017 to 31.12.2017	from 1.01.2016 to 31.12.2016
<i>Deferred tax assets</i>				
Write-off on long-term financial assets	198	198	0	0
Inventory write-off	249	208	41	-6
Accounts receivable	59	26	33	2
Provision for employee benefits	379	339	40	97
Leases	136	198	-62	-145
Unpaid wages and salaries	48	67	-19	-241
Provision for annual leave and other leaves	195	128	67	15
Other provisions	203	159	43	35
Other	0	0	0	-4
Gross income tax assets	1,467	1 323	143	-247
Revaluation reserve			86	109
Income tax charge			150	333

7. Discontinued operations

Discontinued operations

In the reporting periods ended on 31 December 2017 and 31 December 2016, the company did not discontinue any of its operations.

Tangible fixed assets held for sale

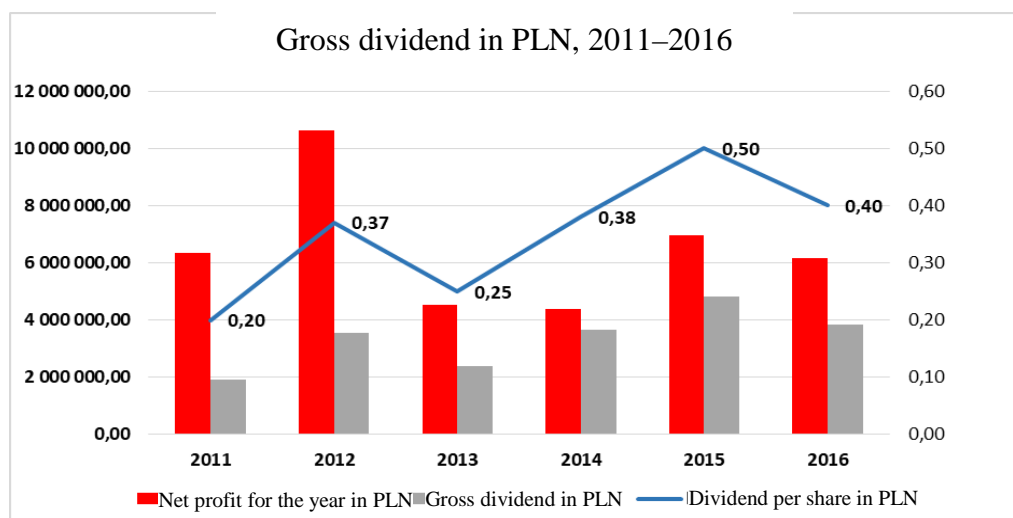
As at 31 December 2017 and 31 December 2016, there were no tangible fixed assets held for sale.

8. Dividends

Declared and paid in the financial year	31.12.2017	31.12.2016
Dividend on ordinary shares:		
- for 2016	3,844	0
- for 2015	0	4,805

Dividend paid per 1 share (in PLN)	31.12.2017	31.12.2016
For 2016, paid per 1 share in PLN	0.40	0.00
For 2015, paid per 1 share in PLN	0.00	0.50

Since 2011, Relpol has regularly paid dividends. Between 30% and 84% of net profits have been allocated to dividends.



9. Profit and equity per share

The profit per ordinary share has been determined as the quotient of the net profit for the given financial period and the weighted average number of shares held by the shareholders in the given period.

The diluted profit per share has been determined as the quotient of the net profit and the weighted average diluted number of shares.

NOTE NO. 9

Profit per share	31.12.2017	31.12.2016
Number of shares traded in pcs	9,609,193	9,609,193
Number of shares applied in the determination of diluted equity and profit per share in pcs	9,609,193	9,609,193
Equity in PLN '000	72,418	70,577
Equity per share PLN/pcs	7.54	7.34
Diluted equity per share PLN/pcs	7.54	7.34
Net profit (loss) (annualised) in PLN '000	6,052	6,166
Profit (loss) per ordinary share PLN/pcs	0.63	0.64
Diluted profit (-loss) per ordinary share PLN/pcs	0.63	0.64

10. Tangible fixed assets

NOTE NO. 10

Tangible fixed assets Balance as at 31.12.2017	Land	Buildings and structures	Machinery and equipment,	Means of transport and other fixed assets	Construction in progress and advance payments	Total
Net value as at 1.01.2017	0	5,093	21,955	568	2,368	711
Increases	0	0	2,529	311	630	737
Decreases arising from:	0	0	7,485	524	1,253	306
- sales	0	0	0	0	0	0
- liquidation	0	0	7,485	524	1,253	80
- other	0	0	0	0	0	226
Depreciation charges for the period	0	0	7,484	524	1,253	0
Depreciation of liquidated and sold fixed assets	0	406	2,881	267	745	0
Impairment write-off	0	0	0	0	0	0
Net value as at 31.12.2017	0	4,687	21,602	612	2,253	1,142
Balance as at 1.01.2017						
Gross value	0	14,043	76,936	3,000	12,240	711
Depreciation	0	8,950	53,873	2,432	9,828	0
Write-offs	0	0	(1,108)	0	(44)	0
Net value	0	5,093	21,955	568	2,368	711
Balance as at 31.12.2017						
Gross value	0	14,043	71,979	2,786	11,619	1,142
Depreciation	0	9,356	49,269	2,174	9,322	0
Write-offs	0	0	(1,108)	0	(44)	0
Net value	0	4,687	21,602	612	2,253	1,142

Financial Statements of Relpol S.A. for 2017

Balance as at 31.12.2016	Land	Buildings and structures	Machinery and equipment, other fixed assets	Means of transport and other fixed assets	Construction in progress and advance payments	Total
Net value as at 1.01.2016	0	5,512	23,492	937	2,580	777
Increases	0	0	1,406	183	684	4,705
Decreases arising from:	0	0	1,537	284	444	4,771
- sales	0	0	0	284	0	0
- liquidation	0	0	1,537	0	444	155
- other	0	0	0	0	0	4,616
Depreciation of liquidated and sold fixed assets	0	0	1,535	284	272	0
Depreciation charge for the period	0	419	2,941	552	724	0
Impairment write-off	0	0	0	0	0	0
Net value as at 31.12.2016	0	5,093	21,955	568	2,368	711
Balance as at 1.01.2016						
Gross value	0	14,043	77,067	3,101	12,000	777
Depreciation	0	8,531	52,467	2,164	9,376	0
Write-offs	0	0	(1,108)	0	(44)	0
Net value	0	5,512	23,492	937	2,580	777
Balance as at 31.12.2016						
Gross value	0	14,043	76,936	3,000	12,240	711
Depreciation	0	8,950	53,873	2,432	9,828	0
Write-offs	0	0	(1,108)	0	(44)	0
Net value	0	5,093	21,955	568	2,368	711

As at 31 December 2017, the parent company – pursuant to the concluded finance lease agreements – held and used production machinery and equipment with the total value of net PLN 959 thousand, as well as means of transport with the value of net PLN 240 thousand.

As at 31 December 2016, those values were as follows: net PLN 1,211 thousand in the case of production machinery and equipment and PLN 200 thousand in the case of means of transport.

The current value and the amount of minimum future lease instalments has been presented in Note no. 22.

Right of perpetual usufruct of land

As at 31 December 2017, the group used a total of 19,977 m² of land pursuant to the right of perpetual usufruct.

Relpol was granted the right of perpetual usufruct of the land free of charge, pursuant to the applicable provisions of the law. The land in question consists of the industrial grounds related to the primary business activity carried out by the company.

The accounts payable unrecognised in the statement of financial position of the group, arising from the right of perpetual usufruct of land, were estimated based on the annual fee rates resulting from the most recent administrative decisions and on the remaining period of usufruct of land covered by that right.

Future fees arising from the right of perpetual usufruct of land	31.12.2017	31.12.2016
up to 1 year	6	6
1–5 years	24	24
over 5 years	432	438
Total amount of minimum future fees arising from the right of perpetual usufruct of land	462	468

	31.12.2017	31.12.2016
The amount of fees arising from the right of perpetual usufruct of land recognised in the profit and loss account	6	6

Description of collaterals established on fixed assets:

As at 31 December 2017, the company had bank facilities with Raiffeisen Bank Polska S.A. and mBank S.A., with the collaterals in the form of fixed assets acquired as part of the ongoing investments.

The pledge on the machinery stock in mBank amounts to PLN 4,700 thousand. The pledge on the machinery stock which serves as a shared collateral of investment loans and the debt limit in Raiffeisen Bank amounts to PLN 3,303 thousand. The above-mentioned values are provided in the pledge agreements as their initial (replacement) value as at the date of agreement.

The expenditure on fixed assets was financed only with an investment loan.

	31.12.2017	31.12.2016
The amount of costs of external financing capitalised in the given period	0	55
The capitalisation rate applied during the determination of the amount of costs of external financing which may be capitalised	-	-

In 2017, the company incurred expenditure on construction in progress:

Construction in progress as at 31.12.2016	711
1. Investment expenditures	737
2. Fixed assets put into service in 2017	226
3. Sales in 2017	80
Construction in progress as at 31.12.2017	1,141
Construction in progress as at 31.12.2017	
1. Modernisation of the factory hall	12
2. Production machinery and equipment	1,001
3. Equipment	129
Total	1,142

11. Investment property

As at 31 December 2017 and 31 December 2016, the company did not hold any investment property.

12. Intangible assets

NOTE NO. 12

Balance as at 31.12.2017	Completed development works	Ongoing development works	Acquired concessions, patents, licences and similar rights	Other intangible assets with advance payments	Total
Net value as at 1.01.2017	7,601	660	361	0	8,622
Increases	122	651	15	0	788
Decreases arising from:	0	122	0	0	122
- sales	0	0	0	0	0
- liquidation	0	0	0	0	0
- other	0	122	0	0	122
Amortisation charge for the period	1,160	0	108	0	1,268
Amortisation of liquidated and sold intangible assets	0	0	0	0	0
Impairment write-off	0	0	0	0	0
Net value as at 31.12.2017	6,563	1,189	268	0	8,020

Balance as at 1.01.2017					
Gross value	22,063	1,035	4,050	1,250	28,398
Amortisation	13,422	0	3,689	1,250	18,361
Write-offs	(1,040)	(375)	0	0	(1,415)
Net value	7,601	660	361	0	8,622

Balance as at 31.12.2017					
Gross value	22,185	1,564	4,070	1,250	29,064
Amortisation	14,582	0	3,802	1,250	19,629
Write-offs	(1,040)	(375)	0	0	(1,415)
Net value	6,563	1,189	268	0	8,020

Balance as at 31.12. 2016	Completed development works	Ongoing development works	Acquired concessions, patents, licences and similar rights	Other intangible assets with advance payments	Total
Net value as at 1.01.2016	6,394	1,972	343	0	8,709
Increases	2,212	1,302	130	0	3,644
Decreases arising from:	0	2,239	0	0	2,239
- sales	0	0	0	0	0
- liquidation	0	27	0	0	27
- other	0	2,212	0	0	2,212
Amortisation charge for the period	1,005	0	112	0	1,117
Amortisation of liquidated and sold intangible assets	0	0	0	0	0
Impairment write-off	0	375	0	0	375
Net value as at 31.12. 2016	7,601	660	361	0	8,622

Balance as at 1.01.2016					
Gross value	19,851	1,972	3,920	1,250	26,993
Amortisation	12,417	0	3,577	1,250	17,244
Write-offs	(1,040)	0	0	0	(1,040)
Net value	6,394	1,972	343	0	8,709

Balance as at 31.12.2016					
Gross value	22,063	1,035	4,050	1,250	28,398
Amortisation	13,422	0	3,689	1,250	18,361
Write-offs	(1,040)	(375)	0	0	(1,415)
Net value	7,601	660	361	0	8,622

The intangible assets include: costs of development works, computer software licenses, licenses to use the SAP programme, licenses to use the payroll programme and the purchase of knowledge bases on customers and the market. In 2017, the expenditure incurred by the group on development works amounted to PLN 651 thousand.

