



Translation from the original Polish version. In the event of differences resulting from the translation, reference should be made to the official Polish version.

Interim Condensed Consolidated Financial Statement of the Capital Group

for the 1st quarter of 2019

in accordance with IAS / IFRS



Żary, 16 May 2019

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I. Consolidated statements of the Relpol Capital Group

1. Introduction to the financial statements

1.1 General information about the parent company

Company name: “RELPOL” Spółka Akcyjna

Registered office of the company: 68-200 Żary, ul. 11-Listopada 37, Lubuskie Voivodeship, Poland.

Registering authority: District Court in Zielona Góra, 8th Commercial Division of the National Court Register.

KRS Number: 0000088688

The life of the Company shall be perpetual.

1.2 Primary business activity of the Company

Relpol S.A. has been manufacturing industrial automation components for 60 years, in particular, electromagnetic relays for various industries, electronics, photovoltaics, railways, electric vehicle charging stations, relays for control and monitoring as well as plug-in sockets for relays. Since 2000, Relpol S.A. has been manufacturing, installing and servicing stationary gamma-neutron radiation monitors and CZIP digital protection systems used in medium-voltage switchgears.

The business model, product groups and their possible applications are described in the report on the Company's and the Capital Group's activities for 2017, in the part concerning non-financial information.

Relpol Elektronik and DP Relpol Altera has also been dealing with the manufacture of relays and sockets. Those companies perform production activities for Relpol S.A. Other subsidiaries are distributors of Relpol S.A. products in Russia, Belarus and Ukraine.

Core business activity:

27.12.Z Manufacture of electricity distribution and control apparatus,

1.3 Company's Management

Management Board of the Company

Sławomir Bialik - President of the Management Board

Krzysztof Pałgan - Vice-President of the Management Board

Supervisory Board

1. Zbigniew Derdziuk - Chairman of the Supervisory Board
2. Piotr Osiński - Vice-Chairman of the Supervisory Board
3. Adam Ambroziak
4. Agnieszka Trompka

5. Jacek Gdański from 04/04/2019

On 11/03/2019, Mr. Dariusz Daniluk resigned from a member of the Supervisory Board. Therefore on 04/04/2019 the Supervisory Board, by co-opting, appointed Mr. Jacek Gdański in this place.

1.4 Share capital

The share capital amounts to PLN 48,045,965 and consists of 9,609,193 bearer shares of nominal value PLN 5 each. All issued shares are available on the stock market.

The share capital is divided into:

- 360,300 A series bearer shares
- 240,200 B series bearer shares
- 254,605 C series bearer shares
- 18,458 D series bearer shares
- 8,735,630 E series bearer shares

Number of shares and number of votes at the GSM is the same.

All shares confer the same rights to dividend.

1.5 Statement of compliance

The present condensed interim consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards approved by the European Union (EU IFRS), IAS 34 Interim Financial Reporting, and have been approved by the Management Board of Relpol S.A.

The Management Board of the Parent Company used its best knowledge to apply the standards and interpretations, as well as methods and principles of valuation regarding individual items of the condensed interim consolidated financial statements of the Relpol Capital Group in accordance with EU IFRS as at 31/03/2019. The presented summaries and explanations have been determined with due diligence.

These condensed interim consolidated financial statements consist of:

- interim condensed statement of financial position,
- condensed profit and loss account,
- condensed statement of comprehensive income,
- condensed statement of changes in equity,
- condensed cash flow statement and
- selected notes to the financial statements.

The Group has applied the same accounting principles, data presentation and valuation, which it applied with respect to the annual financial statements ended on 31 December 2018. The statements are available on the website of the Company WWW.relpol.pl

The financial data presented on 31/12/2018 have been examined by an auditor, while the quarterly data have not been audited.

2. Applied accounting principles

2.1 General information on the statements

Period covered by these statements: from 01/01/2019 to 31/03/2019

Comparable data for the period from 01/01/2018 to 31/03/2018

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

Format of the financial statements

These financial statements have been drawn up on the basis of the historical cost principle, except for the revaluation of buildings, to the valuation of which fair value has been applied.

Approval of the financial statements

The financial statements for the 1st quarter of 2019 have been approved by the Management Board and will be published on 16/05/2019.

Significance

For the purposes of the present financial statements we adopted a significance of 1% of the balance sheet total.

Financial year

The Company's financial year shall be a calendar year.

Reporting period

The reporting periods are quarterly periods (at the end of the 1st, 3rd and 4th quarters of the year), a semi-annual period (at the end of a half-year) and an annual period (at the end of each calendar year).

Place of keeping the account books

The account books are kept at the registered office of the company in Żary.

Functional and presentation currency

The functional currency of the parent company and the subsidiary Relpol Elektronik is the Polish zloty.

The functional currency of Relpol Eltim in Russia is the Russian rouble. The statements of that company for the purpose of preparation of consolidated statements are translated into PLN.

The functional currency of Relpol Altera and DP Relpol Altera is the Ukrainian hryvnia. The statements of DP Relpol Altera for the purpose of preparation of consolidated statements are translated into PLN. Relpol Altera is excluded from consolidation.

The functional currency of Relpol M in Belarus is the Belarusian rouble. The company is excluded from consolidation.

2.2 Adopted principles of preparation of the statements.

The present interim condensed consolidated financial statements have been prepared in accordance with the requirements of the International Accounting Standard 34 “Interim Financial Reporting”, approved by the European Union.

The information scope of the interim condensed consolidated financial statements is narrower than that of the full financial statements, therefore, it is recommended that they be read in conjunction with the annual consolidated financial statements of the Relpol Capital Group for the financial year 2018, available on the Company’s website www.relpol.pl. Relpol has applied the same accounting principles, as in the case of the preparation of the Consolidated Annual Statements of the Relpol Capital Group for 2018.

The same accounting principles have been applied to all the consolidated companies, except for the adopted new and amended accounting standards. The Capital Group intends to adopt published, but not applicable until the date of publication of these interim condensed consolidated financial statements amendments to IFRS, in accordance with their effective date.

The Group has disclosed detailed information concerning the impact of applying the new and amended IAS/IFRS standards in the consolidated and separate financial statements for the financial year ended 31/12/2018.

2.3. The changes to the accounting principles in the consolidated statements

With the exception of the changes described below resulting from the introduction of new standards effective for reporting periods beginning on or after 01/01/2019, the Capital Group prepared the condensed interim consolidated financial statements using the same accounting principles as described in the consolidated financial statements prepared as at 31/12/2018 and for the year ended.

IFRS 16 „Leases”

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 “Leases” (“IFRS 16” or “Standard”) 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 revalues 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.

The Capital Group broke 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 Capital Group is a party to cooperation agreements under which it orders the manufacture of products then sold by the Capital Group, providing the cooperating party with full specification and technical requirements concerning these products. The concluded agreements may be terminated with 3 months' notice or at the end of a given calendar year. Cooperating parties are not obliged to produce the ordered batches on specific machines, the agreements do not contain any restrictions regarding the acquisition of other customers by the cooperating parties. The services provided by cooperating parties are available on the market. In connection with the above mentioned features of the concluded agreements, the Capital Group:
 - Considers that these agreements do not meet the definition of a lease because they do not concern the transfer of rights to use full or part of the physical production capacity;
 - Even in the event of orders placed by the Group to cooperating parties, which would result in filling their full production capacity, the Group does not believe that there is sufficient certainty that the cooperation agreement will last longer than 12 months, which would result in the agreement being classified as a short-term agreement.

Taking into account these issues - the Capital Group classifies cooperation agreements as service agreements.

- The Capital Group owns property under perpetual usufruct of land, which in accordance with the new standard will be presented as assets under rights of use, and future fee payments will be discounted and disclosed as a liability. The Capital Group assessed the value of potential liabilities and assets by virtue of the rights to use this property on the basis of the following assumptions:
 - The leasing period will be the period remaining in perpetual usufruct from the date of these financial statements;
 - The lease interest rate of 6.71% was determined as the marginal borrowing rate of the Capital Group. The marginal borrowing rate for the Capital Group was determined on the basis of the margin on current loan agreements included in the financial statements of the Parent Company, which was extrapolated for the lease period in order to determine the correct value of the liquidity margin.
 - Perpetual usufruct payments will remain at the 2018 level (in accordance with paragraph 27.b of the Standard, which indicates that variable lease payments are treated on initial recognition).
 - In accordance with paragraph C8.b.2 of the Standard, the Capital Group assumed that the value of the assets on account of the right of use at the time of first application of the Standard would be recognised as an amount equal to the liabilities.

As a result of the assumptions and calculations made, the Capital Group determined the value of leasing liabilities and assets on account of the right of use at PLN 87 thousand.

The capital group decided to implement the standard on January 1, 2019. In accordance with the transitional provisions included in IFRS 16, the new principles were adopted retrospectively with reference to the cumulative effect of the initial application of the new standard to equity as at 1 January 2019. Therefore, comparative data for the financial year 2018 have not been restated (modified retrospective approach).

