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# **SEMI-ANNUAL REPORT**

## **ON THE OPERATIONS**

### **OF THE RELPOL CAPITAL GROUP**

#### **in the first half of 2019**



Żary, August 2019 r.

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## **1. Description of the structure of the Capital Group**

The Parent Company in the Capital Group currently comprising 6 companies is Relpol S.A. The Capital Group comprises 2 domestic and 4 foreign companies. Domestic companies are involved in the manufacture of industrial automation components. The foreign companies include 1 production company (assembly of products) and 3 distribution companies. In July 2018, the Management Board of Relpol S.A. decided to sell 80% of shares held in Relpol M in Belarus. The transaction has not yet been completed.

Apart from the subsidiaries disclosed in the consolidated financial statements, Relpol S.A. does not have any other branches (plants) having legal personality or conducting independent reporting. It only has a production department located in Zielona Góra, being a part of the company's assets, dealing with the production and maintenance of radiation portal monitors and digital systems of security, automation, measurement, control, registration and communication CZIP. The activity of this department is included in the results of Relpol S.A.

In the reporting period, there were no changes in the structure of the Capital Group. The Capital Group did not carry out any domestic or foreign capital investments, including investments outside the Capital Group. Nor did it carry out any real estate investments.

A description of the companies and the structure of the Capital Group is presented in the notes to the consolidated financial statements for the first half of 2019.

## **2. Changes of the basic management principles of the issuer`s enterprise and the Capital Group.**

The Management Board of the Parent Company regularly monitors and analyses the financial standing of its subsidiaries and the economic and market conditions in which they operate.

In July 2018, the Management Board of the Parent Company decided to sell 80% of shares in its subsidiary Relpol M in Belarus. This decision resulted from a change in the market situation since the company was established in 1997, a small volume of sales of goods by Relpol S.A. by this entity, a decreasing significance of this company for the operations and development of the Capital Group, lack of prospects for its dynamic development and generation of profits, as well as increasing reporting obligations incumbent on the costs of operations of Relpol S.A. and this company. Currently, Relpol is looking for a buyer for the shares of this company. This company is not consolidated. The activity on the Belarusian market will be continued and developed through further cooperation with this company, as well as with existing and new distributors.

### **Changes of the composition of the issuer`s management and supervisory bodies**

In the first half of 2019, there were changes in the Supervisory Board.

In connection with the resignation from the membership in the Supervisory Board submitted by Mr Dariusz Daniluk on 11/03/2019, the Supervisory Board on 04/04/2019 appointed Mr Jacek Gdański for this position by co-option, who performed these activities until the date of the General Meeting. On 14/06/2019 the term of office of the current Supervisory Board expired and the shareholders appointed the members of the Supervisory Board for the next joint term of office. The Supervisory Board is again composed of: Zbigniew Derdziuk, Piotr Osiński, Adam Ambroziak and Agnieszka Trompka. Mr Paweł Młynarczyk became a new member of the Supervisory Board.

There were no changes in the composition of the Company's Management Board.

There were no changes, other than those described in the financial statements, in the principles of management of the Company and the Capital Group.

### **3. Description of the Capital Group's core business**

The Capital Group manufactures and supplies industrial automation products for the Polish and foreign markets. These are different types of products, especially different types of relays, such as: miniature relays, subminiature-signal relays, industrial relays, interface relays, time relays, programmable relays, for photovoltaic systems, installation relays, monitoring relays, semiconductor relays, plug-in sockets for relays and so on.

Relays play an important role in industrial processes. They are intermediate, executive or signalling elements in controlling electrical systems in various types of equipment. Relays open and close the electrical circuit in order to influence the operation of other equipment in the same or another circuit.

Relpol S.A. is the parent company in the Capital Group. Relpol S.A. has been manufacturing relays and plug-in sockets for relays for 60 years. It is one of the biggest European manufacturers of relays and a leader on the domestic market of relay manufacturers, as well as manufacturers of radioactive detectors.

About four thousand special versions of relays and sockets manufactured by the Capital Group are used in many areas of industry, e.g. industrial and energy automation, power electronics, industrial and consumer electronics, telecommunications, household appliances, photovoltaics, automotive industry, etc.

Since 2000, the Group has also been producing radiation portal monitors and CZIP digital medium voltage protection systems. Radiation portal monitors (the so-called SMP radiometric gates) can be used at air, sea and road border crossings, on waste disposal sites, in scrap treatment plants, logistics centres, as well as on sports facilities and other places where gamma-neutron radioactivity may occur. The SMP radiometer gateway system detects even the smallest quantities of materials that can be used for nuclear weapons.