The largest intangible assets as at 31 December 2017 are: completed development works with the value of PLN 6,563 thousand and ongoing development works with the value of PLN 1,189 thousand.

In 2017, the company created an allowance for the ongoing research and development works in the amount of PLN 200 thousand. The Management Board of the parent company does not expect those works to produce the desired results.

All expenditures on the research and development works are recognised in the ongoing development works.

The remaining period of amortisation of intangible assets

Period	31.12.2017	31.12.2016
1–12 months	1,189	1,254
13–36 months	2,091	2,269
37–60 months	1,664	1,713
61–120 months	1,706	2,456
over 120 months	181	270
Value	6,831	7,962

Description of collaterals established on intangible assets

The intangible assets do not serve as collaterals for the accounts payable.

Intangible assets held for sale`

As at the balance sheet date, there are no intangible assets held for sale at the company.

Goodwill

In the period covered by the financial statements, the company did not recognise the goodwill.

13. Financial investments

Business combinations

In the reporting periods ended on 31 December 2017 and 31 December 2016, there were no combinations with other business entities.

Participation in joint ventures

In the reporting periods ended on 31 December 2017 and 31 December 2016, there were no joint ventures with other business entities.

NOTE NO. 13

Financial assets	31.12.2017	31.12.2016
Stocks – carrying value	0	0
Shares – carrying value	385	385
Value at acquisition price	1,425	1,844
Write-off	(1,040)	(1,459)
Other (security deposits, loans)	0	0
Total financial assets	385	385
<i>of which in subsidiaries</i>	385	385

Changes in long-term financial assets	31.12.2017	31.12.2016
Opening balance	385	389
Increases arising from	0	0
Loans granted	0	0
Decreases arising from	0	0
- liquidation	(419)	0
- other (use of write-off)	419	4
Closing balance	385	385

Stocks and shares in subordinate entities

Name of the company	registered office	type of business activity	nature of the relationship	consolidation method	date of taking control	value of stocks/shares at acquisition price	valuation adjustments	carrying value of shares	% share in equity	% share in the total number of votes
Relpol-Alterra Sp. z o.o.	Kiev, Ukraine	Trade and production	subsidiary	excluded	13.05.2004	847	-542	305	51	51
DP Relpol - Alterra	Chernihiv, Ukraine	Production	subsidiary	full	6.09.2007	446	-446	0	100	100
Relpol M j.v.	Minsk, Belarus	Trade	subsidiary	excluded	26.02.1997	71	0	71	80	80
Relpol Eltim ZAO	Saint Petersburg, Russia	Trade	subsidiary	full	9.07.1998	9	0	9	60	60
Relpol Elektronik	Miostowice Dolne, Poland	Production	subsidiary	full	27.06.2007	52	-52	0	100	100
Total						1,425	-1,040	385		

The shares measured at acquisition price, taking into account the impairment, are presented in the financial statements.

Data from the companies' statements without intercompany eliminations

in PLN '000

Name of the company	currency	equity	share capital	net profit/loss	accounts payable	accounts receivable	total assets of the entity	revenues from sales	dividends received or due
Relpol-Alterra Sp. z o.o.	UAH	312	945	19	105	4	189	70	0
DP Relpol - Alterra	UAH	1,637	446	-240	176	483	1,102	2,963	0
Relpol M j.v.	BYR	165	0	-12	84	0	288	567	0
Relpol Eltim ZAO	RUB	5,061	9	176	1,140	1,826	4,258	9,448	0
Relpol Elektronik	PLN	135	50	-263	349	133	509	2,867	0

Short-term financial assets	31.12.2017	31.12.2016
In related parties	0	0
In other undertakings	0	0
- loans granted	0	0
Short-term financial assets	0	0

Financial assets, shares and other short-term financial assets by marketability	31.12.2017	31.12.2016
Shares available for sale	0	0
With limited marketability	0	0
Carrying value	0	0

The parent company granted the following loans to the subsidiaries:

Name of the subsidiary	Amount of the loan granted in foreign currency	Amount of the loan granted in PLN	Interest rate	Date of granting the loan	Date of repayment of the loan under the agreement	Interest charged on the loans granted in PLN	Balance of loans in PLN
Loans granted							
Relpol Altera	USD 0	0	5.50%	12.12.2005	31.12.2016	97	97
Total amount of loans granted							97
write-off							97
Net loan value							0

In 2017, there were no loans granted to the parent company by the subsidiaries.

Derivative financial instruments

As at the balance sheet date, i.e. 31 December 2017, the company did not hold any open financial instruments.

The forward transactions concluded by the company and the options are disclosed in the financial statements as financial assets held for trading at fair value or as a financial account payable. The fair value is calculated using the current net value of future cash flows related to those contracts, quoted market rates, quoted market forward exchange rates and options. In 2017, no forward transactions or options were concluded.

In the case of the hedging transactions, the effects of revaluation shall be charged in their non-effective portion to financial revenues or costs of the reporting period in which the revaluation took place and in their effective portion – to the revaluation reserve.

14. Inventory

NOTE NO. 14

Inventory	31.12.2017	31.12.2016
Materials	10,364	7,521
Semi-finished products and work in progress	5,768	4,723
Finished products:	9,168	11,826
at manufacturing cost	9,168	11,826
at achievable net value	9,022	11,750
Goods	3,594	3,316
Write-offs	(1,386)	(1,173)
Total inventory at the lower of the acquisition price (manufacturing cost) or the achievable net value	27,508	26,213

Change in the balance of inventory write-offs in the financial period	31.12.2017	31.12.2016
Opening balance	1,173	1,171
reversal of write-off	(43)	(61)
use of write-off	(33)	(131)
creation of write-off	289	194
Closing balance	1,386	1,173

The value of inventory recognised in the costs of the current period in 2017 amounted to PLN 90,627 thousand and in 2016 – PLN 81,638.

The company regularly verifies the inventory and its write-offs from the perspective of the loss of their usability for production and sale. The basis for the reversal and utilisation of inventory write-offs in 2017 was sales, scrapping and using the same in production.

At the end of 2017 and 2016, the company did not hold any inventory serving as collateral for the liabilities.

15. Trade accounts receivable

NOTE NO. 15

Trade accounts receivable	31.12.2017	31.12.2016
Trade accounts receivable from related parties	225	349
- up to 12 months	225	349
- over 12 months	0	0
Trade accounts receivable from other entities	23,458	18,088
- up to 12 months	23,458	18,088
- over 12 months	0	0
Total (gross) accounts receivable	23,683	18,437
Receivables write-off	(321)	(142)
Net accounts receivable	23,362	18,295

Trade accounts receivable with maturity from the balance sheet date:	31.12.2017	31.12.2016
up to 1 month	7,825	8,511
1–3 months	12,989	8,254
3–6 months	322	248
6 months–1 year	0	0
over 1 year	0	0
overdue account receivable	2,547	1,424
Total (gross) accounts receivable	23,683	18,437
Receivables write-off	(321)	(142)
Total (net) trade accounts receivable	23,362	18,295

Overdue trade accounts receivable broken down into accounts receivable not paid in the period of:	31.12.2017	31.12.2016
up to 1 month	1,944	971
1–3 months	300	293
3–6 months	3	49
6 months–1 year	158	35
over 1 year	142	76
Total (gross) overdue accounts receivable	2,547	1,424
receivables write-off	(321)	(142)

Type of accounts receivable	Accounts receivable overdue up to 180 days	Accounts receivable overdue over 180 days	Write-offs	Accounts receivable overdue, not subject to write-off
Trade accounts receivable	2,247	300	(321)	2,226
Accounts receivable awarded by a court	0	0	0	0
Accounts receivable claimed in court	0	0	0	0
Other accounts receivable	0	0	0	0
Total:	2,247	300	(321)	2,226

Trade accounts receivable do not bear interest and usually have a 60 to 90-day payment deadline. However, for certain counterparties, the accounts receivable payment period is determined based on individual contracts.

The company has a policy of making sales only to verified clients. The company mitigates the credit risk related to the trade accounts receivable by monitoring and evaluating its customers' financial condition, setting credit limits and insuring the accounts receivable covered by the trade credit.

In the opinion of the Management Board, thanks to the aforementioned solution there is no additional credit risk which would exceed the level determined by the provision for bad debts.

The entity strives to diversify the recipients of its products and goods. In addition to several larger trade partners, Relpol has a considerable group of smaller customers across Poland and Europe. Outside the EU, the group's products reach customers in Asia, North America, South America and Africa.

Despite this dispersion, the company has two large customers who, as at 31 December 2017, represent 35.0% of total trade accounts receivable (23.3% as at 31 December 2016). Despite the concentration of risk on that account, in the light of the analysis of back data resulting from many years of cooperation and due to the applied safeguards (insurance of the accounts receivable), in the opinion of the company's Management Board this risk is not significant.

Customer concentration	31.12.2017		31.12.2016	
	Value receivables	Value of secured receivables	Value receivables	Value of secured receivables
customer A	4,941	4,000	3,048	3,048
customer B	3,359	3,359	1,263	1,263
other	15,383	13,217	14,126	11,616
Total	23,683	20,576	18,437	15,927

The trade accounts receivable and other accounts receivable are shown in the balance sheet at nominal value adjusted by impairment write-offs. The Management Board of Relpol S.A. is of the opinion that the net carrying value of the accounts receivable approximates their fair value.

Change in impairment losses on trade receivables	31.12.2017	31.12.2016
Opening balance	142	131
reversal of write-off	(14)	(20)
use of write-off	0	0
creation of write-off	193	31
Closing balance	321	142

The accounts receivable are subject to revaluation by way of creation of write-offs, taking into account the level of risk and the likelihood of payment of the accounts receivable based on the analysis of back data regarding the collectability of receivables or based on the receivables ageing structures. The Management Board of the parent company did not identify any risks related to the payment of accounts receivable not subject to write-offs due to the fact that as of the date of publication hereof, the vast majority of overdue accounts receivable had been paid within 1–6 months.