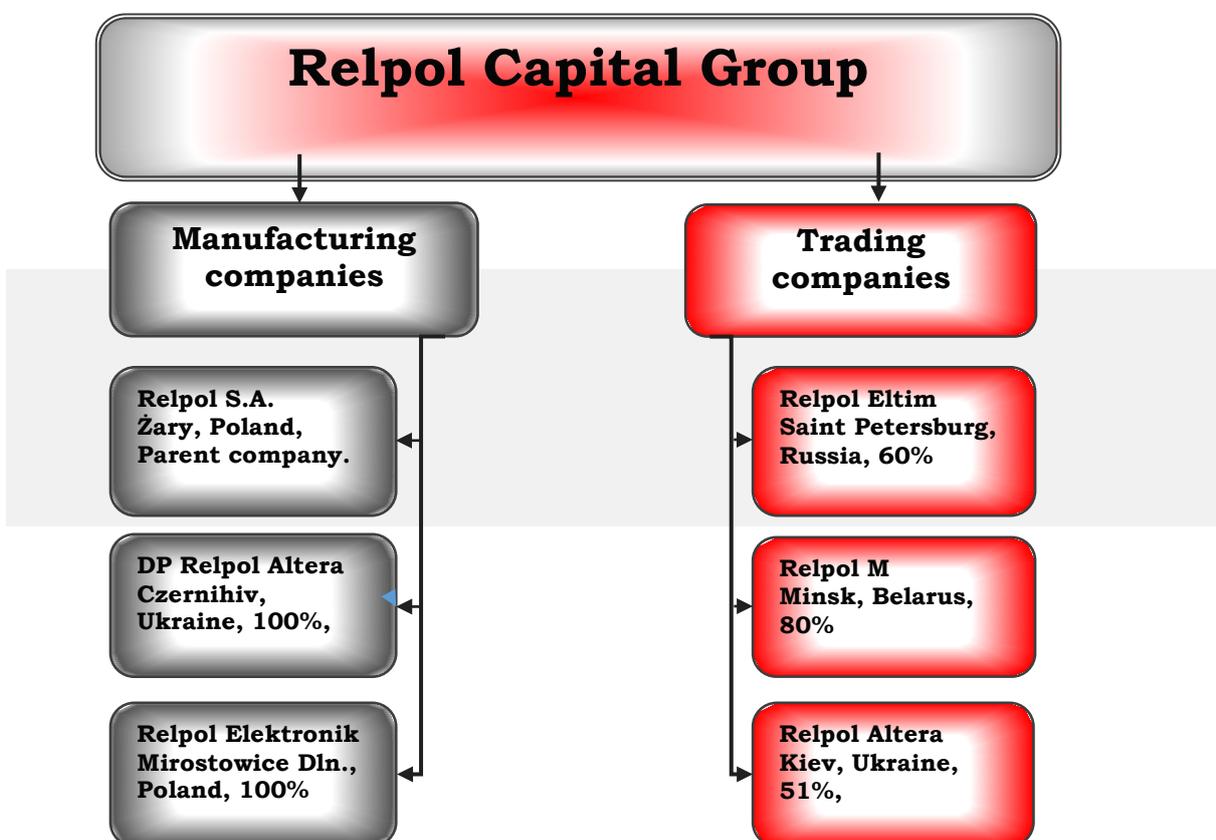
The Capital Group decided to use both possible simplifications in accordance with paragraph C10.c of IFRS 16 and apply the Standard only to agreements longer than 12 months in which the value of the leased asset exceeds USD 5,000.

For lease agreements etc. concluded for an unspecified period of time with a notice period shorter than 12 months, the Capital Group does not consider them as lease agreements.

Apart from the agreements mentioned above, the Capital Group estimates that the impact of the Standard on the financial position of the Capital Group will be insignificant.

3. Capital group structure as at 31/03/2019

Relpol is the parent company in the capital group and prepares consolidated financial statements.



3.1 List of companies included in the financial statements

1. **Relpol S.A.** parent company - full consolidation method.
2. **Relpol Eltim Sp. z o.o.** - full consolidation method. Relpol holds 60% of shares in the company. Relpol Eltim is a distributor of Relpol products in Russia. In the 1st quarter of 2019 the Company achieved sales revenues of PLN 2,697 thousand and generated a net profit of PLN 65 thousand. The Company regularly pays a dividend.
3. **Relpol Elektronik Sp. z o.o.** - full consolidation method. A subsidiary with its registered office in Miostowice Dolne, with its share capital in the amount of PLN 50 thousand. In the 1st quarter of 2019 it achieved sales revenues amounting to PLN 1,035 thousand and generated a net profit of PLN 84 thousand. The Company renders cooperation services for Relpol S.A.
4. **DP Relpol Altera Sp. z o.o.** - full consolidation method. A subsidiary with its registered office in Chernihiv. The object of the company's business is production only for the needs of Relpol S.A. In the 1st quarter of 2019 the company generated PLN 1,375 thousand of sales revenue and generated a net profit of PLN 0.4 thousand.

3.2 Companies excluded from consolidation

1. **Relpol M Sp. z o.o.** - A subsidiary with its registered office in Minsk. The company's share capital amounts to PLN 0.3 thousand. This company has not provide data for the 1st quarter of 2019. The company is a distributor of Relpol on the Belarussian market. In July 2018, the Management Board of Relpol S.A. decided to sell shares to this company and be looking for a buyer.
2. **Relpol Altera Sp. z o.o.** - a subsidiary with its registered office in Kiev. Share capital amounts to PLN 410 thousand. Relpol S.A. holds 51% shares in that company. This company has not provide data for the 1st quarter of 2019.

Companies excluded from consolidation are foreign, small companies not having a significant impact on the consolidated results. Additionally, including those companies in the consolidation and obtaining information necessary for proper and reliable preparation of consolidated statements compliant with IAS/IFRS and the requirements of the capital market would be connected with disproportionately high costs with regard to the financial situation of those companies. Relpol has implemented unified accounting and reporting principles in the companies of the capital group covered by consolidation.

3.3 List of internal organisational units preparing their financial statements independently.

Relpol does not have any internal organisational units preparing their financial statements independently.

3.4 The consolidated financial statements have been prepared with the assumption that the entities of the capital group, with certain exceptions, will continue their operations in the future.

These financial statements were drawn up with the assumption that the company and the capital group will continue its operations as a going concern in the foreseeable future and there are no circumstances indicating a threat to the continuation of its operations. The duration of the capital group shall be unlimited.

4. Consolidated financial statement of the Capital Group

SELECTED FINANCIAL DATA FROM THE FINANCIAL STATEMENTS	in PLN thousand	in PLN thousand	in EUR thousand	in EUR thousand
	For the 1st quarter period from 01/01/2019 to 31/03/2019	For the 1st quarter period from 01/01/2018 to 31/03/2018	For the 1st quarter period from 01/01/2019 to 31/03/2019	For the 1st quarter period from 01/01/2018 to 31/03/2018
PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	33,543	34,365	7,805	8,224
Profit (loss) on operating activities	2,207	2,898	514	694
Gross profit (loss)	2,019	3,001	470	718
Net profit (loss)	1,539	2,252	358	539
CASH FLOW STATEMENT				
Net cash flows from operating activities	1,739	3,515	405	841
Net cash flows from investment activities	-2,357	-1,519	-548	-364
Net cash flows from financial activities	1,350	-1,566	314	-375
Total net cash flows	732	430	171	102
STATEMENT OF FINANCIAL POSITION				
	Balance as at 31/03/2019	Balance as at 31/12/2018	Balance as at 31/03/2019	Balance as at 31/12/2018
Total assets	109,719	106,176	25,508	24,692
Long-term liabilities	3,775	3,835	878	892
Short-term liabilities	22,803	21,078	5,301	4,902
Equity	83,141	81,263	19,329	18,898
Initial capital	48,046	48,046	11,170	11,173
OTHER				
Number of shares	9,609,193	9,609,193	9,609,193	9,609,193
Number of shares adopted to determine diluted profit	9,609,193	9,609,193	9,609,193	9,609,193
Annualised profit (loss) per one ordinary share (in PLN/EUR)	0.91	0.99	0.21	0.23
Profit (loss) for the reporting period per one ordinary share (in PLN/EUR)	0.16	0.23	0.04	0.06
Book value per share (in PLN/EUR)	8.65	8.46	2.01	1.97
Dividend declared or paid per one share (in PLN/EUR)	0.42	0.40	0.10	0.09

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 for the period from 01.01.2019 to 31.03.2019	Average exchange rate for the period from 01.01.2018 to 31.03.2018	Exchange rate as at 31.03.2019	Exchange rate as at 31.12.2018
EUR/PLN exchange rate	4.2978	4.1784	4.3013	4.3000

	in PLN thousand	
CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Net revenues from sales of products, goods and materials	33,543	34,365
Manufacturing cost of products, goods and materials sold	26,617	25,816
Gross profit (loss) on sales	6,926	8,549
Costs of sales	269	252
General and administrative costs	4,020	4,504
Profit (loss) on sales	2,637	3,793
Other operating income	267	86
Other operating costs	697	981
Profit (loss) on operating activities	2,207	2,898
Financial income	6	137
Financial costs	194	34
Gross profit (loss)	2,019	3,001
Taxes	480	749
Other charges on profit	0	0
Net profit (loss) on continued operations	1,539	2,252
Net profit (loss) on discontinued operations	0	0
Net result attributable to non-controlling interests	26	31
Net profit attributable to shareholders of the parent company of which per 1 share (PLN/piece):	1,513	2,221
- ordinary	0.16	0.23
- diluted	0.16	0.23

	in PLN thousand	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Net profit (loss) on continued operations	1,539	2,252
including net profit/loss on discontinued operations	0	0
Components of other comprehensive income,	213	191
a) which will not be subsequently reclassified to profit or loss	0	-7
Adjustment for the application of IFRS 9 as at 01/01/2018	0	-8
Deferred tax	0	1
b) which will be reclassified subsequently to profit or loss when specific conditions are met	213	198
Exchange differences from the translation of subsidiaries	213	198
Overall total income	1,752	2,443

	in PLN thousand		
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Balance as at 31/03/2019	Balance as at 31/12/2018	Balance as at 31/03/2018
ASSETS			
(Long-term) fixed assets	40,409	40,201	39,091
Tangible fixed assets	31,351	32,843	31,019
Right-of-use asset	1,965	0	0
Investment property	0	0	0
Intangible assets	6,651	6,919	7,617
Financial assets	376	376	376
Long-term receivables	66	63	79
Deferred tax assets	0	0	0
(Short-term) current assets	69,310	65,975	61,178
Stock	32,924	31,514	27,120
Total amounts due on account of deliveries and services	29,990	30,371	29,935
Other amounts due	3,601	2,328	1,479
Short-term investments	0	0	0
Cash and cash equivalents	2,109	1,393	1,947
Prepayments and accruals	686	369	697
Long-term assets classified as held for sale	0	0	0
TOTAL ASSETS	109,719	106,176	100,269
LIABILITIES			
Equity attributable to parent company's shareholders	81,669	79,944	77,151
Initial capital	48,046	48,046	48,046
Retained profit	33,623	31,898	29,105
-Supplementary capital	20,620	20,620	19,055
-Revaluation reserve	179	179	322
-Reserve capital	0	0	0
-Exchange differences from the translation of subsidiaries	-1,291	-1,504	-1,679
-Profit/ loss brought forward	12,602	3,395	9,186
-Result of the current year	1,513	9,208	2,221
Equity attributable to non-controlling interests	1,472	1,319	1,257
Total equity	83,141	81,263	78,408
Long-term liabilities	3,775	3,835	3,693
Interest-bearing bank loans and non-bank loans	0	0	140
Leasing liabilities	623	619	293
Other liabilities	0	0	25
Reserves for deferred income tax	1,587	1,652	1,622
Provision for other liabilities	1,565	1,564	1,613
Short-term liabilities	22,803	21,078	18,168
Trade and similar liabilities	9,573	9,625	9,661
Leasing liabilities	617	614	325
Other liabilities	5,667	5,712	4,750
Current portion of interest-bearing loans and borrowings	4,498	2,992	1,215
Deferred revenue	300	95	14
Provision for other liabilities	2,148	2,040	2,203
TOTAL LIABILITIES	109,719	106,176	100,269