Another product type is CZIP-PRO. It is a system of digital protection, automation, measurement, control, registration and communication for the power industry and renewable energy sources such as wind farms, hydroelectric power plants, photovoltaic farms. This system is designed for handling medium voltage switchgear fields in the area of protection, station automation, control functions, measurement, communication and registration.

Due to the scale of production, the most important are miniature and industrial relays, followed by plug-in sockets for these relays and other products such as CZIPs, radiation monitors and other, e.g. electric car charging stations.

#### **3.1 Basic assortment groups of the Capital Group's operating activities:**

- **industrial relays** used in device automation and processing line systems, as well as in industrial safety and signalling systems,
- **miniature and subminiature relays** are used in electronic, telecommunication, automation, measuring and transport systems,

- **interface relays** are used in industrial automation systems as galvanic separation units,
- **car relays** are used in automotive electric circuits (e.g. lamps, power door locks, heating systems, windscreen wipers, indicator lamps etc.)
- **semiconductor relays and switches** are used in various electronic circuits and telecommunication systems, measuring devices, medical and transport devices,
- **programmable relays** are used in automation systems, transport devices, machines controlling technological processes,
- **solar relays** are used in inverters of solar systems. In addition, these relays are used in electric car and hybrid chargers.
- **installation, time and monitoring relays** are used in automatic systems and home installations, control and measurement systems, for the supervision of engine parameters, relays for solar systems used in solar inverter systems,
- **plug-in sockets for relays** allowing the user to select how to connect the relay and modules,
- **CZIP** -systems of digital protection, automation, measurement, control, registration and communication used in medium-voltage switchgear,
- **automatic reserve switching systems** used as ready-to-use power failure management systems in low-voltage systems,
- **gamma and neutron radiation portal monitors**, used, among others, at border crossings, airports, landfills,
- **other products** e.g.: overvoltage arresters, contactors, thermal relays, motor switches, switches, switched power supplies.
- **commercial goods** complementing and expanding the commercial offer.

### Examples of product groups



Miniature relays



Radiation monitors



CZIP

In addition to the supply of products and goods, the Capital Group offers its customers technical support, service and advice based on its extensive knowledge and experience.

The commercial activity is conducted through a network of wholesalers, direct deliveries to manufacturers, service providers and retail customers, as well as through an on-line store.

### **3.2 Quality and safety certificates**

The Capital Group's products are sold in nearly 50 countries around the world. Sales outside Poland account for approx. 71% of total sales. Due to such a vast outlet, the quality of products is one of the priorities of the production activity of the Capital Group. The Capital Group's products have various quality and safety certificates confirming compliance with the requirements in force in the countries where they are purchased, such as international VDE, American and Canadian UL, EAC Customs Union compliance in Russia, Belarus and Kazakhstan, LR on products for use in the marine environment, declaration of compliance with the RoHS2011/65/EU Directive.

Designing, manufacturing and sales of products is carried out in the company in accordance with the requirements of PN-EN ISO 9001:2015-10 and PN-EN ISO 14001:2015-09 of the integrated quality and environmental management system.

## **4 The market of relays and industrial automation**

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

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

According to the industry analysts, the international relay market is enormous. The estimates related to that market vary, due to the large number of different groups of relays. For example, the global market of protective relays is expected to grow to USD 3,31 billion in 2016 and to USD 4.54 billion in 2021.<sup>1</sup>

The analysts also predict a further gradual growth of the industrial automation market. According to the report prepared by Transparency Market Research, the value of the global market of industrial automation devices will amount to USD 352 billion at the end of 2024. The average annual increase is expected to reach 6,6%.<sup>2</sup>

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<sup>1</sup> <http://www.prnewswire.com/news-releases/global-protective-relay-market---estimated-to-reach-usd-331-billion-in-2016-300232630.html>

<sup>2</sup> <https://www.automatyka.pl/wiadomosci-i-komunikaty/prognozy-dla-ryнку-automatyki-przemysłowej-120706-10?refo=eb&refa=ha685>

## 5 Macroeconomic environment of the Capital Group's activities

The domestic and global economic situation determines the results achieved by the companies of the Capital Group. The situation in Poland and Europe is of the greatest importance, as the largest part of sales revenues is generated here. Statistical data show that the economic situation in industry is weakening.

PMI on the condition of the industrial sector in the Euro area in July 2019 was 46.5 points<sup>3</sup> and it was the lowest since 2012. The index above 50 indicates an improvement in the business environment. The highest PMI was recorded in Greece 54.6 points and the Netherlands (50.7 points). In many European countries it was however less than 50 points. In France, PMI in July 2019 was 49.7 points, in Italy 48.5 points, in Spain 48.2 points, in Austria 47.0 points and in Germany 43.2 points. These figures show a decrease in production, new orders and employment. Delivery times have also been shortened. PMI in Poland also indicated a downturn in the industry, falling from 48.4 points in June 2019 to 47.4 points in July. This was the lowest level since April 2013.