16. Other short- and long-term accounts receivable

Long-term accounts receivable	31.12.2017	31.12.2016
Accounts receivable from related parties	0	0
Accounts receivable from other entities	87	161
Write-off	0	0
Net long-term accounts receivable	87	161

Change in the balance of long-term accounts receivable	31.12.2017	31.12.2016
Opening balance	161	164

increases	0	0
decreases	(74)	(3)
Closing balance	87	161

Change in the balance of write-offs on long-term accounts receivable	31.12.2017	31.12.2016
Opening balance	0	0
increases	0	0
decreases	0	0
Closing balance	0	0

Long-term accounts receivable	31.12.2017			31.12.2016		
	Value	Write-off	Carrying value	Value	Write-off	Carrying value
Accounts receivable falling due within 2 years after the balance sheet date	87	0	87	161	0	161
Accounts receivable falling due from 2 to 5 years after the balance sheet date	0	0	0	0	0	0
Accounts receivable falling due over 5 years after the balance sheet date	0	0	0	0	0	0
Total long-term accounts receivable	87	0	87	161	0	161

Other short-term accounts receivable	31.12.2017	31.12.2016
Budget accounts receivable	1,555	571
Short-term accounts receivable from sales of shares	8	9
Accounts receivable arising from advance payments and security deposits	61	46
Advances on supplies	211	306
Other	0	481
Total gross other accounts receivable	1,835	1,413
Write-off	0	0
Total net other accounts receivable	1,835	1,413
<i>of which from related parties</i>	<i>0</i>	<i>480</i>

Change in write-offs on other accounts receivable	31.12.2017	31.12.2016
Opening balance	0	0
increases	0	0
decreases	0	0
Closing balance	0	0

17. Cash

NOTE NO. 17

Cash and cash equivalents	31.12.2017	31.12.2016
Cash in hand	50	32
Cash at bank	434	2,937
Short-term deposits	0	900
Total cash	484	3,869

Cash at bank bears interest according to variable interest rates, the amount of which depends on the interest rate on one-day bank deposits. Short-term deposits are made for various periods, from one day to three months, depending on the current demand of the companies for cash and are subject to interest rates agreed with the bank. The fair value of cash and cash equivalents as at 31 December 2017 amounts to PLN 484 thousand (as at 31 December 2016 – PLN 3,869 thousand). The carrying value of those assets approximates their fair value.

Concentration of cash	31.12.2017	31.12.2016
Bank A	166	1,980
Bank B	121	1,637
Bank C	20	210
Bank D	45	10
Bank E	82	0
Cash in hand	50	32
Total cash	484	3,869

The table below illustrates the changes in the accounts payable of the company arising from the financing activities, including both the monetary and non-monetary changes.

Reconciliation of accounts payable arising from the financing activities	Financial liabilities to related entities	Other financial liabilities measured at amortised cost	Hedging derivatives arising from financing activities	Total accounts payable arising from financing activities
Amount outstanding as at 1.01.2017	1,265	8,653	0	9,918
Net cash flows:	-870	1,290	0	420
- from financing activities	0	-406	0	-406
- from operating activities	-870	1,696	0	826
Non-monetary changes:	-31	-115	0	-146
- foreign exchange gain/loss	-31	-115	0	-146
Amount outstanding as at 31.12.2017	364	9,828	0	10,192

18. Prepayments and accruals

NOTE NO. 18

Short-term prepayments	31.12.2017	31.12.2016
Prepayments:		
- property insurance	163	149
- subscriptions	12	10
- fairs	15	16
- other	214	176
Total short-term prepayments	404	351

Deferred revenue	31.12.2017	31.12.2016
Deferred revenue:		
- long-term	0	0
- short-term	85	0
Total deferred revenue	85	0

19. Shareholders' equity

NOTE NO. 19

Share capital

Series	type of share	type of preference	type of restriction of rights carried by shares	number of shares	issue value at nominal value	manner of financing the share capital	date of registration	right to dividend (from [date])
A	bearer	ordinary	unrestricted	360,300	1,802	paid up	29.03.1991	01.04.1991
B	bearer	ordinary	unrestricted	240,200	1,201	paid up	20.01.1995	01.10.1995
C	bearer	ordinary	unrestricted	254,605	1,273	paid up	27.11.1995	01.10.1995
D	bearer	ordinary	unrestricted	18,458	92	paid up	20.07.2006	01.01.2006
E	bearer	ordinary	unrestricted	8,735,630	43,678	paid up	28.02.2008	01.01.2008
Total				9,609,193	48,046			

The nominal value of all issued shares amounts to PLN 5. The shares have been taken up in exchange for cash contributions. All shares, regardless of the series, have the same preferences attached to them in relation to dividends and return on equity.

Shareholders	as at:	as at:	as at:	as at:	as at:	as at:
	18.04.2018 number	18.04.2018 %	31.12.2017 number	31.12.2017 %	31.12.2016 number	31.12.2016 %
Ambroziak Adam	3,171,000	33.00%	3,171,000	33.00%	3,171,000	33.00%
Osiński Piotr	608,943	6.34%	608,943	6.34%	608,943	6.34%
Altus TFI S.A.	2,027,358	21.10%	2,027,358	21.10%	2,147,995	22.35%
Rockbridge TFI S.A.	959,772	9.99%	959,772	9.99%	959,772	9.99%
Raiffeisen TFI S.A.	569,467	5.93%	569,467	5.93%	no data	no data
Other	2,272,653	23.64%	2,272,653	23.64%	2,721,483	28.32%
Total	9,609,193	100.00%	9,609,193	100.00%	9,609,193	100.00%

Among the shareholders, there are no holders of securities which would grant any special control rights in relation to the issuer. All shares issued by Relpol are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders.

According to the Statutes of Relpol S.A., there are no restrictions regarding the transfer of securities. There are also no restrictions as to the exercise of the right to vote carried by the issued shares.

Supplementary capital	31.12.2017	31.12.2016
1/3 of the share capital	17,899	15,576
Created in accordance with the statute above the statutory value	0	0
Surplus from sales of shares above nominal value	83	83
Total supplementary capital	17,982	15,659

Revaluation reserve	31.12.2017	31.12.2016
Arising from statutory revaluation of fixed assets	1,162	1,162
Valuation of actuarial gains/losses	-1,017	-563
Deferred income tax	193	107
Total revaluation reserve	338	706

20. Provisions

NOTE NO. 20

Provision for employee benefits	31.12.2017	31.12.2016
<i>Provision for one-time retirement benefits</i>		
Opening balance	1,782	1,273
Establishment of provisions	103	79
Actuarial gain/loss	454	576
Costs of benefits paid	344	146
Reversal of provisions	0	0
Closing balance of provision for one-time retirement benefits	1,995	1,782
including short-term	407	142

Actuarial assumptions	31.12.2017	31.12.2016
Discount rate in %	3.0	3.5
Expected wages and salaries increase rate in %	1.0	1.0

The significant actuarial assumptions used during the calculation of the defined benefit obligation include the discount rate and the forecasted increase in wages and salaries. The sensitivity analyses presented below have been prepared based on likely changes in relevant

assumptions occurring at the end of the current reporting period, with the other assumptions remaining unchanged:

- in the event of the increase (decrease) in the discount rate by 0.25 percentage points, the defined benefit obligation will decrease by PLN 23 thousand (increase by PLN 24 thousand),
- in the event of the increase (decrease) in wages and salaries by 0.25 percentage points, the defined benefit obligation will increase by PLN 24 thousand (decrease by PLN 23 thousand).

The detailed accounting policies pertaining to employee benefits have been described in the point entitled “Valuation principles”. Based on the valuation carried out while making actuarial assumptions, the company creates provisions for one-time retirement benefits.

Change in the balance of other provisions by titles	31.12.2017	31.12.2016
<i>Deferred income tax reserve*</i>		
Closing balance of the reserve	1,736	1,672
including short-term	0	0
Other provisions		
Opening balance	886	1,074
Establishment of provision	1 478	2,548
Costs of benefits paid	(542)	(728)
Reversal of provision	(910)	(2,008)
Closing balance of the reserve	912	886
including short-term	912	1 202

* details have been presented in Note no. 6

Balance of asset write-offs of the company in 2017

Content	Balance as at 1.01.2017	Turnover in 2017			Balance as at 31.12.2017
		Reversed	Used	Created	
I. Write-off on fixed assets and intangible assets	2,567	200	0	200	2,567
II. Write-off on long-term accounts receivable	0	0	0	0	0
III. Write-off on long-term assets – shares in related parties	1,459	419	0	0	1,040
IV. Inventory write-off	1,173	43	33	289	1,386
V. Write-off on trade accounts receivable	142	14	0	193	321
VI. Write-off on other accounts receivable	0	0	0	0	0
VII. Write-off on accounts receivable claimed in court	0	0	0	0	0
VIII. Write-off on short-term financial assets	267	30	144	4	97
Total	5,608	706	177	686	5,411

Balance of provisions of the company in 2017

<i>Content</i>	<i>Balance as at 1.01.2017</i>	<i>Turnover in 2017</i>			<i>Balance as at 31.12.2017</i>
		<i>Reversed</i>	<i>Used</i>	<i>Created</i>	
I. Provision for pensions and similar benefits	1,782	0	344	557	1,995
II. Other provisions (including for future accounts payable), of which:	886	910	542	1,478	912
- for annual leave	511	806	0	915	620
- other (wages and salaries, audit)	375	104	542	563	292
Total	2,668	910	886	2,035	2,907

Balance of asset write-offs of the company in 2016

<i>Content</i>	<i>Balance as at 1.01.2016</i>	<i>Turnover in 2016</i>			<i>Balance as at 31.12.2016</i>
		<i>Reversed</i>	<i>Used</i>	<i>Created</i>	
I. Write-off on fixed assets and intangible assets	2,192	0	0	375	2,567
II. Write-off on long-term accounts receivable	0	0	0	0	0
III. Write-off on long-term assets – shares in related parties	1,459	0	0	0	1,459
IV. Inventory write-off	1,171	73	214	289	1,173
V. Write-off on trade accounts receivable	131	20	0	31	142
VI. Write-off on other accounts receivable	0	0	0	0	0
VII. Write-off on accounts receivable claimed in court	0	0	0	0	0
VIII. Write-off on short-term financial assets	249	28	0	46	267
Total	5,202	127	214	747	5,608

Balance of provisions of the company in 2016

<i>Content</i>	<i>Balance as at 1.01.2016</i>	<i>Turnover in 2016</i>			<i>Balance as at 31.12.2016</i>
		<i>Reversed</i>	<i>Used</i>	<i>Created</i>	
I. Provision for pensions and similar benefits	1,273	0	146	655	1,782
II. Other provisions (including for future accounts payable), of which:	1,074	856	1,871	2,539	886
- for annual leave	491	818	0	838	511
- other (wages and salaries, audit)	583	38	1,871	1,701	375
Total	2,347	856	2,017	3,194	2,668

Information on the deferred income tax assets

	31.12.2017	31.12.2016
Deferred income tax asset	1,465	1,322
Deferred income tax provision	3,201	2,994
Deferred income tax as per account balance	-1,736	-1,672

The deferred income tax asset and provision are presented in the statement of financial position as per account balance.

21. Credits and loans

NOTE NO. 21

Interest-bearing bank credits and loans	currency	effective rate %	repayment date	31.12.2017	31.12.2016
Long-term					
Raiffeisen Bank Polska – investment loan	PLN	1M WIBOR+1.10%	28.06.2019	282	847
mBank – investment loan	PLN	1M WIBOR+1.35%	30.03.2018	0	307
Total long-term bank credits and loans				282	1,154
Short-term					
Raiffeisen Bank Polska – revolving credit	PLN	1M WIBOR+0.8%	14.09.2018	1,153	0
Raiffeisen Bank Polska – revolving credit	USD	1M LIBOR+1.25%	14.09.2018	177	0
Raiffeisen Bank Polska – investment loan	PLN	1M WIBOR+1.1%	28.06.2019	566	565
mBank – investment loan	PLN	1M WIBOR+1.35%	30.03.2018	307	1,485
BGŻBNP – revolving credit	PLN	3M WIBOR+0.6%	21.03.2019	313	0
Total short-term bank credits and loans				2,516	2,050
Total short- and long-term bank credits and loans				2,798	3,204

Bank credit and loan limits granted under agreements	currency	31.12.2017		31.12.2016	
		limit	utilisation	limit	utilisation
Raiffeisen Bank Polska – revolving credit	PLN	2,500	1,330	5,000	0
Raiffeisen Bank Polska – investment loan	PLN	3,000	848	3,000	1,412
mBank – investment loan	PLN	6,804	307	6,804	1,792
BGŻBNP – revolving credit	PLN	2,500	313	0	0
Total		14,804	2,798	17,804	3,204

In March 2017, the parent company and Raiffeisen Bank Polska S.A. concluded an amendment to the agreement, pursuant to which the debt limit in the current account was reduced from PLN 5.0 million to PLN 2.5 million. Furthermore, the parent company

concluded a working capital facility agreement with BGŻ BNP PARIBAS Polska S.A. with a limit of PLN 2.5 million.