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in PLN thousand

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Retained profit						Equity attributable to parent company's shareholders	Equity attributable to non-controlling interests	Equity total
	Initial capital	Supplementar y capital	Revaluation reserve	Profit/loss from previous years	Result of the current year	Exchange differences from the translation of subsidiaries			
<i>Balance as at 1 January 2019</i>	48,046	20,620	179	12,603	0	(1,504)	79,944	1,319	81,263
Coverage of loss	0	0	0	0	0	0	0	0	0
Share premium	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	0	0
Revaluation reserve differences	0	0	0	0	0	0	0	0	0
Profit/loss brought forward	0	0	0	0	0	0	0	0	0
Overall total income of which:	0	0	0	(1)	1,513	213	1,725	132	1,857
profit/loss for the period	0	0	0	0	1,513	0	1,513	21	1,534
exchange differences on revaluation of FS	0	0	0	0	0	213	212	21	233
other total revenues	0	0	0	(1)	0	0	0	0	0
<i>Balance as at 31 March 2019</i>	48,046	20,620	179	12,602	1,513	(1,291)	81,669	1,472	83,141
<i>Balance as at 1 January 2018</i>	48,046	19,055	329	9,369	0	(1,877)	74,922	1,247	76,169
Coverage of loss	0	(263)	0	263	0	0	0	0	0
Share premium	0	0	0	(3,845)	0	0	(3,845)	(107)	(3,952)
Dividend payout	0	58	(58)	0	0	0	0	0	0
Revaluation reserve differences	0	1,770	0	(1,770)	0	0	0	0	0
Profit/loss brought forward	0	0	0	(477)	0	0	(477)	(244)	(721)
Overall total income of which:	0	0	(92)	(145)	9,208	373	9,344	423	9,767
profit/loss for the period	0	0	0	0	9,208	0	9,208	278	9,486
exchange differences on revaluation of FS	0	0	0	(145)	0	0	(145)	145	0
adjustment for the application of IFRS 9 as at 01/01/2018	0	0	(7)	0	0	0	(7)	0	(7)
other total revenues	0	0	(85)	0	0	373	288	0	288
<i>Balance as at 31 December 2018</i>	48,046	20,620	179	3,395	9,208	(1,504)	79,944	1,319	81,263

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Retained profit						Equity attributable to parent company's shareholders	Equity attributable to non-controlling interests	Equity total
	Initial capital	Supplementar y capital	Revaluation reserve	Profit/loss from previous years	Result of the current year	Exchange differences from the translation of subsidiaries			
<i>Balance as at 1 January 2018</i>	48,046	19,055	329	9,369	0	(1,877)	74,915	1,247	76,169
Coverage of loss		0	0	0	0	0	0	0	0
Share premium	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	0	0
Revaluation reserve differences	0	0	0	0	0	0	0	0	0
Profit/loss brought forward	0	0	0	0	0	0	0	0	0
Overall total income of which:	0	0	(7)	(183)	2,221	198	2,236	10	2,239
profit/loss for the period	0	0	0	0	2,221	31	2,252	31	2,283
exchange differences on revaluation of FS	0	0	0	0	0	167	167	(21)	146
adjustment for the application of IFRS 9 as at 01/01/2018	0	0	(7)	0	0	0	0	0	(7)
other total revenues	0	0	0	(183)	0	0	(183)	0	(183)
<i>Balance as at 31 March 2018</i>	48,046	19,055	322	9,186	2,221	(1,679)	77,151	1,257	78,408

	in PLN thousand	
CONSOLIDATED STATEMENT OF CASH FLOWS	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
A. Cash flows from operating activities (indirect method)	1,739	3,515
I. Gross profit (loss)	2,019	3,001
II. Total adjustments	-280	514
1. Share in net loss (profit) of undertakings measured under the equity method	0	0
2. Amortisation and depreciation	1,497	1,460
3. Foreign exchange gains (losses)	-65	29
4. Interest and profit sharing (dividend)	36	24
5. Profit (loss) on investment activities	-100	208
6. Change in provisions	102	843
7. Change in inventory	-1,379	1,350
8. Change in receivables	-1,161	-4,813
9. Change in short-term liabilities excluding loans and credits	1,350	1,943
10. Change in prepayments and accruals	-317	-293
11. Income tax paid/refunded	-243	-237
12. Other adjustments	0	0
B. Cash flows from investment activities	-2,357	-1,519
I. Inflows	100	9
1. Sale of intangible assets and tangible fixed assets	100	9
2. Other inflows from investment activities	0	0
II. Outflows	-2,457	-1,528
1. Purchase of intangible assets and tangible fixed assets	-2,457	-1,528
2. Other outflows from investment activities	0	0
C. Cash flows from financial activities	1,350	-1,566
I. Inflows	1,679	473
1. Net inflows from issuance of shares and other capital instruments and from capital contributions	0	0
2. Credits and loans	1,679	473
3. Other inflows from financial activities	0	0
II. Outflows	-329	-2,039
1. Purchase of own shares	0	0
2. Dividend and other payments to shareholders	0	0
3. Profit distribution liabilities other than profit distribution payments to shareholders	0	0
4. Repayment of credits and loans	-141	-1,915
5. Redemption of debt securities	0	0
6. Payment of other financial liabilities	0	0
7. Payment of liabilities arising from financial leases	-152	-100
8. Interest	-36	-24
9. Other outflows from financial activities factoring	0	0
D. Total net cash flows	732	430
E. Balance sheet change in cash	716	414
- change in cash due to exchange differences	16	16
F. Cash opening balance	1,393	1,533
- foreign exchange gains and losses	1	21
G. Closing balance of cash	2,109	1,947
- foreign exchange gains and losses	17	37

5. Discussion of consolidated results

5.1 Summary

SPECIFICATION	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	Change
Sales revenues in PLN thousand	33,543	34,365	-2.4 %
Gross profit on sales in PLN '000	6,926	8,549	-19.0 %
Gross margin on sales (%)	20.6%	24.9%	-4.3 p.p.
EBIDTA in PLN '000	3,704	4,358	-15.0 %
EBIDTA margin (%)	11.0%	12.7%	-1.7 p.p.
EBIT in PLN '000	2,207	2,898	-23.8 %
EBIT margin (%)	6.6%	8.4%	-1.4 p.p.
Consolidated net profit	1,539	2,252	-31.7 %
Net profit margin	4.6%	6.6%	-2.0 p.p.
Net profit attributable to shareholders of the parent company in PLN thousand	1,513	2,221	-31.9 %

In the 1st quarter of 2019, the capital group achieved sales revenues in the amount of PLN 33,543 thousand and they were 2.4% lower than those achieved in the 1st quarter of 2018, which turned out the highest in the history of the Capital Group's operations. Lower revenues and higher production costs resulted in lower margins and net result.

The drop in sales occurred on the domestic market. Sales on the domestic market amounted to PLN 9,266 thousand and was lower by 13.6% compared to the 1st quarter of 2018. At the turn of 2018/2019, the dynamics of revenue growth decreased. The company's information suggests that this was influenced by the client's situation and activities undertaken in 2018. Long terms of deliveries of goods in 2018, especially in the area of electronics, resulted in many companies taking anticipatory steps to secure production liquidity and increasing orders, which in turn, led to excessive stocking.

The level of revenues may be even higher, if not the low level of investments in the energy sector and the slowdown in construction on the domestic market. The poorer situation in the Polish industrial sector was also confirmed by the PMI indexes in the 1st quarter of 2019. Although PMI in April 2019 increased in relation to previous months of the 1st quarter reaching 49 points. However, it is the sixth month in a row when the level of this indicator is still below 50 points. Only PMI above 50 points indicates the economic recovery. The slowdown we observed in the 1st quarter of 2019 will not change the direction of development and branches of industry, in which the products offered by the Relpol Group are used, will continue to absorb solutions and products.

The increase in personnel costs, electricity costs and the need to meet the competitiveness of operations in many industries will lead to the automation of production. On the other hand, caring for the natural environment will lead to the development of an industry related to renewable energy sources, such as photovoltaics and the development of the industry related to electromobility. This in turn, will entail the need to rebuild and expand energy networks. In the opinion of the Management Board of the company, the development in the field of building automation, rail transport, or consumer goods household appliances will also

increase the demand for relays and sockets, because products developed, produced and marketed by the Relpol Group will have and will be used everywhere.

The sales to foreign markets amounted to 24,277 and were by 2.7% higher than in 1st quarter of 2018. The German market is the most important here. The share of this market in total sales increased to 40%.

In the 1st quarter of 2019, the capital group generated a net profit of PLN 1,539 thousand, which in relation to the profit from 1st quarter of 2018 (PLN 2,222 thousand) means a decrease by 32%. It results from lower sales and higher dynamics of production costs.

Compared to 31/12/2018, the capital group increased current assets by PLN 3,335 thousand. Other receivables, cash and inventories increased. Due to profit from previous years, also the balance of equity increased about PLN 1,788,000. In 2018, the company paid a dividend of PLN 3,844 thousand. In 2019, the Management Board will recommend to the General Meeting payment of a dividend in the amount of PLN 4,036 thousand.

Compared to 31/12/2018, the liabilities of the capital group increased by 1,665 thousand, in particular, short-term liabilities, which results from the increase in liabilities due to loans and credits.

5.2 Share of parent company in the result of the capital group

Relpol S.A. has the greatest impact on the results of the capital group. The share of sales of the parent company in consolidated sales for the 1st quarter of 2019 was 94%. In the case of net result, it was 95%.

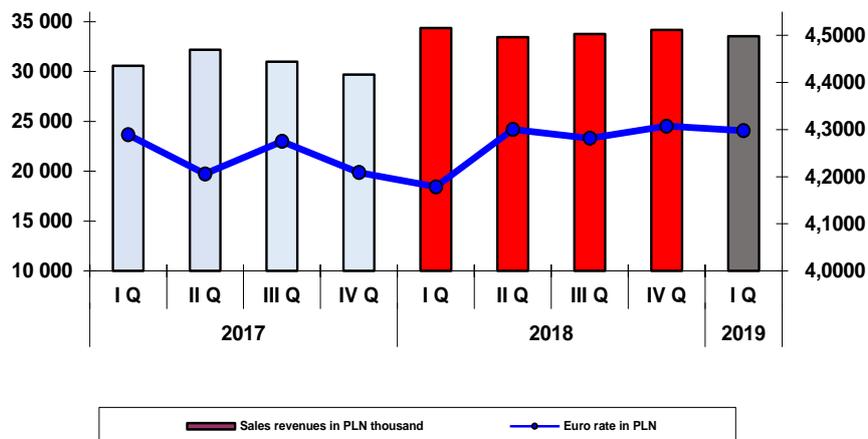
5.3 Adjustments and exclusions from consolidation

In connection with the mutual trading between the parent company and subsidiaries included in the consolidation, revenues from sales were decreased by PLN 3,223 thousand, and the costs of products and materials sold by PLN 3,137 thousand. Exclusions from consolidation were also performed as regards margin on provisions. The balance sheet does not include mutual, reciprocal receivables and liabilities.

5.4 Sales revenues

The capital group reached PLN 33,543 thousand of sales revenues, which is 2.4% decrease compared to the 1st quarter of 2018. The revenues achieved in the first quarter of 2018 were the highest in the history of capital flu activity, therefore the reference point was set very high. The chart below presents the level of sales revenues in individual quarters, starting from the 1st quarter of 2017.

Sales revenues in PLN thousand in individual quarters and the average foreign exchange rate for EUR.



5.5 Sales structure

Description	in PLN thousand			
	from 01/01/2019 to 31/03/2019	Share %	from 01/01/2018 to 31/03/2018	Share %
Poland	9,266	27.62%	10,730	31.22%
Sales on foreign markets, including among others:	24,277	72.38%	23,635	68.78%
Europe, including	21,706	64.71%	20,980	61.05%
<i>Germany</i>	<i>13,544</i>	<i>40.38%</i>	<i>13,320</i>	<i>38.76%</i>
<i>Russia</i>	<i>2,715</i>	<i>8.09%</i>	<i>1,957</i>	<i>5.69%</i>
<i>Italy</i>	<i>896</i>	<i>2.67%</i>	<i>933</i>	<i>2.71%</i>
Asia	1,549	4.62%	1,846	5.37%
North America	439	1.31%	281	0.82%
South America	220	0.66%	295	0.86%
Australia and other	363	1.08%	233	0.68%
Total	33,543	100.00%	34,365	100.00%

In the 1st quarter of 2019, the Capital Group recorded an increase in sales on foreign markets and a decrease in sales on the domestic market. The German market has the largest share in the sales structure at the level of 40%. Sales to the domestic market are in the second position with a share of 28%. Sales to the Russian market increased by 38.7%, which may indicate an improvement of the situation in Russia. Sales to other continents are irregular (these are rare but relatively large shipments throughout the year).

Currency exchange rates and sales revenues

Sales revenues and exchange rates	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	Change I Q 2019/ I Q 2018
Sales revenues in PLN thousand	33,543	34,365	-2.4%
Average EUR exchange rate in PLN	4.2978	4.1784	+2.9%
Average USD exchange rate in PLN	3.7830	3.3882	+11.7%
Average RUB exchange rate in PLN	0.0580	0.0598	-3.0%
Average UAH exchange rate in PLN	0.1388	0.1257	+10.4%

The situation on the currency market is constantly changing. Euro, dollar and hryvnia rates were higher than in 1st quarter of 2018, and the ruble exchange rate was lower. Due to the high share of exports in the sales structure, the level and fluctuation of exchange rates have an impact on the sales volume, and ultimately also on the entire financial result. The European market has the largest share in sales, so the level and fluctuations of the euro exchange rate are important. The euro exchange rate, as shown in the chart below, fluctuated significantly. After the increases in early 2017, the euro began to lose value. A large rebound of the euro took place in mid-2018, after which the exchange rate of this currency fell slightly and reached around PLN 4.30. In the end, the average exchange rate of the euro in the 1st quarter of 2019 was by 2.9% higher than in the first quarter of 2018.

Average EUR/PLN exchange rate in the period from 02/01/2017 to 29/03/2019



The USD exchange rate was gradually falling throughout 2017. After a rebound in the second quarter of 2018, it increased to the level of about PLN 3.70 and this continued for three consecutive quarters. In the end, the average dollar exchange rate in the first quarter of 2019 was by 11.7% higher than in the first quarter of 2018. The capital group achieves approximately 8% of its sales in USD.

Average USD/PLN exchange rate in the period from 02/01/2017 to 29/03/2019



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

The ruble exchange rate was slightly different than in the case of the euro and the dollar. The currency dropped significantly in the second quarter of 2017. After several rebounds and subsequent declines, the lowest level was achieved in the third quarter of 2018. In the first quarter of 2019, the exchange rate was in an upward phase. In the end, the average ruble exchange rate was 3.0% lower than the average ruble exchange rate in the first quarter of 2019. Revenues in RUB are obtained by the Russian company, and then in the consolidated statements they are converted into PLN.

Average RUB/PLN exchange rate in the period from 02/01/2017 to 29/03/2019



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

The hryvnia exchange rate was also in a downward trend throughout 2017, reaching a minimum of quotations in January 2018. Then the currency rebounded and increased until mid-2018. The following months are another declines and increases. In the end, the average UAH exchange rate in the 1st quarter of 2019 was 10.4% higher than average exchange rate in the 1st quarter of 2018.

Average UAH/PLN exchange rate in the period from 02/01/2017 to 29/03/2019



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

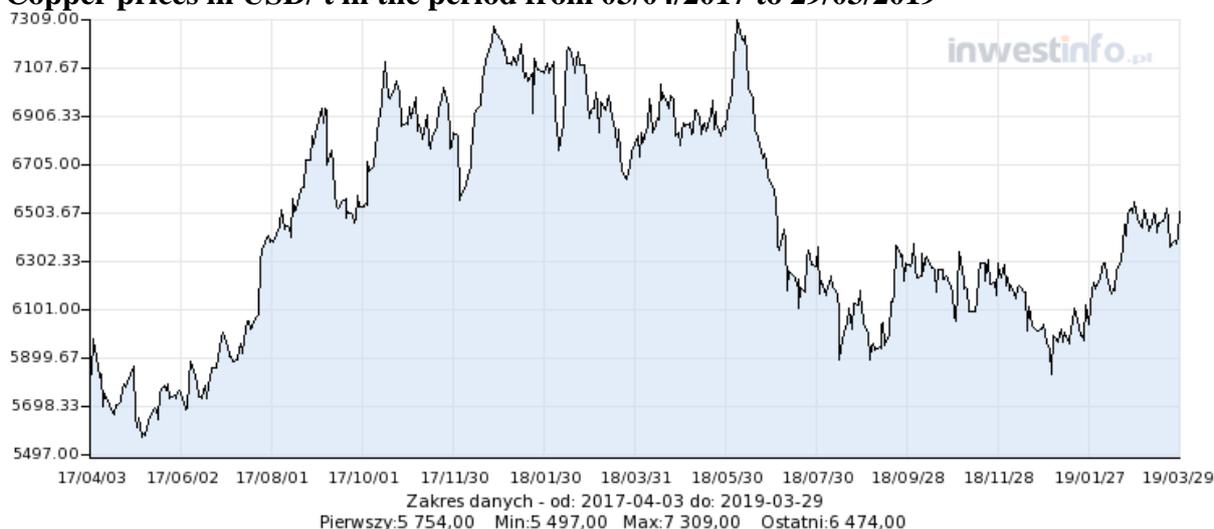
5.6 Result on sales

5.6.1 Gross result on sales

In the 1st quarter of 2019, the consolidated gross result on sales amounted to PLN 6,926,000 and was 19% lower than the result achieved in the 1st quarter of 2018 (PLN 8,549 thousand). The main factor affecting the result was lower sales and increased production costs.

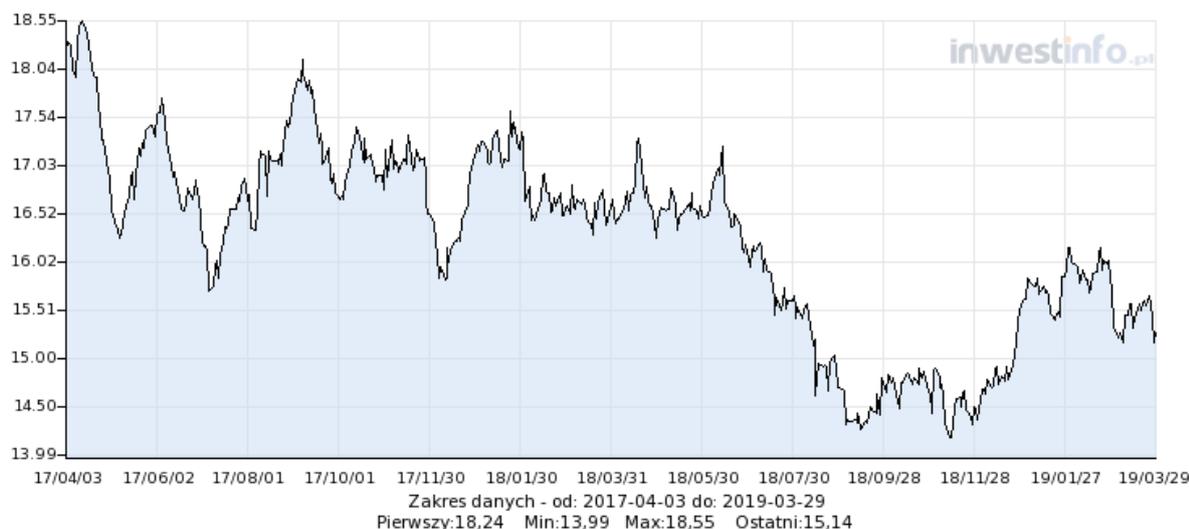
The production process uses steel and metal details containing, among others, copper, silver, gold and plastic details. Therefore, the prices of raw materials and materials, especially those with copper and precious metals, have a significant impact on the level of gross profit on sales and the level of margins. Raw material prices are set at the London Stock Exchange and the company has no influence on them. Prices of basic raw materials used in the production of Relpol products fluctuated significantly, as shown in the following charts.