22. Finance lease

NOTE NO. 22

A portion of the fixed assets from the production machinery and equipment group was acquired under finance lease with purchase option. Initially, the fixed assets were purchased using own current funds, resold to lease companies and subsequently bought back in the form of a lease.

Lease liabilities	date of conclusion of the agreement	initial value of the fixed asset	term of the agreement	currency of the agreement	lease liability as at 31.12.2017
GETIN Leasing / computer hardware / means of transport	2011-2014	112	3–4 years	PLN	30
PKO Leasing / means of transport / production machinery	2013-2014	1,121	3–4 years	PLN	464
BZ WBK FINANSE & LEASING SA/ production machine	2014-2019	45	5 years	PLN	13
BANK BGŻ BNP PARIBAS S.A./ computer hardware	2015-2018	367	3 years	PLN	23
Millennium Leasing sp. z o.o./ means of transport	2017	259	3 years	PLN	188
Total		1,904			718
of which:					
- short-term account payable					347
- long-term account payable					371

After the expiration of lease agreements upon the lapse of their terms, the group shall be entitled to purchase the leased asset at the price equal to its residual value.

The group uses the fixed assets purchased in the form of the finance lease with the value of PLN 1,904 thousand, acquired between 2011 and 2017. The agreements were concluded for the period of 36–60 months. B/E declarations serve as the collateral for the liabilities.

Current value of the minimum payments arising from the finance lease	31.12.2017	31.12.2016
due within 1 year	347	481
due in 1–5 years	371	562
due in over 5 years	0	0
Current value of the minimum payments arising from the finance lease	718	1,043

Value of the future minimum payments arising from the finance lease	31.12.2017	31.12.2016
due within 1 year	357	495
due in 1–5 years	375	568
due in over 5 years	0	0
Value of the future minimum payments arising from the finance lease	732	1,063
Future encumbrance	-14	-20
Value of the current payments arising from the finance lease	718	1,043

23. Trade accounts payable

Trade accounts payable	31.12.2017	31.12.2016
Due to related parties	364	1,265
- up to 12 months	364	1,265
- over 12 months	0	0
Due to other entities	7,030	5,449
- up to 12 months	7,030	5,449
- over 12 months	0	0
Total trade accounts payable	7,394	6,714

Trade accounts payable do not bear interest and are usually settled within 40 days.

24. Other long- and short-term accounts payable

Other accounts payable	31.12.2017	31.12.2016
Long-term	29	0
Short-term	4,296	4,126
Accounts payable arising from the purchase of machinery and equipment	700	59
Accounts payable arising from taxes, customs duties, social insurance and other obligations:	1,862	2,041
- corporate income tax	0	0
- personal income tax	389	411
- value added tax	1	51
- social insurance tax	1,445	1,574
- other	27	5
Amounts due to employees in respect of wages and salaries	1,542	1,807
Amounts due to the Company Social Benefits Fund	2	32
Other amounts due to employees	66	66
Other accounts payable	124	121

25. Contingent liabilities

Court proceedings

As at 31 December 2017, the total amount of receivables reported by the company as part of the pending court and enforcement proceedings was PLN 35,7 thousand. There are no proceedings pending against the company.

Sureties

As at 31 December 2017 and 31 December 2016, there were no sureties.

26. Financial instruments

Financial instruments classified as other financial instruments:

- Fair value of the other financial instruments (except for the financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 31 December 2017 and 31 December 2016 did not deviate materially from the values presented in the financial statements for the individual periods due to the following reasons:
 - in relation to short-term instruments, the possible discount effect is not significant,
 - those instruments pertain to the transactions conducted at arm's length.

Due to the foregoing, the fair value of the instruments referred to in the tables above has been disclosed at carrying value.

- The company does not disclose the fair value for shares and stocks in companies not quoted on active markets, classified as available-for-sale financial assets. The company is unable to reliably determine the fair value of the shares and stocks it holds in the companies not quoted on active markets. As at the balance sheet date, they are measured at acquisition price less the impairment write-offs. Similarly, the stocks and shares in the subsidiaries and joint subsidiaries (joint ventures)
 - financial assets excluded from the scope of IAS 39 – are also measured at acquisition price less impairment write-offs.

Categories and classes of financial assets	Carrying value	Fair value	Carrying value	Fair value
	31.12.2017	31.12.2017	31.12.2016	31.12.2016
Financial assets measured at fair value through profit or loss	0	0	0	0
Financial assets available for sale	0	0	0	0
Loans and accounts receivable	23,449	23,449	19,968	19,968
Long-term accounts receivable	87	87	161	161
Trade accounts receivable	23,362	23,362	19,807	19,807
Financial assets excluded from the scope of IAS 39	385	0	385	0
Stocks and shares in subsidiaries	385	0	385	0
Cash and cash equivalents	3,869	3,869	3,869	3,869
Fixed assets	472	87	546	161
Long-term accounts receivable	87	87	161	161

Stocks and shares in subsidiaries	385	0	385	0
Current assets	23,846	23,846	22,164	22,164
Trade accounts receivable	23,362	23,362	18,295	18,295
Cash	484	484	3,869	3,869
Loans granted	0	0	0	0
Total financial assets	4,318	23,933	22,710	22,325

Categories and classes of financial liabilities	Carrying value 31.12.2017	Fair value 31.12.2017	Carrying value 31.12.2016	Fair value 31.12.2016
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Financial liability measured at amortised cost	10,192	10,192	9,918	9,918
Credits and loans	2,798	2,798	3,204	3,204
Trade accounts payable	7,394	7,394	6,714	6,714
Account payable arising from the guarantee, factoring and excluded from the scope of IAS 39	718	718	1,043	1,043
Finance lease liabilities	718	718	1,043	1,043
Long-term accounts payable	0	653	1,716	1,716
Finance lease liabilities	371	371	562	562
Credits and loans	282	282	1,154	1,154
Short-term accounts payable	10,257	10,257	9,245	9,245
Finance lease liabilities	347	347	481	481
Credits and loans	2,516	2,516	2,050	2,050
Trade accounts payable	7,394	7,394	6,714	6,714
Total financial liabilities	10,910	10,910	10,961	10,961

The company carries out the fair value measurement by applying the following hierarchy:

- quoted (unadjusted) prices from active markets for identical assets or liabilities,
- input data other than the level 1 quoted prices which are directly or indirectly observable. If an asset or a liability has a specified useful life, the input data must be observable generally throughout the duration of that life,
- input data which are not based on observable market data. The adopted assumptions must reflect the assumptions which would have been used by the market participants, including the risk.

As at 31 December 2017 and 31 December 2016, the company did not hold any derivatives. The characteristics of the financial risk has been presented in the Management Report on the Operations of the Capital Group.

27. Description of factors and events, in particular of atypical nature, having a significant effect on the financial results achieved by the company.

There were no other significant events which have not been described in the financial statements, the notes or the report on the operations and which could have had an effect on the achieved financial results.

28. Information on the entity authorised to audit the financial statements

On 1 December 2016, the Supervisory Board of the company adopted a resolution on the selection of the expert auditor to review the half-yearly and audit the annual separate and consolidated financial statements of the company for 2017. The Supervisory Board chose Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. in Warsaw, entered into the list of entities authorised to audit financial statements under no. 73.

Since 18 March 2018, the said company has been operating under the business name Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k.

The entity to audit the financial statements was selected according to the applicable provisions and professional standards.

The agreement for the review of the half-yearly separate and consolidated financial statements and for the audit of the annual separate and consolidated financial statements for 2017 was concluded. The consideration for the service in the amount of net PLN 59 thousand, as well as the reimbursement for the costs of transport, deliveries, accommodations and daily allowances were agreed. Relpol has used the auditing services of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. in the previous years.

29. Related parties

List of related parties on 31.12.2017.

Name of the company	registered office	type of business activity	nature of the relationship	Share of Relpol S.A. in votes and equity	date of taking control/ significant impact
Relpol -Altera Sp. z o.o.	Kiev, Ukraine	Trade	subsidiary	51.0%	13.05.2004
DP Relpol -Altera Sp. z o.o.	Chernihiv, Ukraine	Production	subsidiary	100.0%	6.09.2007
Relpol -M j.v	Minsk, Belarus	Trade	subsidiary	80.0%	26.02.1997
Relpol -Eltim ZAO	Saint Petersburg, Russia	Trade	subsidiary	60.0%	9.07.1998
Relpol Elektronik Sp. z o.o.	Miostowice, Poland	Production	subsidiary	100.0%	27.06.2007

Transactions with related parties.

Name of the entity	Sales to related parties		Purchases from related parties		Dividends		Trade accounts receivable		Other accounts receivable		Trade accounts payable		Other accounts payable	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Relpol-Altera	0	0	0	0	0	0	0	0	100	267	0	0	0	0
DP Relpol Altera*	107	343	3,032	3,256	0	439	0	19	0	480	254	194	0	0
Relpol-M j.v	378	471	0	0	0	0	63	0	0	0	0	0	0	0
Relpol-Eltim	1,482	2,032	0	0	73	300	158	244	0	0	0	0	0	0
Relpol Elektronik	0	0	2,897	3,358	0	0	0	0	0	0	110	0	0	0
Total	1,967	2,846	5,929	6,614	73	739	221	263	100	747	364	194	0	0

The amounts of outstanding payments are not secured and will be settled in cash. No guarantees were granted or received. In the accounting period, the group did not recognise any costs arising from doubtful and at-risk accounts receivable, resulting from the transactions conducted with related parties.

30. Events after the balance sheet date

After the balance sheet date, there were no other events which would be significant and not described in the financial statements.