Copper prices in USD/ t in the period from 03/04/2017 to 29/03/2019



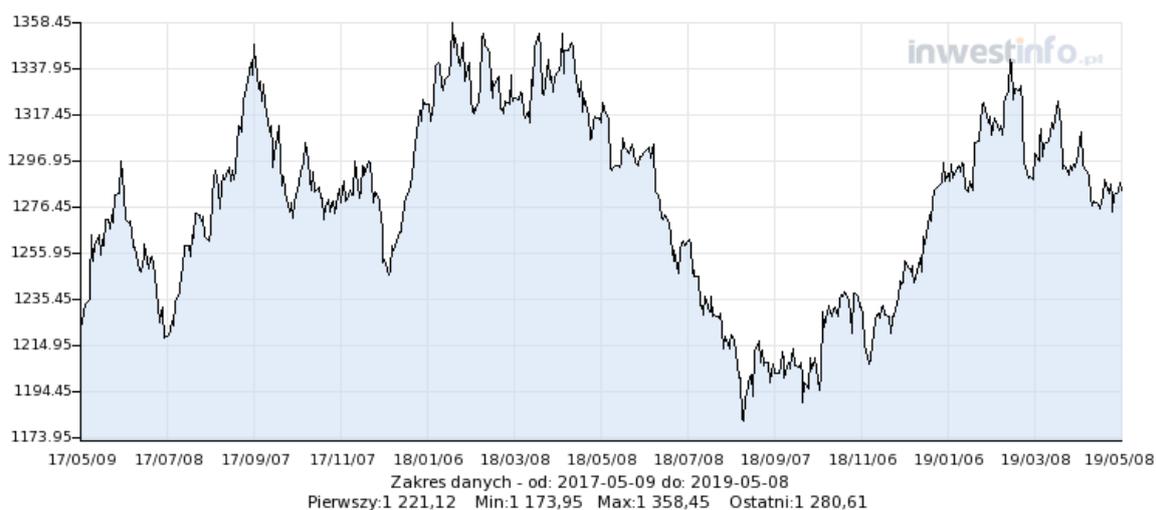
Source: <http://www.inwestinfo.pl/surowce/notowania-surowcow/wykres/Miedz.htm>

Silver price in USD/ oz in the period from 03/04/2017 to 29/03/2019



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

Gold price in USD/ oz in the period from 09/05/2017 to 08/05/2019



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

5.6.2 Net result on sales

The consolidated net result on sales in 1st quarter of 2019 amounted to PLN 2,637 thousand, which in relation to the 1st quarter of 2018 (PLN 3,793 thousand) means a decrease by 30%. As above, this was due to lower sales and higher operating costs.

5.7 Other operating activities

Other operating activities in the 1st quarter of 2019 decreased the result of the capital group by PLN 430 thousand. In the 1st quarter of 2018, the result on other operating activities was also negative and amounted to PLN 895 thousand. The largest item of expenses are provisions for leaves and write-downs for inventories.

The items of revenues and costs of other operating activity are presented in the table below.

Other operating income	in PLN thousand	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Profit on disposal of tangible fixed assets	100	7
Decrease of inventory write-offs	101	62
Decrease of liability write-offs	12	1
Other (including consolidation adjustments)	54	16
Total other operating income	267	86

Other operating costs	in PLN thousand	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Receivables revaluation write-off	39	6
Inventory revaluation write-off	178	169
Revaluation write-off for research and development	0	215
Creation of a provision for unused holidays	414	353
Donations	18	17
Scrapped inventory	4	21
Other (including consolidation adjustments)	44	200
Total other operating costs	697	981

5.8 Financial activities

Financial activities in the 1st quarter of 2019 decreased the result of capital group by PLN 188 thousand. In the same period of 2018 the result of financial activity was positive and amounted to PLN 103 thousand.

The items of revenues and costs of financial activity are presented in the table below

	in PLN thousand	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Interest	1	1
Net foreign exchange gains	0	127
Other (including consolidation adjustments)	5	9
Total financial revenues	6	137

	in PLN thousand	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Interest	23	27
Financial costs on account of financial lease agreements	13	3
Other (including consolidation adjustments)	158	4
Total financial costs	194	34

5.9 Net result

In the 1st quarter of 2019 the gross result of the capital group was PLN 1,539 thousand and exceeded the level achieved in the 1st quarter of 2018 by 32% (PLN 2,252 thousand). Net

profit attributable to the shareholders of the parent company amounted to PLN 1,513 thousand as compared with PLN 2,221 thousand for the previous year. This was influenced by the factors described in section 5.6 above, as well as by other operating and financial activities.

6. Ratio analysis

Profitability ratios

Ratio	Calculation method	Amount	
		31/03/2019	31/03/2018
Gross return on sales	Gross result on sales/ sales * 100%	20.6%	24.9%
Return on sales	Result on sales/ sales *100%	7.9%	11.0%
Net return on sales	Net result/ sales *100%	4.6%	6.6%
ROE	Net result for 12 months/ average value of equity *100%	11.0%	9.2%
ROA	Net result for 12 months/ average value of assets *100%	8.4%	7.1%

Gross return on sales is by 4.3 percentage point lower than in 1st quarter of 2018, which results from a lower sales and high production costs. Return on sales decreased by 3.1 percentage point. Due to higher net profit for the period of 12 months, ROA and ROE improved.

Level of debt

Ratio	Calculation method	Amount	
		31/03/2019	31/03/2018
Overall level of debt	Liabilities + provisions/assets * 100%	24.2%	21.8%
Financing with fixed capital	(equity+ long-term liabilities+ long-term provisions)/assets *100%	79.2%	82.8%
Equity-to-fixed-assets ratio	Equity/ Fixed assets*100%	205.7%	200.6%

The debt of the capital group increased by PLN 4,717 thousand compared to the end of 1st quarter of 2018 and by PLN 1,665 thousand compared to the status as at 31/12/2018.

Liquidity ratios

Ratio	Calculation method	Amount	
		31/03/2019	31/03/2018
Current liquidity	Current assets / short-term liabilities	3.04	3.37
Quick liquidity	Current assets - inventories / short-term liabilities	1.60	1.87
Level of working capital	Current assets - short-term liabilities/sales) * 90	125	113

Liquidity ratios remain at a high, stable level. The group has no problems with the discharge of liabilities.

Efficiency ratios

Ratio	Calculation method	Amount	
		31/03/2019	31/03/2018
Asset turnover ratio	Sales for 12 months/average asset level	1.3	1.3
Inventory cycle	Average level of inventories/cost of products and goods sold) * number of days in the period	101	96
Receivables cycle	Average level of trade receivables/sales) * number of days in the period	80	71
Liabilities cycle	Average level of trade liabilities/cost of products and goods sold) * number of days in the period	33	30

A long cycle of stock turnover results from the nature of the industry in which the group operates. This cycle increased by 5 days. The receivables rotation cycle increased by 9 days and the liabilities rotation cycle by 3 days.

II. Notes and additional explanatory notes to the consolidated statements

1. Business segments

Operating segment is a component of an entity:

- who engages in an economic activity, from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- for which discrete financial information is available.

According to the requirements of IFRS 8, operating segments should be identified on the basis of internal reports on these elements, which are regularly verified by persons deciding about the allocation of resources to a given segment and evaluating its financial results.

In view of the above, it has to be concluded, that the capital group operates on the market of components of industrial automatics and it is its main operating segment.

in PLN thousand				
Segment revenues and profits/losses	Revenues		Profit/loss in the segment	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Components of industrial automatics	32,686	33,137	6,508	7,894
Other segments	857	1,228	418	655
Total from continued operations	33,543	34,365	6,926	8,549
Unallocated items				
Costs of sales			269	252
Costs of management and administration			4,020	4,504
Profit (loss) on sales			2,637	3,793
Other operating income			267	86
Other operating costs			697	981
Profit (loss) on operating activities			2,207	2,898
Financial income			6	137
Financial costs			194	34
Profit (loss) on continued operations			2,019	3,001
Taxes			480	749
Other charges on profit			0	0
Net profit (loss) on continued operations			1,539	2,252
Net result on discontinued operations			0	0
Net result on sold activities			0	0
Net result			1,539	2,252

Net result attributable to non-controlling interests	26	31
Net profit attributable to shareholders of the parent company	1,513	2,221

in PLN thousand		
Assets and liabilities of the segments	31/03/2019	31/03/2018
Components of industrial automatics	104,835	96,333
Other segments	4,508	3,560
Total assets of the segments	109,343	99,893

In order to monitor the results achieved in the operating segment and for the purposes of allocating resources to reportable segments, the Group assigns all its assets, except for investments in associates and assets in virtue of current and deferred income tax.

The Group has no possibility of separating liabilities regarding individual segments.

The geographic structure of revenues was presented above in point 5.5

2. The management board's position on feasibility of previously published forecasts for the year.

Forecasts for the capital group of Relpol for 2019 were not published.

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

The ownership structure of the share capital of Relpol S.A, as at 15 May 2019.

Shareholder	Number of shares held (pcs)	Number of votes at the General Shareholders' Meeting	Share in total number of votes at the General Shareholders' Meeting	Nominal value of shares held (in PLN thousand)	Percentage in the share capital	Change with regard the statements for 2018 (25/04/2019)
Ambroziak Adam	3,171,000	3,171,000	33.00%	15,855	33.00%	0
Rockbridge TFI S.A	2,663,403	2,663,403	27.72%	13,317	27.72%	0
Osiński Piotr	613,943	613,943	6.39%	3,070	6.39%	0
TFI BGŻ BNP Paribas S.A.	541,115	541,115	5.63%	2,706	5.63%	0

4. Statement of changes in the number of the company's shares held or the rights to them (options) by managing and supervising persons, according to the information held by the company.