31. Remunerations, rewards and benefits based on incentive and bonus programmes, paid, due or potentially due to the members of the governing bodies of the issuer

Data for 2017	Short-term employee benefits	Post-employment benefits	Termination benefits	Other long-term benefits	Benefits in the form of shares
Members of the Management Board, of which:	786,484	-	-	-	-
Rafał Gulka – President of the Management Board	464,398	-	-	-	-
Sławomir Bialik – Vice-President of the Management Board since 1 June 2017	184,800	-	-	-	-
Mariusz Matejczyk – Member of the Management Board from 1 June 2017 to 31 October 2017	137,286	-	-	-	-
Members of the Supervisory Board, of which:	233,999	-	-	-	-
Adam Ambroziak*	138,000	-	-	-	-
Rafał Mania until 12 October 2017	18,727	-	-	-	-
Piotr Osiński	24,000	-	-	-	-
Agnieszka Trompka	24,000	-	-	-	-
Zbigniew Derdziuk	24,000	-	-	-	-
Dariusz Daniluk since 12 October 2017	5,272	-	-	-	-
Total remuneration of the company's governing bodies	1,020,483	-	-	-	-

* Including the remuneration for the performance of duties of a member of the Management Board from 1 January 2017 to 31 May 2017

Data for 2016	Short-term employee benefits	Post-employment benefits	Termination benefits	Other long-term benefits	Benefits in the form of shares
Members of the Management Board, of which:	1,202,801	-	-	-	-
Rafał Gulka – President of the Management Board	735,910	-	-	-	-
Tomasz Grabczan – Vice President of the Management Board	466,891	-	-	-	-
Members of the Supervisory Board, of which:	154,270	-	-	-	-
Adam Ambroziak*	58,272	-	-	-	-
Rafał Mania	24,000	-	-	-	-
Piotr Osiński	24,000	-	-	-	-
Agnieszka Trompka	12,454	-	-	-	-

Zbigniew Derdziuk	12,454				
Joanna Boćkowska	11,545				
Marek Wójcikowski	11,545	-	-	-	-
Total remuneration of the company's governing bodies	1,357,071	-	-	-	-

* Including the remuneration for the performance of duties of a member of the Management Board in December 2016.

There are no share-based incentive programmes at the company. There are also no accounts payable resulting from pensions and similar benefits, due to former managerial and supervisory staff.

32. Loans granted to the governing bodies of the company

As at 31 December 2017, no loans were granted to the members of the Management Board, the Supervisory Board or their relatives.

33. Average employment

In 2017, the average number of employees of Relpol S.A. increased by 11 persons, from 464 employees in 2016 to 475 employees in 2017, which resulted from the flexible adjustments to the number of employees depending on the production needs. Furthermore, a number of trained employees worked at the company as part of the staff outsourcing services. On average, there were 43 such employees in 2017 and 53 in 2016.

34. Closing rates of monetary items expressed in foreign currencies

As at the balance sheet date, the items expressed in foreign currencies were translated using the exchange rates provided below.

Currency	Currency code	Exchange rate used for valuation of assets and liabilities as at 31.12.2017	Exchange rate used for valuation of assets and liabilities as at 31.12.2016
United States dollar	USD 1	3.4813	4.1793
euro	EUR 1	4.1709	4.4240
pound sterling	GBP 1	4.7001	5.1445
Russian rouble	RUB 1	0.0604	0.0680

35. Financial position of subsidiaries

The financial position of the subsidiaries and the perspectives for their future operations are stable, although the performance of those companies in 2017 was poorer in comparison to 2016.

In the past, the most successful subsidiary was Relpol Eltim with its registered office in Saint Petersburg. Due to the decreased demand and a difficult economic situation in Russia, the sales dynamics of the Russian company have declined. However, the said company still regularly generates profit and pays the dividend every year. The revenues from sales amounted to PLN 9,448 thousand and the net profit was PLN 175 thousand.

Relpol Elektronik, which carries out manufacturing activities as commissioned by Relpol S.A., generated PLN 2,867 thousand in revenues from sales in 2017, which corresponded to a loss of PLN 263 thousand.

In 2017, DP Relpol Altera in the Ukraine generated revenues in the amount of PLN 2,963, thus recording a net loss of PLN 240 thousand. The political and economic situation in the Ukraine does not pose a threat to the operations of that company and the capital group.

There are no disruptions in the production process or trade with the companies in the Ukraine and in Russia. The Management Board of the parent company monitors the situation, estimates the possible risk and believes that currently there are no reasons to be alarmed.

A stable situation can be observed also in a small Belarusian company Relpol M. In 2017, it generated revenues from sales in the amount of approximately PLN 567 thousand, thus recording a net loss of PLN 12 thousand.

Relpol Altera in the Ukraine carries out limited economic activities. The principal source of income is the lease of a production facility. In 2017, the revenues from sales amounted to PLN 70 thousand and the net profit was PLN 18.8 thousand.

36. Difference in the net result for 2017 between the annual financial statements and the financial statements for Q4 of 2017

The company has chosen not to publish the financial statements for the fourth quarter of 2017. The profit for 2017 is in line with expectations.

37. Identification of factors which, in the issuer's opinion, will affect its results in the perspective of at least the next quarter

The financial results achieved by the company in the perspective of at least the next quarter will be mostly affected by the macroeconomic factors, beyond the companies' control, and the internal factors.

The external factors include:

- exchange rates and their fluctuations,
- domestic and foreign economic situation,

- prices of raw materials (copper, silver, gold, crude oil),
- expenditure on domestic and foreign investments,
- development of renewable energy sources,
- development of the photovoltaic industry,
- demand for the systems of radiological protection.

The internal factors, within the company's control, include primarily:

- achievement of planned sales targets,
- performance of the concluded commercial contracts,
- division of workload on production lines,
- adjustment of costs to the current economic situation on the market,
- increase in the market share based on the currently offered products,
- acquisition of new customers in the existing and new markets,
- rationalisation of the commercial product portfolio,
- acquisition of new customers for CZIP Pro,
- acquisition of new customers for the solar relay for solar inverters,
- improvement of profitability of the products,
- installation of radiation protection systems, according to the schedule of awarded contracts,
- finalisation of changes in the structure of the capital group.

IV. APPLIED PRINCIPLES OF THE ACCOUNTING POLICY

1. Professional judgement

In the process of applying the accounting principles (policy) with respect to the issues presented below, the most important aspects have been the accounting estimates and the professional judgement of the management. Despite the fact that the assumptions and estimates are based on the best knowledge of the company's management concerning the current operations and future events, they may differ from the actual results. During the preparation of the financial statements, the parent company makes certain estimates and assumptions which directly influence both the consolidated financial statements and the notes contained therein. The estimates and assumptions made by the group for the purposes of recognition of the values of assets and liabilities, as well as revenues and costs, are based on the back data and other factors which are available and deemed appropriate under specific circumstances.

The assumptions regarding the future and the available data are used to estimate the carrying value of assets and liabilities which cannot be determined using other sources. While making the estimates, the group takes into account the causes and sources of uncertainty which are predicted at the end of the reporting period. The actual results may differ from the estimates.

The estimates and assumptions made by the group are subject to regular review. The adjustments of estimates are recognised in the period in which the estimates were changed, if

the adjustments pertain only to that given period. If the adjustments influence both the period in which the change was made and the future periods, they are recognised in the period in which the change was made and in the future periods.

During the preparation of the financial statements, the group makes certain estimates and assumptions which directly influence both the financial statements and the notes contained therein. The estimates and assumptions made by the parent company for the purposes of recognition of the values of assets and liabilities, as well as revenues and costs, are based on the back data and other factors which are available and deemed appropriate under specific circumstances.

The assumptions regarding the future and the available data are used to estimate the carrying value of assets and liabilities which cannot be determined using other sources. While making the estimates, the parent company takes into account the causes and sources of uncertainty which are predicted at the end of the reporting period. The actual results may differ from the estimates.

The estimates and assumptions made by the parent company are subject to regular review. The adjustments of estimates are recognised in the period in which the estimates were changed, if the adjustments pertain only to that given period. If the adjustments influence both the period in which the change was made and the future periods, they are recognised in the period in which the change was made and in the future periods.

The key assumptions concerning the future and other key sources of uncertainty present at the balance sheet date, which pose a significant risk of causing a material adjustment within the next financial year to the carrying amounts of assets and liabilities estimated by the parent company are discussed below:

Useful life of fixed assets and intangible assets

Each year, the Management Board of the parent company verifies the residual value, the depreciation method and the useful lives of depreciable fixed assets, taking into account the following indications:

- the expected physical wear and tear, based on the previous average useful lives, reflecting the rate of physical wear and tear, the intensity of exploitation etc.,
- obsolescence for technological or market-related reasons,
- restrictions, legal or otherwise, regarding the use of the asset,
- expected use of the asset, evaluated based on the expected production capacity or volume,
- other circumstances which influence the useful life of this type of assets.

The Management Board of the parent company assessed that the useful lives of assets assumed by the group for the purposes of depreciation reflect the expected period of future economic benefits from these assets.

In the case of a change in the useful life by 0 +/- 10 years for the depreciable assets from the buildings and structures group, the impact on the financial result as at 31 December 2017 would amount to: a decrease in depreciation by PLN 96 thousand or increase in depreciation costs by PLN 188 thousand, respectively (the figures for 31 December 2016: a decrease in depreciation costs by PLN 104 thousand or increase by PLN 168 thousand).

Classification of lease agreements under which the group is as the lessee

The group acts as a party to lease agreements. Each of the concluded lease agreements is analysed in terms of the risks and benefits resulting from the right to use the assets acquired pursuant to the agreement and depending on its evaluation according to the requirements of the IFRS, it is classified as an operating or financial lease agreement. The subsidiaries were not parties to lease agreements.

As at 31 December 2017, the value of concluded lease agreements amounted to PLN 4,003 thousand and as at 31 December 2016 – PLN 3,820 thousand.

Deferred income tax assets and liabilities

The deferred income tax assets and liabilities of the group are measured using the tax rates which, according to the available information, will be applied at the moment of utilisation of the assets or liabilities, based on the tax regulations legally or actually in force as at the end of the reporting period. The value of deferred income tax assets as at 31 December 2017 amounted to PLN 1,555 thousand (as at 31 December 2016 – PLN 1,446 thousand); the deferred income tax provision as at 31 December 2017 amounted to PLN 3,201 thousand and as at 31 December 2016 – PLN 2,994 thousand. The deferred income tax asset and liability are recognised in the statement of financial position as per account balance.

Provision for pensions and disability benefits

The provision for one-time retirement benefits and disability benefits is created separately for each employee by an independent actuary. The value of the provision for employee benefits is determined based on internal regulations. The valuation of the provisions for employee benefits is carried out using the actuarial techniques and assumptions; as at 31 December 2017, their value amounted to PLN 2,015 thousand and as at 31 December 2016 – PLN 1,797 thousand.

The significant actuarial assumptions made during the calculation of the defined benefit obligation include the 3.00% discount rate and the forecasted 1.00% increase in wages and salaries. The sensitivity analyses presented below have been prepared based on likely changes in relevant assumptions occurring at the end of the current reporting period, with the other assumptions remaining unchanged:

- in the event of the increase (decrease) in the discount rate by 0.25 percentage points, the defined benefit obligation will decrease by PLN 23 thousand (increase by PLN 24 thousand),
- in the event of the increase (decrease) in wages and salaries by 0.25 percentage points, the defined benefit obligation will increase by PLN 24 thousand (decrease by PLN 24 thousand).

2. Valuation principles

Fixed assets

Intangible assets

The intangible assets consist of the costs of development works, licences and computer software. The costs of development works include both the expenditure incurred on new development projects which meet the criteria for being considered an asset, and the completed development works. The development works are recognised as intangible assets when the

project is likely to be successful and they are recorded according to the actual technical cost of production. Other costs of development works and costs of research which do not qualify for being capitalised in intangible assets are recognised as costs for the given period upon being incurred. The costs of development works previously recognised in the profit and loss account cannot be recognised as assets in a later period.

All capitalised expenditures are subsequently amortised throughout the period of the expected generation of revenues, beginning from the implementation of the given project.

In the majority of cases, the costs of completed development works are amortised over the period of 5 years.

The valuation of computer software which is likely to generate economic benefits outweighing the costs over a period longer than one year is carried out at acquisition price and the amortisation period of the software whose value does not have significant impact on the financial statements is 2 years.