According to the information held by the company, the number of the company's shares held by the Members of the Management Board and the Supervisory Board as at 15/05/2019 is as follows:

Management Board of Relpol S.A	Number of shares held (pcs)	Share in total number of votes at the General Meeting	Nominal value of shares held (in PLN thousand)
Sławomir Bialik	0	0%	0
Krzysztof Pałgan	0	0%	0

Supervisory Board of Relpol S.A	Number of shares held (pcs)	Share in total number of votes at the General Meeting	Nominal value of shares held (in PLN thousand)
Ambroziak Adam	3,171,000	33.00%	15,855
Osiński Piotr	613, 943	6.39%	3,070

Other members of the Supervisory Board do not hold any shares of Relpol S.A. In the 1st quarter of 2019, there were no changes in the ownership of the company's shares by the Management Board and the Supervisory Board of the company.

5. Proceedings pending before a court, a competent arbitration authority or a public administration authority.

In the period from 01/01/2019 to 31/03/2019 no proceedings regarding liabilities or receivables of the issuer the value of which amounts to at least 10% of equity were initiated before a court or a public administration body.

6. Information on the parent company or its subsidiary entering into one or more transactions with related parties, if individually or jointly they are significant and have been concluded on non-arm's length conditions.

From 01/01/2019 to the date of publication of the financial statements Relpol S.A. and its subsidiaries did not enter into any transactions with related parties which would be significant and would be concluded pursuant to the terms and conditions other than market terms. Transactions of Relpol S.A. with related entities were presented in the table after separate statements of the company.

7. Information on credit or loan sureties or guarantees granted by the parent company or its subsidiary to a single entity or its subsidiary, if the total value of existing sureties or guarantees is equivalent to at least 10% of the Company's equity.

No guarantees constituting an equivalent of at least 10% of equity capitals were granted.

8. Information relevant for the assessment of the staffing, property, financial situation, the Group's financial result and their changes, as well as information that is material for assessing the ability of the parent company to discharge its liabilities.

There were no other situations or events, other than those described in these statements which would be of significant importance for the assessment of the staffing, property, financial situation of the group and would be material for the assessment of the parent company's ability to discharge its liabilities.

9. Indication of the factors, that, in the issuer's view, will affect its financial performance in the perspective of at least the next quarter.

The greatest impact on the Group's financial performance, at least in the perspective of the next quarter, will have macroeconomic factors, independent of companies and internal factors.

External factors include:

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

Internal factors dependent on the company include mainly:

- realisation of the planned sales,
- realisation of the concluded commercial contracts,
- occupancy of production lines,
- adjustment of costs to the current economic situation on the market,
- increase of market share based on the offered products,
- obtaining new customers on the existing and new markets,
- rationalisation of the commercial product offer,
- obtaining new customers for CZIP Pro,
- promotion and obtaining contractors for a transmitter for solar inverters,
- obtaining new customers and area for systems of radiological protection,
- improvement of profitability of the products,
- finalisation of changes in the structure of the capital group.

10. Other information regarding events from previous years.

All significant events were described in the statements.

11. Other significant events.

All other significant events were included in these financial statements.

12. Contingent liabilities.

As at 31/03/2019 there were no contingent liabilities.

13. Financial risk management.

The Parent Company, while conducting its business activity, analyses monitors and assesses the risk factors which may affect the current and future financial situation of the capital group. As a result of the performed monitoring there are action taken to minimize the effect of individual risk factors on the activity of the company and capital group.

The parent company identified the following risk factors:

1. Interest rate risk.
2. Credit risk.
3. Liquidity risk.
4. Foreign exchange risk.
5. Macroeconomic risk.
6. Risk of dependency on a large recipient.
7. Capital management risk and other risks.

The description of the above risks and their impact on the activity of the company was presented in the annual statements of the company and the capital group for 2018. The statements were published on 25/04/2019 and are available on the website of the company at [https://www.relpol.pl/pl/Relacje-Inwestorskie/Raporty/Raporty-okresowe/\(param_0\)/option_17](https://www.relpol.pl/pl/Relacje-Inwestorskie/Raporty/Raporty-okresowe/(param_0)/option_17)

14. Events after the balance sheet date not included in the consolidated financial statements.

All events have been included in the financial statements.

15. Employment at the capita group.

Employees employed on the basis of employment contracts	Average I Q 2019	Average I Q 2018
Relpol S.A.	473	468
Relpol Eltim	11	11
DP Relpol Altera	282	280
Relpol Elektronik	70	64
Other companies	3	6
Total Group	839	829

Employment at the capital group increased by 10 persons. In addition to employees with a contract of employment, the parent company and Relpol Elektronik use employee outsourcing services. In the 1st quarter of 2019 on average 72 persons performed work in such a manner, and in the 1st quarter of 2018 it was 77 persons.

16. Descriptions of significant achievements and failures of the issuer in the period covered by the statements.

In the period covered by the statements there were no key achievements or failures.

17. Description of factors and events, and in particular of an unusual nature, having a significant impact on the achieved financial results of the Company.

There were no atypical factors or events, which would have a significant effect on the achieved financial results and which would have not been described in these statements.

18. Explanations regarding seasonal or cyclic nature of the Company's business.

While analysing the level of sales in individual quarters and the orders placed by the customers, it may be concluded that there is no visible seasonality. There are periods in which turnover is lower than in other months, i.e. during summer months or in the period around Christmas or New Year's Day, but these are not very significant differences to be described as seasonal nature of the business.

19. Information on the issue, redemption and repayment of debt and equity securities in the period covered by the statements.

In the 1st quarter of 2019 the parent company did not issue any shares, redeem or repay any debt and equity securities.

20. Information on the paid or declared dividend.

On 10/05/2019 the Management Board of the Company decided to recommend to the General Meeting the adoption of a resolution on the payment of a dividend in net profit for 2018 in the amount of 0.42 PLN gross per 1 share, which gives the amount of PLN 4,036 thousand.

The decision about the disbursement of dividends from the net profit for 2018 was also made at Relpol Elektronik. Relpol S.A. will receive PLN 60 thousand of dividends.

In 2018 Relpol S.A. paid a dividend from the net profit for 2017 in the gross amount of PLN 0.40 per 1 share. This amounted to PLN 3,844 thousand.

Among the subsidiaries, Relpol Eltim paid a dividend from the profit for 2017 to Relpol S.A. in the amount of PLN 87 thousand.

Amounts of dividends paid by subsidiaries to Relpol S.A, are excluded as part of consolidation adjustments.

21. Events that occurred after the balance sheet date which may have a significant impact on the future financial results of Relpol S.A.

Apart from the information presented in this consolidated quarterly report, there are no other events that could significantly affect the future results of the Company and the Capital Group.

22. Effects of changes in the structure of the Company, including as a results of business entities combination, takeover or sale of capital group entities, long-term investments, division, restructuring and discontinuation of operations.

In 2019, there were no changes in the structure of the company or capital group. There were no acquisitions, purchase, sales, mergers or divisions of units. None of the activities carried out were also discontinued. The changes may occur in the following months of 2019, as Relpol S.A. conducts activities aimed at the sale of shares in Relpol M. The sale of shares to this company will not affect the future results of Relpol SA. and the entire capital group.

23. Information on changes in contingent liabilities or assets of the Company, which took place after the end of the quarter.

After 31/03/2019 there were no significant changes regarding contingent liabilities or assets.

24. Information on adjustments on account of provisions and the company's asset revaluation write-offs.

in PLN thousand

Balance of asset revaluation write-offs	Balance as at 01/01/2019	Turnover in I-III 2019			Balance as at 31/03/2019
		Reversed	Used	Created	
I. Revaluation write-off on fixed assets and intangible assets	3,082	0	0	0	3,082
II. Long-term receivables revaluation write-off	0	0	0	0	0
III. Long-term asset revaluation write-off - shares in related entities	621	0	0	0	621
IV. Stock revaluation write-off	1,872	101	0	175	1,946
V. Trade receivable revaluation write-off	235	13	0	41	263
VI. Revaluation write-off on short-term financial assets	67	9	0	15	73
Total	5,877	123	0	231	5,985

in PLN thousand

Provisions	Balance as at 01/01/2019	Turnover in I-III 2019			Balance as at 31/03/2019
		Reversed	Used	Created	
I. Provisions for pensions and similar benefits	2,014	0	0	0	2,014
II. Other provisions, including for future liabilities:	1,590	83	367	559	1,699
- for holiday leaves	740	0	0	448	1,188
- other	850	83	367	111	511
Total	3,604	83	367	448	3,713

25. Information on assets and provisions for deferred income tax in the capital group.

	in PLN thousand	
	31/03/2019	31/03/2018
Deferred income tax asset	1,714	1,570
Deferred income tax provision	3,301	3,192
Excess of provision over asset	-1,587	-1,622

In the consolidated statement of financial position, the deferred income tax asset and deferred income tax provision are presented in the net amount, i.e. the provisions less the asset.

26. Reversal of any provisions for restructuring costs.

In period from 01/01/2019 to 31/03/2019 no provisions for restructuring costs were reversed.

27. Assets classified as held for sale.

As at 31/03/2019 the capital group did not have tangible assets held for sale.

28. Liabilities made for the purpose of purchasing tangible fixed assets.

The Capital Group does not run any cases at law, the loss of which would have a significant impact on future financial results.

29. Litigation settlements.

The Capital Group does not run any cases at law, the loss of which would have a significant impact on future financial results.

30. Unpaid loans or breach of a loan agreement, for which no corrective action had been taken by the end of the reporting period.

Credits and loans taken out by Relpol are repaid in accordance with the terms and conditions of the bank agreements.

Relpol, as the parent company, granted a loan to its subsidiary Relpol Altera, the loan as principal was repaid. There is interest to be repaid in the amount of PLN 69 thousand. The amount is subject to revaluation write-off.

Loans granted to the subsidiary	Amount of the loan granted in foreign currency	Amount of the loan granted in PLN	Interest rate	Date of conclusion of the loan agreement	Date of repayment of the loan in accordance with the agreement	Interest calculated on the loans granted in PLN	Status of loans in PLN
Relpol Altera	0 USD	0	5.50%	12.12.2005	31.12.2016	69	69
Total amount of granted loans							69
revaluation write-off							69
Net loan value							<u>0</u>

The parent company in the 1st quarter of 2019 did not have any loans granted to it by the subsidiaries.

31. Transfers between different levels of the fair value hierarchy, which is used to measure the fair value of financial instruments.

None.

32. Reclassification of financial assets as a result of changing the purpose of or use of such assets.

None.

33. Change of contingent liabilities and contingent assets.

None.

III. Condensed separate statement of Relpol S.A.

1. Selected financial data from the separate statements of Relpol S.A.

SELECTED FINANCIAL DATA FROM THE SEPARATE STATEMENTS	in PLN thousand	in PLN thousand	in EUR thousand	in EUR thousand
	For 1 quarter period from 01/01/2019 to 31/03/2019	For 1 quarter period from 01/01/2018 to 31/03/2018	For 1 quarter period from 01/01/2019 to 31/03/2019	For 1 quarter period from 01/01/2018 to 31/03/2018
PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	31,659	32,952	7,366	7,886
Profit (loss) on operating activities	1,978	2,919	460	699
Gross profit (loss)	1,900	3,018	442	722
Net profit (loss)	1,444	2,318	336	555
CASH FLOW STATEMENT				
Net cash flows from operating activities	1,551	3,111	361	745
Net cash flows from investment activities	-2,357	-1,516	-548	-363
Net cash flows from financial activities	1,350	-1,566	314	-375
Total net cash flows	544	29	127	7
STATEMENT OF FINANCIAL POSITION				
	Balance as at 31.03.2019	Balance as at 31.12.2018	Balance as at 31.03.2019	Balance as at 31.12.2018
Total assets	103,668	101,248	24,102	24,058
Long-term liabilities	3,834	3,877	891	921
Short-term liabilities	20,881	19,862	4,855	4,719
Equity	78,953	77,509	18,356	18,417
Initial capital	48,043	48,046	11,169	11,416
OTHER				
Number of shares	9,609,193	9,609,193	9,609,193	9,609,193
Number of shares adopted to determine diluted profit	9,609,193	9,609,193	9,609,193	9,609,193
Annualised profit (loss) per one ordinary share (in PLN/EUR)	0.85	0.94	0.20	0.22
Profit (loss) for the reporting period per one ordinary share (in PLN/EUR)	0.15	0.24	0.03	0.06
Book value per share (in PLN/EUR)	8.22	8.07	1.91	1.88
Dividend declared or paid per one share (in PLN/EUR)	0.42	0.40	0.10	0.09

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 for the period from 01/01/2019 to 31/03/2019	Average exchange rate for the period from 01/01/2018 to 31/03/2018	Exchange rate as at 31/03/2019	Exchange rate as at 31/12/2018
EUR/PLN exchange rate	4.2978	4.1784	4.3013	4.3000

2. Financial statements of Relpol S.A. for the first quarter of 2019

in PLN thousand		
CONDENSED PROFIT AND LOSS ACCOUNT	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Net revenues from sales of products, goods and materials	31,659	32,952
Manufacturing cost of products, goods and materials	25,481	24,961
Gross profit (loss) on sales	6,178	7,991
Costs of sales	183	240
General and administrative costs	3,619	4,126
Profit (loss) on sales	2,376	3,625
Other operating income	267	86
Other operating costs	665	792
Profit (loss) on operating activities	1,978	2,919
Financial income	2	133
Financial costs	80	34
Net profit (loss) on continued operations	1,900	3,018
Taxes	456	700
Other charges on profit	0	0
Net profit (loss) on continued operations	1,444	2,318
Net profit (loss) on discontinued operations	0	0
Net profit (loss) of which per 1 share (PLN/piece):	1,444	2,318
- ordinary	0.15	0.24
- diluted	0.15	0.24

in PLN thousand		
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Net profit (loss) on continued operations	1,444	2,318
including net profit/loss on discontinued operations	0	0
Components of other comprehensive income, including:	0	-7
a) which will not be subsequently reclassified to profit or loss,	0	-7
Measurement of investment property at fair value	0	0
Actuarial gains and losses	0	0
Adjustment for the application of IFRS 9 as at 01/01/2018	0	-8
Deferred tax	0	1
b) which will be reclassified subsequently to profit or loss when specific conditions are met,	0	0
Valuation of hedging instruments	0	0
Exchange differences from the translation of subsidiaries	0	0
Deferred tax	0	0
Overall total income	1,444	2,311

CONDENSED STATEMENT OF FINANCIAL POSITION	in PLN thousand		
	31/03/2019	31/12/2018	31/03/2018
ASSETS			
(Long-term) fixed assets	39,343	39,158	37,995
Tangible fixed assets	30,276	31,791	29,914
Right-of-use asset	1,965	0	0
Investment property	0	0	0
Intangible assets	6,651	6,919	7,617
Financial assets	385	385	385
Long-term receivables	66	63	79
Deferred tax assets	0	0	0
(Short-term) current assets	64,325	62,090	56,368
Stock	32,059	30,535	25,959
Total amounts due on account of deliveries and services	27,636	28,910	28,153
Other amounts due	3,250	2,110	1,048
Short-term investments	0	0	0
Cash and cash equivalents	694	166	511
Prepayments and accruals	686	369	697
Long-term assets classified as held for sale	0	0	0
Current assets in total	64,325	62,090	56,368
<u>TOTAL ASSETS</u>	<u>103,668</u>	<u>101,248</u>	<u>94,363</u>
LIABILITIES			
Equity	78,953	77,509	74,729
Initial capital	48,046	48,046	48,046
Retained profit:	30,907	29,463	26,683
-Supplementary capital	20,247	20,247	17,982
-Revaluation reserve	193	193	331
- Profit/ loss brought forward	9,023	0	6,052
- Result of the current year	1,444	9,023	2,318
Long-term liabilities	3,834	3,877	3,726
Interest-bearing bank loans and non-bank loans	0	0	140
Leasing liabilities	623	619	293
Other liabilities	0	0	25
Deferred revenue	0	0	0
Reserves for deferred income tax	1,668	1,715	1,680
Reserves for other liabilities and other charges	1,543	1,543	1,588
Short-term liabilities	20,881	19,862	15,908
Trade and similar liabilities	8,642	9,362	8,310
Leasing liabilities	617	614	325
Other liabilities	4,909	4,972	4,033
Short-term part of interest-bearing long-term bank loans and non-bank loans	4,498	2,992	1,215
Deferred revenue	300	95	14
Reserves for other liabilities and other charges	1,915	1,827	2,011
<u>TOTAL LIABILITIES</u>	<u>103,668</u>	<u>101,248</u>	<u>94,363</u>

CONDENSED STATEMENT OF CHANGES IN EQUITY	in PLN thousand					Equity total
	Initial capital	Retained profit			Result of the current year	
		Supplementary capital	Revaluation reserve	Profit/loss from previous years		
<u>Balance as at 01/01/2019</u>	48,046	20,247	193	9,023	0	77,509
Coverage of loss	0	0	0	0	0	0
Share premium	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0
Adjustment of a fundamental error	0	0	0	0	0	0
Revaluation reserve differences	0	0	0	0	0	0
Valuation of shares	0	0	0	0	0	0
Profit/loss brought forward	0	0	0	0	0	0
Overall total income including:	0	0	0	0	1,444	1,444
- profit/loss for the period	0	0	0	0	1,444	1,444
<u>Balance as at 31/03/2019</u>	48,046	20,247	193	9,023	1 444	78,953
<u>Balance as at 01/01/2018</u>	48,046	17,982	338	6,052	0	72,418
Coverage of loss	0	0	0	0	0	0
Share premium	0	0	0	0	0	0
Dividend payout	0	0	0	(3,845)	0	(3 845)
Adjustment of a fundamental error	0	0	0	0	0	0
Revaluation reserve differences	0	58	(58)	0	0	0
Valuation of shares	0	0	0	0	0	0
Profit/loss brought forward	0	2,207	0	(2,207)	0	0
Overall total income including:	0	0	(87)	0	9,023	8 936
- profit/loss for the period	0	0	0	0	9,023	9 023
- adjustment for the application of IFRS 9 as at 01/01/2018	0	0	(7)	0	0	(7)
<u>Balance as at 31/12/2018</u>	48,046	20,247	193	0	9,023	77,509
<u>Balance as at 01/01/2018</u>	48,046	17,982	338	6,052	0	72,418
Coverage of loss	0	0	0	0	0	0
Share premium	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0
Adjustment of a fundamental error	0	0	0	0	0	0
Revaluation reserve differences	0	0	0	0	0	0
Valuation of shares	0	0	0	0	0	0
Profit/loss brought forward	0	0	0	0	0	0
Overall total income including:	0	0	(7)	0	2,318	2,311
- profit/loss for the period	0	0	0	0	2,318	2,318
- adjustment for the application of IFRS 9 as at 01/01/2018	0	0	(7)	0	0	(7)
<u>Balance as at 31/03/2018</u>	48,046	17,982	331	6,052	2,318	74,729

CONDENSED STATEMENT OF CASH FLOWS	in PLN thousand	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
A. Cash flows from operating activities (indirect method)	1,551	3,111
I. Gross profit (loss)	1,900	3,018
II. Total adjustments	-349	93
1. Share in net loss (profit) of undertakings measured under the equity method	0	0
2. Amortisation and depreciation	1,464	1,430
3. Foreign exchange gains (losses)	-18	2
4. Interest and profit sharing (dividend)	36	24
5. Profit (loss) on investment activities	-100	208
6. Change in provisions	88	691
7. Change in stock	-1,524	1,549
8. Change in receivables	161	-4,004
9. Change in short-term liabilities excluding loans and credits	65	699
10. Change in prepayments and accruals	-317	-293
11. Income tax paid/refunded	-204	-213
12. Other adjustments	0	0
B. Cash flows from investment activities	-2,357	-1,516
I. Inflows	100	9
1. Sale of intangible assets and tangible fixed assets	100	9
2. Disposal of investments in real property and in intangible assets	0	0
3. From financial assets	0	0
4. Other inflows from investment activities	0	0
II. Outflows	-2,457	-1,525
1. Purchase of intangible assets and tangible fixed assets	-2,457	-1,525
2. Investments in real property and intangible assets	0	0
3. For financial assets including:	0	0
4. Other outflows from investment activities - investment advances	0	0
C. Cash flows from financial activities	1,350	-1,566
I. Inflows	1,679	473
1. Net inflows from issuance of shares and other capital instruments and from capital contributions	0	0
2. Credits and loans	1,679	473
3. Other inflows from financial activities	0	0
II. Outflows	-329	-2,039
1. Purchase of own shares	0	0
2. Dividend and other payments to shareholders	0	0
3. Profit distribution liabilities other than profit distribution payments to shareholders	0	0
4. Repayment of credits and loans	-141	-1,915
6. Payment of other financial liabilities	0	0
7. Payment of liabilities arising from financial leases	-152	-100
8. Interest	-36	-24
9. Other outflows from financial activities factoring	0	0
D. Total net cash flows	544	29
E. Balance sheet change in cash	528	27
- change in cash due to exchange differences	16	2
F. Cash opening balance	166	484
- foreign exchange gains and losses	1	21
G. Closing balance of cash	694	511
- foreign exchange gains and losses	17	23