The license for the SAP R-3 system installation package and the license for the payroll and HR programme are amortised over the period of 5–10 years.

Other intangible assets are also amortised over the period of 5–10 years.

The intangible assets are recognised at net value less the accumulated amortisation and impairment write-offs.

The amortisation write-offs are made based on the amortisation plan; the intangible assets are amortised on a straight-line basis. No later than at the end of the reporting year, the applied amortisation rates are verified and should the adjustment of the rates be deemed necessary, such adjustments are made in the subsequent year. If as a result of the verification of intangible assets carried out for each balance sheet date the impairment is found, the amortisation write-offs are charged to the loss.

If the grounds for amortisation write-offs are found to have ceased, they are reversed and the profit increases.

Tangible fixed assets

The tangible fixed assets consist of fixed assets which are intended to be used by the companies during the carrying out of their statutory activity and are expected to be used over a period exceeding one year. The initial value of fixed assets includes their acquisition price increased by any costs directly associated with the purchase and adaptation of the asset in order to make it fit for use. The costs incurred after the fixed assets are put into service, such as the costs of maintenance and repairs, are charged to the profit and loss account upon being incurred. In the cases where the incurred expenditure causes the value in use of a fixed asset after the improvement to exceed its value in use upon being put into service, such expenditures are capitalised in the value of a respective fixed asset. So far, the company has not capitalised the estimated costs of dismantling and removing a fixed asset due to their insignificance.

Fixed assets are depreciated over their economic useful life specified in advance. Upon the liquidation or sale of fixed assets, their initial value and the accumulated depreciation are derecognised and the result of liquidation or sale is charged to the profit and loss account.

Tangible fixed assets are recognised at acquisition price or cost of production less the accumulated depreciation and impairment write-offs.

Tangible fixed assets are depreciated on a straight-line basis.

The respective depreciation periods of fixed assets are as follows:

Buildings	40 years
Structures	10–25 years
Machines and devices from groups 3–6 and 8	2–20 years
Means of transport	2–10 years

Fixed assets whose value does not have a significant influence on the financial statements and whose useful life exceeds 1 year are written off as cost as a single entry in the month following the month in which they are put into service.

For the balance sheet purposes, the depreciation write-offs are made by way of a systematic planned distribution of the initial value of fixed assets throughout their useful life. Relpol has implemented a procedure for carrying out the annual verification of depreciation rates in the context of the economic useful life.

While determining the further useful life of fixed assets, the following factors are taken into consideration:

- the number of shifts during which the fixed asset is used,
- technical and economic development rate,
- expenditure incurred on the renovation and modernisation of the equipment,
- capital expenditure plans.

The residual value is not taken into consideration during the determination of depreciation rates, since after the verification it was found to be negligible (close to zero).

Value of construction in progress

The commenced investments concern the fixed assets under construction or in the process of assembly and are recognised by either acquisition price or costs of production. The commenced investments are not subject to depreciation until the construction is complete and the fixed asset is put into service.

If the impairment of fixed assets, intangible assets or construction in progress is found, the write-offs of those assets are made.

Costs of external financing

The costs of external financing which can be directly attributed to the acquisition, construction or production of the adapted asset constitute a part of the acquisition price or the cost of production of such asset. The other costs of external financing are recognised as a cost of the current period.

Long-term investments

The real properties are valued at acquisition price. The initial value of real property is decreased to its net value by accumulated depreciation write-offs and impairment write-offs.

Long-term interests in subordinate entities are recognised at acquisition price, taking into account their impairment.

Long-term prepayments and accruals

Long-term prepayments and accruals consist of the prepayments and accruals whose settlement period for cost instalments exceeds 12 months.

Current assets

Inventory

The inventory of tangible current assets includes: materials, work in progress, finished products and goods.

1. The inventory of materials is valued at weighted average acquisition price and in the case of import, statutory charges are added to the purchase price. The acquisition price is composed of the purchase price and the costs of purchase, added directly to the purchase price upon the purchase of materials. The weighted average acquisition price changes during subsequent purchases and is calculated as a weighted average of the existing inventory and new purchases.
2. Goods are also valued at weighted average moving acquisition price. The principles of price determination are identical to the principles applied in relation to the material inventory.
3. Work in progress is valued at the actual technical cost of production, taking into account the degree of processing of the work in progress.
4. Finished products are valued at technical cost of production, taking into account the fixed elements of the indirect production costs, and reflect the average level of utilisation of the production capacity. As at the balance sheet date, finished products are valued at actual technical cost of production no higher than their net selling prices.

Short-term accounts receivable

The short-term accounts receivable are all trade accounts receivable, irrespective of the contractual maturity date or other characteristics, due within 12 months after the balance sheet date. The accounts receivable with the maturity exceeding 12 months after the balance sheet date are included in the fixed assets.

The accounts receivable are recognised at net value, i.e. decreased by impairment write-offs.

The accounts receivable are measured at amount due including the default interest, if the discount value is not significant.

The accounts receivable are subject to revaluation by way of creation of write-offs, taking into account the level of risk and the likelihood of payment of the accounts receivable based on the analysis of back data regarding the collectability of receivables or based on the receivables ageing structures.

The receivables write-off is charged to the revenues or costs.

The transactions expressed in a foreign currency are recognised in Polish zloty as at the day of their completion at the average rate determined for the given currency by the National Bank of Poland on the last business day prior to the date of the economic transaction, unless a different exchange rate was determined in another document binding upon the entity.

The realised foreign exchange gains and losses occurring before the posting date and the transaction settlement date are charged to revenues or costs of the given period, respectively.

Cash

Cash includes cash on hand, cash at bank and other monetary assets with the date of redemption not exceeding 3 months. Cash is measured at nominal value. Cash at bank is disclosed with interest.

That interest is charged to the financial revenues.

Short-term prepayments and accruals

The prepayments and accruals include prepayments whose settlement period for cost instalments does not exceed 12 months.

Prepayments include:

- contribution to the Company Social Benefits Fund not transferred to a bank account.
- costs of subscription pertaining to the next accounting year,
- costs of insurance and other costs pertaining to the next accounting year.

Shareholders' equity

The capitals are recognised in the books, broken down into types according to the Statutes and the entry in the National Court Register: – share capital is recognised in the amount provided in the Statutes of the Company and the entry in the National Court Register at nominal value,

- supplementary capital is created according to the Statutes, pursuant to the resolution of the General Meeting of Shareholders,
- revaluation reserve is the difference between the net value of fixed assets before and after revaluation carried out pursuant to relevant provisions of the law and the revaluation surplus,
- own shares acquired for the purpose of redemption,
- differences arising from statutory revaluation upon the consumption or liquidation of a fixed assets are transferred to the supplementary capital.

Long-term accounts payable

Long-term accounts payable include accounts payable, except for trade accounts payable, which fall due later than one year after the balance sheet date.

Such accounts payable are recognised at amortised cost. If the discount value is not significant, the accounts payable are recognised at amount due as at the balance sheet date.

Short-term accounts payable

Short-term accounts payable, both domestic and foreign, are recognised as at the balance sheet date at amount due if the discount value is not significant.

The transactions expressed in a foreign currency are recognised in Polish zloty as at the day of their completion at the average rate determined for the given currency by the National Bank of Poland on the last business day prior to the date of the economic transaction, unless a different exchange rate was determined in another document binding upon the entity.

The realised foreign exchange gains and losses occurring before the posting date and the transaction settlement date are charged to revenues or costs of the given period, respectively.

Provisions for liabilities

Provisions for liabilities are measured at reasonable value which has been estimated in a reliable manner. Provisions are created if, as a result of past events, a current, estimable account payable arises which, in the future, is likely to cause an outflow of resources embodying economic benefits. The amount of the created provisions is verified as at the balance sheet date in order to adjust it to the estimates in line with the information available on that day.

The balance of provisions as at the balance sheet date includes:

- provisions for probable liabilities,
- provisions for one-time retirement benefits,
- provisions for unused annual leave,

Credits and loans

The financial liabilities arising from bank credits and loans are measured upon their first recognition in the books, at fair value, and subsequently measured at amortised cost.

Leases

Fixed assets used pursuant to finance lease agreements which generally transfer to the company all benefits and risks related to holding assets, are recognised in the balance sheet at fair value of the leased asset or at amounts equal to the current value of minimum leasing fees, if it is lower than the fair value, and less the depreciation charges. The assumed utilisation periods result from the determined useful lives. Leasing fees are split between financial costs and the reduction of the outstanding balance of the account payable. The financial costs are recorded directly in the profit and loss account.

Employee benefit schemes

The employees are entitled to a one-time retirement benefit and a disability benefit. One-time retirement benefits and disability benefits are paid upon retiring or qualifying for disability pension according to the remuneration policy, whereas the amount of the benefit in both cases depends on the average remuneration for the period worked at the company, on the lowest national remuneration for the period worked outside the company, and on the length of service. The provision for long-term one-time retirement benefits is measured at current value of the future liability using the actuarial methods.

The change in the provisions for employee benefits is charged to revenues and costs for the period, except for the actuarial gains and losses, which are charged to other comprehensive income.

Furthermore, the group creates a provision for unused annual leave, which are considered a short-term, accumulated paid absence and will be paid as foreseen.

Income tax

The calculation of the income tax is based on the profit for the given period and takes into account the deferred tax. The deferred tax is determined using the liability method. According to that method, the expected tax results of temporary differences are determined based on the tax rates in force in the given year and recognised as deferred tax provisions or assets representing future decreases in income tax. Temporary differences are defined as the differences between the tax and balance-sheet measurement of assets and liabilities. The deferred income tax asset and provision are presented in the statement of financial position as per account balance. The deferred portion disclosed in the profit and loss account constitutes the difference between the balance of provisions and deferred income tax assets as at the end and the beginning of the period.

The deferred income tax provisions and assets pertaining to the events settled against equity or other comprehensive income are charged to equity or other comprehensive income.

The deferred tax assets are created after determining that a taxable income is likely to be generated in the future in the amount allowing the realization of deferred income tax assets.

The deferred income tax reserve is created if there are positive temporary differences which will cause the increase in the income tax calculation base in the future.

Financial instruments

A financial instrument is any agreement that results in the creation of a financial asset for one party and a financial liability or an equity instrument for the other party.

Financial assets are divided by the group into the following categories:

- financial assets measured at fair value through profit or loss,
- loans and accounts receivable,
- financial assets held to maturity,
- financial assets available for sale.

Financial liabilities are divided into:

- financial liabilities measured at fair value through profit or loss,
- financial liabilities measured at amortised cost.

This classification is based on the purpose of acquisition of the financial assets and their nature. The group defines the category of their financial assets upon their initial recognition and then verifies the same at each reporting date.

Financial assets

Financial assets are measured at fair value upon their recognition in the books. The result of the initial valuation is increased by transaction costs, except for the financial assets classified as measured at fair value through profit or loss. The transaction costs arising from the possible

disposal of an asset are not taken into account during the subsequent valuation of financial assets. A financial asset is recognised in the balance sheet when the group becomes a party to the agreement (contract) from which the said financial asset results.

At each balance sheet date Relpol assesses whether there are any circumstances which would indicate that the impairment of a financial asset (or a group of financial assets) has occurred. In the case of instruments classified as available for sale, while determining whether the impairment has occurred, a significant or prolonged decrease in the fair value of the security below cost is taken into account, among other factors.

Financial assets measured at fair value through profit or loss

This category includes two groups of assets: financial assets held for trading and financial assets designated upon their initial recognition as measured at fair value through profit or loss. A financial asset is classified as held for trading if it has been acquired in order to be sold in the short term, if it is a part of a portfolio which generates short-term profits or if it is a derivative with a positive fair value.

In this category the group includes primarily the derivatives (the group does not apply hedge accounting) and debt or equity instruments which have been purchased in order to be resold in the short term.

The embedded derivatives are separated from the agreements and treated as derivatives if all of the following conditions are met:

- the economic nature and risk of the embedded instrument are not closely related to the economic nature and risk of the agreement in which the given instrument is embedded,
- a separate instrument with the same terms of settlement as the embedded derivative would meet the definition of a derivative,
- a hybrid (compound) instrument is not recognised at fair value and the changes in its fair value are not charged to the net profit/loss (i.e. a derivative which is embedded in a financial asset or a financial liability measured at fair value through profit or loss is not separated).

The embedded derivatives are recognised in the same way as separate derivatives.

Assets classified as financial assets measured at fair value through profit or loss are measured at fair value at each reporting date and all profits or losses are charged to financial revenues or costs. The valuation of derivatives at fair value is carried out at the balance sheet date and at the end of each reporting period based on the valuations carried out by the banks involved in the transactions. The other financial assets measured at fair value through profit or loss are measured using stock exchange quotations and, if there are none, using the appropriate valuation techniques which include: the use of prices of recently completed transactions or the offer prices, the comparison with similar instruments or the use of options pricing models. The fair value of debt instruments is the future cash flow discounted at the current market interest rate applicable to similar instruments.

Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with determined or determinable payments that are not quoted in an active market. Depending on their maturity

date, they are classified as fixed assets (assets maturing over 1 year after the reporting date) or current assets (assets maturing within 1 year after the reporting date). Loans and accounts receivable are valued at the balance sheet date at amortised cost. In this category the group includes primarily the trade accounts receivable, as well as bank deposits, other cash, loans and acquired, unlisted debt instruments, not included in other categories of financial assets.

Financial assets held to maturity

Financial assets held to maturity are the investments with defined or definable payments and a determined maturity, which the group can and intends to hold to maturity. In this category the group includes only the listed debt instruments, provided that they have not been already classified as financial assets measured at fair value through profit or loss or as financial assets available for sale. The financial assets held to maturity are measured at each reporting date at amortised cost, using the effective interest rate.

Financial assets available for sale

Financial assets available for sale are financial instruments, other than derivatives, designated as “available for sale” or not included in any of the other categories. In the category of assets available for sale the group includes primarily the debt instruments acquired in order to invest the financial surplus, provided that they have not been classified as financial assets measured at fair value through profit or loss due to the intention to hold them at the company for a short time.

Financial assets available for sale are classified as fixed assets, unless there is an intention of disposing of the investments within 1 year after the end of the reporting period, or – otherwise – as current assets. Financial assets available for sale are measured at fair value at each reporting date and the profits and losses (except for impairment losses) are recognised in equity.

Financial liabilities

Financial liabilities are measured at fair value upon their recognition in the books. The initial valuation takes into account transaction costs, except for the financial liabilities classified as measured at fair value through profit or loss. The transaction costs arising from the disposal of a financial liability are not taken into account during the subsequent valuation of those liabilities. A financial liability is recognised in the balance sheet when the group becomes a party to the agreement (contract) from which the said financial liability results.

Financial liabilities measured at fair value through profit or loss

This category includes two groups of liabilities: financial liabilities held for trading and financial liabilities designated upon their initial recognition as measured at fair value through profit or loss. Financial liabilities held for trading are the liabilities which have been incurred mainly for the purpose of selling or repurchasing in the short term or are part of the portfolio of specific financial instruments that are managed jointly and in relation to which the generation of short-term profits can be confirmed, or which constitute derivative instruments.

In the group, the financial liabilities at fair value through profit or loss include primarily the derivatives (the group does not apply hedge accounting) with a negative fair value. Liabilities

classified as financial liabilities measured at fair value are measured at fair value at each reporting date and all profits or losses are charged to financial revenues or costs. The valuation of derivatives at fair value is carried out at the balance sheet date and at the end of each reporting period based on the valuations carried out by the banks involved in the transactions. The fair value of debt instruments is the future cash flow discounted at the current market interest rate applicable to similar instruments.

Financial liabilities measured at amortised cost

The other financial liabilities, not classified as financial liabilities measured at fair value through profit or loss, are included in the category of financial liabilities measured at amortised cost. This category includes primarily the trade accounts payable as well as credits and loans taken out. The liabilities included in this category are measured at amortised cost using the effective interest rate.

Transactions in foreign currencies

The transactions expressed in a foreign currency are recognised in Polish zloty as at the day of their completion at the average rate determined for the given currency by the National Bank of Poland on the last business day prior to the date of the economic transaction, unless a different exchange rate was determined in another document binding upon the entity.

At the end of each reporting period:

- the monetary items expressed in a foreign currency are translated using the closing rate applicable at the balance sheet date (i.e. the average rate determined by the National Bank of Poland for the given currency; if the rate was not determined for the given day, the most recent rate is used),
- the non-monetary items measured at historical cost or cost of production expressed in a foreign currency are translated using the historical exchange rate (i.e. the average rate of the National Bank of Poland for the given currency), applicable on the day of transaction, and
- the non-monetary items measured at fair value expressed in a foreign currency are translated using the exchange rate (i.e. the average rate of the National Bank of Poland determined for the given currency) applicable on the day of determination of the fair value.

All foreign exchange rate gains and losses arising from the change in the exchange rates after the transaction date, depending on the nature of the transaction, are charged to operating activities or financing activities, respectively.

Revenues from sales of goods and services

The revenues from sales of goods and services, after the deduction of the value added tax, rebates and discounts, are recognised when:

- the reliable amount of revenue is known,
- it is probable that the company will achieve economic benefits arising from the transaction,
- the entity transferred to the purchaser considerable risk and benefits resulting from the ownership of the goods,
- the entity ceases to be permanently involved in the management of the goods,
- the costs incurred can be measured in a reliable way,

Revenues from interest

The revenues arising from interest are recognised upon their charging, taking into account the effective rate of return on assets.

Dividends

The revenues arising from dividends are recognised when the company is granted the right to such dividends.

Operating expenses

Operating expenses are recognised in the period they pertain to.

Financial costs

Financial costs are charged to the profit and loss account as they arise.

Net profit per share

The profit per ordinary share has been determined as the quotient of the net profit for the given financial period and the weighted average number of shares held by the shareholders in the given period.

The diluted profit per share has been determined as the quotient of the net profit and the weighted average diluted number of shares.

3. New accounting standards and changes in the accounting policy

Amendments to the existing standards, applied for the first time in the financial statements of the company and the group for 2017

These financial statements have been drawn up pursuant to the International Financial Reporting Standards and the related interpretations, published in the form of regulations of the European Union.

While preparing the financial statements for 2017, the entity applied the same accounting principles as while preparing the annual financial statements for 2016, except for the amendments to the standards and new standards and interpretations endorsed by the European Union, effective for periods beginning on or after 1 January 2017:

- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative – endorsed by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** – Recognition of deferred tax assets for unrealised losses – endorsed by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

The aforementioned amendments to the standards did not have a significant impact on the company’s financial statements for 2017.

New standards and amendments to the existing standards already issued by the IASB and endorsed by the EU, but not yet effective

As at the date of approval hereof, the following new standards have been issued by the IASB and endorsed by the EU, but have not yet entered into force:

- **IFRS 9 “Financial Instruments”** – endorsed by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” – endorsed by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 16 “Leases”** – endorsed by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 “Insurance Contracts”** – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” – endorsed by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or upon the first application of IFRS 9 “Financial Instruments”),

- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” – endorsed by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

The company has decided not to take advantage of the possibility of early application of the aforementioned new standards and the amendments to the existing standards.

IFRS 9 "Financial Instruments"

As at the date hereof, the company completed the work on the analysis of the impact of the standard on the opening balance of 1 January 2018. The financial data considered by the group as compliant in all material aspects with the requirements of IFRS 9 has been presented further in the Note. Nonetheless, due to the fact that the grounds for recognising the write-off may change, it is possible that the final amounts presented in the financial statements for 2018 may differ from the figures provided below. The group intends to complete the implementation in the first half of 2018. The other main stages of works include: introduction of amendments to the accounting policies and instructions, adaptation of the accounting (records) system to the new requirements, adjustment of the processes in order to ensure that the economic events are considered in relation to the requirements of IFRS 9 as at the date of completion of the transaction, as well as the preparation of disclosures to the financial statements. The group intends to present the most important disclosures resulting from the requirements of IFRS 9 in the half-yearly statements as at 30 June 2018.

The Management Board of the parent company decided to implement the standard with effect from 1 January 2018 without adjusting the comparative data, which means that the data for 2017 and 2018 will not be comparable and the adjustments related to the adaptation to the IFRS will be introduced on 1 January 2018 with the impact being charged to equity.

Comparison of financial assets and liabilities according to IAS 39 and IFRS 9 as at 1 January 2018

Balance sheet item as at 1.01.2018	IAS 39	IFRS 9			Impact of the amendment	
	Amortised cost	Amortised cost	Fair value recognised through profit or loss		Total	Increase (decrease)
			Result	Other comprehensive income		
Trade accounts receivable	23,362	23,357	0	0	23,357	-5
- gross value	23,683	23,683	0	0	23,683	0
- write-off	-321	-326	0	0	-326	-5
Cash	484	484	0	0	484	0
Financial assets	23,846	23,841	0	0	23,841	-5

	IAS 39	IFRS 9		Impact of the amendment
	Amortised cost	Amortised cost		Increase (decrease)
Bank credits	2,798	2,798	2,798	0
Trade accounts payable	7,394	7,394	7,394	0
Financial liabilities	10,192	10,192	10,192	0

Impact of the implementation of IFRS 9 on equity

Adjustment of write-offs for the assets measured at amortised cost:	Retained earnings	Total shareholders' equity
Accounts receivable	-5	-5
Deferred tax adjustments	1	1
Total	-4	-4

IFRS 15 “Revenue from Contracts with Customers”

The International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (“IFRS 15”), issued in May 2014 and subsequently amended in April 2016, established a so-called five-step model for recognising revenues arising from the contracts with customers. According to IFRS 15, the revenues are recognised at the value of consideration which the entity expects to be entitled to in return for satisfying a performance obligation to the customer. The new standard will replace all existing requirements pertaining to the recognition of revenues according to IFRS. The group will apply IFRS 15 on its effective date, adopting a modified retrospective approach, i.e. with the total effect of first application of IFRS 15 occurring on the day of its first application (which may result in the adjustment of equity as at 1 January 2018). The group has carried out a detailed analysis of the impact of IFRS 15 on the principles it follows. This evaluation is based on the currently available information and interpretations concerning IFRS 15 and may be subject to changes resulting from the acquisition of additional information – which are reasonable and can be documented – in the period when the group applies IFRS 15 for the first time, as well as from the changes in the standard’s interpretation. The group will monitor all future changes in this respect.