3. Summary of the Company's activity in the 1st quarter of 2019

Selected individual financial data

SPECIFICATION	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	Change
Sales revenues in PLN thousand	31,659	32,952	-3.9%
Gross profit on sales in PLN '000	6,178	7,991	-22.7%
Gross margin on sales (%)	19.5%	24.3%	-4.8 p.p.
EBIDTA in PLN '000	3,442	4,349	-20.9 %
EBIDTA margin (%)	10.9%	13.2%	-2.3 p.p.
EBIT in PLN '000	1,978	2,919	-32.2%
EBIT margin (%)	6.2%	8.9%	-2.7 p.p.
Net profit	1,444	2,318	-37.7%
Net profit margin	4.6%	7.0%	-2.4 p.p.

The sales revenues achieved by the Company in the 1st quarter of 2019 were 3,9% lower than in the 1st quarter of 2018. This is due to the deterioration of the situation on the domestic market, which is described in more detail on pp. 18-19 discussing the results of the capital group.

The higher growth in production costs resulted in a margin reduction. The gross sales margin decreased by 4.8 percentage points and net profit margin by 2.4 percentage points. The company's net profit in the 1st quarter of 2019 amounted to PLN 1,444 thousand and is lower compared to the result from the 1st quarter of 2018 (PLN 2,318 thousand).

Liquidity ratios are still at a high and stable level.

The company's equity increased both in relation to 31/12/2018 and 1st quarter of 2018. As compared to 31/03/2018, the credit liabilities increased, which results from the needs of current operations and financing of investments.

4. Notes to the separate statements.

4.1 Operating segments for the parent company Relpol S.A.

Operating segment is a component of an entity:

- who engages in an economic activity, from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- for which discrete financial information is available.

According to the requirements of IFRS 8, operating segments should be identified on the basis of internal reports on these elements, which are regularly verified by persons deciding about the allocation of resources to a given segment and evaluating its financial results.

In view of the above, it has to be concluded, that Relpol operates on the market of components of industrial automatics and it is its main operating segment.

in PLN thousand

Segment revenues and profits/losses	Revenues		Profit/loss in the segment	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Components of industrial automatics	30,802	31,724	5,760	7,336
Other segments	857	1,228	418	655
Total from continued operations	31,659	32,952	6,178	7,991
Unallocated items				
Costs of sales			183	240
Costs of management and administration			3,619	4,126
Profit (loss) on sales			2,376	3,625
Other operating income			267	86
Other operating costs			665	792
Profit (loss) on operating activities			1,978	2,919
Financial income			2	133
Financial costs			80	34
Profit (loss) on continued operations			1,900	3,018
Taxes			456	700
Other charges on profit			0	0
Net profit (loss) on continued operations			1,444	2,318
Net result on discontinued operations			0	0
Net result on sold activities			0	0
Net result			1,444	2,318

in PLN thousand

Assets and liabilities of the segments	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Components of industrial automatics	98,775	90,418
Other segments	4,508	3,560
Total assets of the segments	103,283	93,978

in PLN thousand

Other information on segments	Amortisation and depreciation		Increase of fixed assets	
	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018	from 01/01/2019 to 31/03/2019	from 01/01/2018 to 31/03/2018
Components of industrial automatics	1,415	1,349	1,445	763
Other segments	79	81	12	0
Total continued operations	1,494	1,430	1,457	763

4.2 Information on adjustments on account of provisions and the company's asset revaluation write-offs.

in PLN thousand

Balance of asset revaluation write-offs	Balance as at 01/01/2019	Turnover in I-III 2019			Balance as at 31/03/2019
		Reversed	Used	Created	
I. Revaluation write-off on fixed assets and similar	3,082	0	0	0	3,082
II. Long-term receivables revaluation write-off	0	0	0	0	0
III. Long-term asset revaluation write-off - shares in related entities	1,040	0	0	0	1,040
IV. Stock revaluation write-off	1,542	101	0	175	1,616
V. Trade receivable revaluation write-off	227	13	0	41	255
VI. Revaluation write-off on short-term financial assets	67	9	0	15	73
Total	5,958	123	0	231	6,066

in PLN thousand

Provisions	Balance as at 01/01/2019	Turnover in I-III 2019			Balance as at 31/03/2019
		Reserved	Used	Created	
I. Provisions for pensions and similar benefits	1,989	0	0	0	1,989
II. Other provisions (including for future liabilities)	1,381	83	353	524	1,469
- for holiday leaves	542	0	0	415	957
- other	839	83	353	109	512
Total	3,370	83	353	524	3,458

4.3 Information on assets and provisions for deferred income tax at the company.

in PLN thousand

	31/03/2019	31/03/2018
Deferred income tax asset	1,633	1,512
Deferred income tax provision	3,301	3,192
Excess of provision over asset	-1,668	-1,680

In the statement of financial position, the deferred income tax asset and deferred income tax provision are presented in the net amount, i.e. the provisions less the asset.

4.4 Transaction of Relpol S.A. with related parties

Name of the entity	Sales to related parties		Purchases from related parties		Dividends		Total amounts due on account of deliveries and services		Other receivables		Amounts due on account of deliveries and services		Other liabilities	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018
Relpol-Altera sp. z o.o.	0	0	0	0	0	0	0	0	69	98	0	0	0	0
DP Relpol Altera *	0	0	1 776	1 062	0	0	7	0	40	0	17	175	0	0
Relpol-M j.v	0	47	0	0	0	0	0	65	0	0	0	0	0	0
Relpol-Eltim Sp. z o.o.*	412	412	0	0	0	0	544	313	0	0	0	0	0	0
Relpol Elektronik*	0	0	1 035	955	0	0	0	0	0	0	502	349	0	0
Total	412	459	2 811	2 017	0	0	551	378	109	98	519	524	0	0

* consolidated companies. The table shows transactions with these companies, but in the consolidated statements the mutual turnover of these companies was excluded through consolidation adjustments.

4.5 Changes to the accounting principles in the separate statements

With the exception of the changes described below resulting from the introduction of new standards effective for reporting periods beginning on 01/01/2019 or after, the Company used the same accounting principles to prepare the condensed interim consolidated financial statements as described in the consolidated financial statements prepared as at 31/12/2018 and for the year ended.

IFRS 16 „Leases”

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 “Leases” (“IFRS 16” or “Standard”) 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.

The Company broke 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 Company is a party to cooperation agreements under which it orders the manufacture of products then sold by the Company, providing the cooperating party with full specification and technical requirements concerning these products. The concluded agreements may be terminated with 3 months' notice or at the end of a given calendar year. Cooperating parties are not obliged to produce the ordered batches on specific machines, the agreements do not contain any restrictions regarding the acquisition of other customers by the cooperating parties. The services provided by cooperating parties are available on the market. In connection with the above mentioned features of the concluded agreements, the Company:
 - Considers that these agreements do not meet the definition of a lease because they do not concern the transfer of rights to use full or part of the physical production capacity;

- Even in the event of orders placed by the Company to cooperating parties, which would result in filling their full production capacity, the Company does not believe that there is sufficient certainty that the cooperation agreement will last longer than 12 months, which would result in the agreement being classified as a short-term agreement.

Taking into account these issues - the Company classifies cooperation agreements as service agreements.

- The Company owns property under perpetual usufruct of land, which in accordance with the new standard will be presented as assets under rights of use, and future fee payments will be discounted and disclosed as a liability.

The Company assessed the value of potential liabilities and assets by virtue of the rights to use this property on the basis of the following assumptions:

- The leasing period will be the period remaining in perpetual usufruct from the date of these financial statements;
- The lease interest rate of 6.71% was determined as the marginal borrowing rate of the Company. The marginal borrowing rate for the Company was determined on the basis of the margin on current loan agreements included in the financial statements of the Parent Company, which was extrapolated for the lease period in order to determine the correct value of the liquidity margin.
- Perpetual usufruct payments will remain at the 2018 level (in accordance with paragraph 27.b of the Standard, which indicates that variable lease payments are treated on initial recognition).
- In accordance with paragraph C8.b.2 of the Standard, the Company assumed that the value of the assets on account of the right of use at the time of first application of the Standard would be recognised as an amount equal to the liabilities.

As a result of the assumptions and calculations made, the Company determined the value of leasing liabilities and assets on account of the right of use at: PLN 87 thousand.

The Company decided to implement the standard on 01/01/2019. According to the transitional provisions included in IFRS 16, the new principles were adopted retrospectively with reference to the cumulative effect of the initial application of the new standard to equity as at 1 January 2019. Therefore, comparative data for the financial year 2018 have not been restated (modified retrospective approach).

The Company decided to use both possible simplifications in accordance with paragraph C10.c of IFRS 16 and apply the Standard only for contracts longer than 12 months, in which the value of the leased asset exceeds USD 5,000.

The company, for lease agreements etc. concluded for an indefinite period with a notice period shorter than 12 months - does not recognise them as leasing contracts.

Apart from the aforementioned agreements, the influence of the standard on the financial position of the Company is insignificant.

Signatures of the Members of the Management Board:

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Krzysztof Pałgan	Sławomir Bialik
Vice-President of the Management Board	President of the Management Board

Żary, dated 16 May 2019