The areas of analysis of the impact of IFRS 15 included:

Deliveries of products and goods with the transport service and insurance for deliveries

The group carries out numerous deliveries pursuant to the agreements based on the commercial terms of delivery (Incoterms). Under the selected agreements, the group – as the seller – is also responsible for ensuring the transport of the product and/or insurance. Pursuant to IAS 18 “Revenue” (“IAS 18”), the revenues from sales are recognised upon the transfer of risks and benefits related to the good being sold to the customer.

In terms of the revenue recognition, IFRS 15 mentions the moment of the passing of control of the good, which is a term broader than the transfer of risks and benefits. IFRS 15 also requires the identification of separate performance obligations and the proper allocation of the transaction price to each of the identified obligations. In the event that the seller of the good also offers the transport service and/or insurance, the entity shall assess whether such services constitute a separate performance obligation.

When the control of the transferred good is passed to the customer after the provision of the transport service and the expiry of the insurance period, the delivery of the good, the transport and the insurance constitute a single performance obligation. Alternatively, when the control of the inventory is passed to the customer prior to the provision of the transport service and/or insurance service, the delivery of the good, the transport and the insurance constitute separate performance obligations. The delivery of a good is a performance obligation satisfied at a point in time and the transport and insurance service is a performance obligation satisfied over time.

The impact of the allocation of a portion of the revenue to the sale of the good and the transport and insurance service results in the changes in the following areas:

- the moment of revenue recognition – the recognition of the revenue in relation to the delivered good at a point in time when the control of the good is passed to the customer and the recognition of the portion of the revenue attributable to the transport and/or insurance service over time.

The group has estimated the impact of IFRS 15 on the agreements for the delivery of a good with the transport and insurance service. The group has determined that the impact of IFRS 15 upon revenue recognition is insignificant. Therefore, the group does not recognise the adjustment to equity as at 1 January 2018.

Services provided to the suppliers

IFRS 15 requires the identification of separate performance obligations and the determination whether individual transactions with a given counterparty are separate in nature. Furthermore, under IAS 18 the group assesses whether the services provided to the suppliers constitute a “identifiable benefit” for the supplier and whether the consideration received on that account is related to the goods sold (i.e. whether it impacts the own cost of sales or constitutes an item of revenues).

In the group’s opinion, IFRS 15 will not cause any changes in this area in relation to the practice followed by the group under IAS 18.

Variable consideration

According to IFRS 15, if the contractual consideration includes a variable amount, the entity estimates the amount of consideration to which it will be entitled in return for the transfer of promised goods or provision of services to the customer and includes the amount of the variable consideration in the transaction price (revenue) only to the extent in which it is highly probable that a reversal of the significant portion of the previously recognised accumulated revenues will not occur when the uncertainty associated with the variable consideration is resolved.

Certain agreements concluded by the group with the customers provide for trade discounts or volume rebates. Currently, the group recognises the revenues from sales of goods at fair value of the payment received or due, net of any reimbursements and discounts. If the revenue cannot be reliably measured, the group defers the recognition of the revenue until such uncertainty is resolved.

Due to the fact that IFRS 15 requires that the transaction price include the variable elements of the consideration as at the date of conclusion of the agreement, it is necessary to estimate the amount of due variable consideration and allocate it to all performances to which the

variable element of consideration applies. These types of variable elements of consideration will require a revaluation at the end of each reporting period. In relation to certain contracts, the implementation of IFRS 15 will result in the changes in, for instance, the moment of recognition of trade discounts and volume rebates. The increase or decrease in revenues on this account will occur earlier than provided for in IAS 18, which allowed the recognition of the contingent elements after the event required for their granting occurs.

Additionally, according to IFRS 15, the variable elements of consideration include contractual penalties. The group has analysed the types of contractual penalties provided for in the existing agreements. The contractual penalties, which – prior to the implementation of IFRS 15 – were subject to other standards, such as IAS 37, will remain within the scope of other standards. Therefore, a portion of contractual penalties will be presented in the profit and loss account and the statement of other comprehensive income – as an increase or decrease in revenues arising from the agreements with the customers.

As a result of that change, in order to estimate the amount of consideration to which the group will be entitled, the most likely amount method was applied to the agreements with one value threshold and the expected amount or most likely amount method was applied to the agreements with more than one value threshold, on which the customer is granted a rebate, depending on which of those methods will determine the amount of consideration in a more reliable way.

The group has estimated the impact of IFRS 15 on the estimation of revenues arising from the variable consideration. The group has determined that the impact of IFRS 15 upon revenue recognition is insignificant. Therefore, the group does not recognise the adjustment to the group's equity as at 1 January 2018.

Non-monetary exchange

The group does not enter into transactions consisting in non-monetary exchange.

The group does not identify the impact of IFRS 15 in this aspect.

Transactions with a right of return

IFRS 15 regulates the granting of a right of return of the good to the customer. It provides that the revenue should be recognised in the amount of consideration to which it expects to be entitled. Therefore, the entity does not recognise revenues from the sales of goods which are expected to be returned. Pursuant to IFRS 15 – due to the fact that the customer is entitled to return the good under the agreement – the consideration received from the customer is variable in nature.

The group has decided to apply the expected amount method to the revenues from the delivery of goods which are expected to be returned.

The group has analysed the revenue agreements which provide for the sale with a right of return. As a result of the analysis, the group does not identify the impact of IFRS 15 on equity as at 1 January 2018.

Principal versus agent considerations

IFRS 15 introduces a new model for determining whether the seller acts as a principal or as an agent. In accordance with the provisions of IFRS 15, while determining whether the seller

acts as a principal, it should be considered if they have the control of the good (the provided service) prior to passing the control of the good (service) to the customer. Pursuant to IFRS 15, the group will take into consideration the following criteria while assessing the agency model:

- primary responsibility of the seller for fulfilling the commitment to deliver a good or a service,
- inventory risk,
- discretion in establishing the prices of specific goods or services.

The group has analysed the contractual clauses in sales agreements in terms of the identification of the agency model and, as a result, did not identify the impact of IFRS 15 in this area, taking into consideration the nature and characteristics of the agreements in force.

Customer loyalty programmes

The group does not offer any customer loyalty programmes.

The group does not identify the impact of IFRS 15 in this aspect.

Significant financing component

According to IFRS 15, the group assesses whether a given agreement contains a significant financing component. The group decided to apply a practical solution, according to which it does not adjust the promised amount of consideration by the impact of the significant financing component if upon the conclusion of the agreement it expects that the period between the transfer of the promised good or service to the customer and the payment for the good or service by the customer will not exceed one year.

As a result, the group will not separate the significant financing component for short-term prepayments.

Presentation and disclosures

The requirements for presentations and disclosures imposed by IFRS 15 are more detailed than the existing provisions of IAS 18 and IAS 11 and related interpretations. The group expects a change in relation to the notes to the financial statements concerning significant judgements, for instance in terms of the determination of the transaction price of agreements which provide for a variable portion of the consideration; the allocation of the transaction price to the performance obligations and the estimates made in order to determine individual sale prices of each performance obligation. Furthermore, according to the requirements of IFRS 15, the group will carry out further disaggregation of revenue recognised on account of agreements with customers. The revenue will be broken down into categories which reflect the character, value, time and uncertainties concerning the revenue and the cash flows arising from the agreements with customers. Furthermore, the group will disclose information on the relationship between the disclosure of revenues broken down into categories and the information on the revenues it discloses for each reporting segment.

IFRS 16 “Leases”

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 “Leases” (“IFRS 16”) which replaced IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”. IFRS 16 specifies the recognition rules pertaining to leases in terms of measurement, presentation and disclosure of information.

IFRS 16 introduces a uniform accounting model for the lessee and requires that the lessee recognise assets and liabilities resulting from each lease exceeding 12 months, unless the value of the underlying asset is low. On the day of commencement, the lessee recognises the asset on account of the right of usufruct of the underlying asset and the lease liability which reflects their obligation to pay leasing fees.

The lessee separately recognises the depreciation of the asset on account of the right of usufruct and the interest on the lease liability. The lessee revaluates the lease liability after specific events (e.g. a change in the leasing period or a change in future leasing fees resulting from a change in the index or rate used to determine the said fees). Generally, the lessee recognises the revaluation of the lease liability as an adjustment of the value of the assets on account of the right of usufruct.

IFRS 16 requires both the lessee and the lessor to make broader disclosures than stipulated in IAS 17.

The lessee is entitled to choose either the full or the modified retrospective approach and the transitional provisions contain certain practical solutions.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

As at the day of approval hereof, the group is assessing the impact of the implementation of IFRS 16 on the accounting principles it follows in relation to the group’s operations or its financial performance.

The group has broken down the current operating lease agreements into groups and identified the categories of agreements previously unrecognised as leases, which may meet the definition of a lease according to IFRS 16.

In particular, the group has considered its real property lease agreement. As at the day of assessment, the said agreement was concluded for an indefinite period, with a 12 months’ notice period. Due to the fact that:

- The amount of contractual rent does not deviate from the current market level;
- The amount of expenditures and the period of incurring the same on the adaptation of the leased premises do not constitute a significant element for the group;
- The functions of the real property can be replaced by another leased real property without incurring significant costs;

The group has determined that the period which cannot be interrupted and during which the lessee is entitled to use the asset does not exceed 12 months and the possibility of not exercising the right to terminate the agreement does not constitute an option whose exercise would be generally certain as at the date of assessment. Therefore, in the group’s opinion, this particular lease would be subject to the exemption on account of the short period, which the group would take advantage of by not disclosing the assets arising from the right of usufruct or the liabilities.

The group also has concluded agreements pursuant to which it subcontracts the manufacture of certain products to subcontractors. Those agreements have significant impact on the utilisation of production capacity by those contractors. As at the day of publication hereof, the group was in the process of analysing whether the concluded agreements:

- give the group the right to use the identified asset; and
- allow the group to manage the manner of use of that asset.

New standards and amendments to the existing standards issued by IASB, not yet endorsed by the EU

Currently, the IFRSs – as endorsed by the EU – do not differ materially from the regulations issued by the International Accounting Standards Board (IASB), except for the following new standards, the amendments to the standards and a new interpretation which, as at 25 April 2019, have not yet been endorsed by the EU (the effective dates provided below pertain to the full versions of the standards):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission chose not to commence the process for approving this temporary standard for use in the EU until the final version of IFRS 14 is published,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 “Financial Instruments”** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and to IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date of the amendments was postponed until the research works regarding the equity method are completed),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Annual Improvements to IFRSs (2014-2016 cycle)”** – changes in the procedure for introducing annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28), focused primarily on the solution of conflicts and clarification of wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1

January 2017 and the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards “Annual Improvements to IFRSs (2015-2017 cycle)”** – changes in the procedure for introducing annual improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23), focused primarily on the solution of conflicts and clarification of wording (effective for annual periods beginning on or after 1 January 2019),
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

According to the company's estimates, the above-mentioned new standards, the amendments to the existing standards and the interpretation would not have had a material impact on the financial statements if they had been applied by the company at the balance sheet date.

The regulations endorsed by the EU still do not include the hedge accounting of the portfolio of financial assets and liabilities, whose rules have not been endorsed by the EU.

According to the company's estimates, the application of the hedge accounting requirements to the portfolio of financial assets or liabilities in line with **IAS 39 “Financial Instruments: Recognition and Measurement”** would not have a material impact on the financial statements if carried out at the balance sheet date.

Signatures of Members of the Management Board:

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

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

Signature of the person entrusted with the keeping of accounting ledgers:

.....
Tomasz Zając
Chief accountant

Żary, 18 April 2018