### IHS Markit Eurozone Manufacturing PMI



PMI for the global economy was also below 50 points. It dropped from 49.4 points in June 2019<sup>4</sup> to 49.3 points in July 2019, reaching its lowest level from October 2012.

PMIs point to a slowdown in the European and global economy. Based on the available information, macroeconomic data, as well as observing the level of incoming orders and the results of the Company and the Capital Group achieved in the first half of 2019, the Management Board of the Parent Company estimates that in the absence of other unexpected and unplanned events, the second half of 2019 should be similar to the first one.

## 6 Concise description of significant achievements and failures of Relpol S.A. and the Capital Group

In the opinion of the Management Board of the Parent Company, the first half of 2019 was very good for the Company and the Capital Group in terms of generated revenues. The net profit was also satisfactory. Consolidated sales revenues amounted to PLN 67,014 thousand and were 1.2% lower than in the first half of 2018 and 6.8% higher than in the first half of 2017. The year 2018 was a record high for the Capital Group in terms of sales revenues. The Capital Group achieved

<sup>3</sup> <https://www.markiteconomics.com/Survey/Page.mvc/PressReleases> date of access 06/08/2019,

<sup>4</sup> <https://www.markiteconomics.com/Survey/Page.mvc/PressReleases> date of access 06/08/2019

high sales revenues in the context of the deteriorating economic situation in the domestic industry, in Europe and worldwide.

Production at DP Relpol Altera, a company operating in the Zhytomyr region, in the north-central part of Ukraine, took place as planned. This company, similarly to Relpol Elektronik, produces, on behalf of Relpol S.A., using the entrusted materials and in accordance with the quality standards set by Relpol. The most important thing in this case is that the products are assembled and delivered on time, according to the plan and according to the agreed standards. The production of high quality products and the guarantee of punctuality and smoothness of deliveries are one of the main objectives of the Capital Group. The Management Board of the Parent Company monitors the political and economic situation in Ukraine, estimates the potential risk and believes that there is currently no cause for concern. In the first half of 2019, DP Relpol Altera achieved an increase in revenues. With higher operating costs, its result for the first half of 2019 was a loss of PLN 56 thousand. The situation of Relpol Elektronik is stable. The company's revenues are at the level of over PLN 3 million annually. In the first half of 2019, the company recorded a slight increase in revenues and generated PLN 81 thousand net profit.

The results of Relpol Eltim, operating on the Russian market, were weaker than in the first half of 2018. Its sales revenues were PLN 229 thousand lower than in the first half of 2018. With lower sales and higher costs of financing activities, the net profit of this company amounted to PLN 50 thousand and was PLN 269 thousand lower than in the first half of 2018.

The two remaining foreign companies, Relpol M in Belarus and Relpol Altera in Ukraine, are of marginal importance for the Capital Group's operations. They generate minor revenues and low net profits or losses. Relpol M has been designated for sale. These companies are not consolidated.

The consolidated net profit of the Capital Group in the first half of 2019 amounted to PLN 3,343 thousand and was PLN 1,059 thousand (24%) lower than in the first half of 2018. This was due to slightly lower sales revenues and higher operating costs.

The Capital Group manufactures and offers high quality products, constantly improves the level of service and maintenance, actively seeks new customers and new possibilities of application of products that reach many branches of industry, smart buildings, photovoltaics, e-mobility, etc.

The Capital Group actively promotes its products at domestic and international trade fairs, where they often win awards. In the current half of the year, the LS-4 free-standing charging station for electric cars received the Gold Medal of the Expopower Fair 2019. These stations are designed to work in harsh, Scandinavian climates, which is why these devices ensure trouble-free operation in the most difficult conditions. The charging station can operate at temperatures from -25 to +50°C, and in a cold option even from -35°C, and in humid conditions even up to 95%. The stations are suitable for both indoor and outdoor use, so that they can be used anywhere, e.g. in garages, hotels, petrol stations, shopping centres, car parks, airports, private rooms, etc.

At the beginning of 2019, another product of the Company CZIP-PRO was nominated in the contest *Żarska Róża Biznesu* (*Żary Business Rose*) in the category "Product of the Year 2018". Last year this product was awarded the Cup of the President of the Polish Power Transmission and Distribution Association. CZIP-PRO digital protection devices are designed for handling medium voltage (MV) switchgear fields in the area of protection, station automation, control functions, measurement, communication and registration. CZIP-PRO is used in professional power engineering as well as in industrial switchgears, power plants, heat and power plants, hydroelectric and wind power plants.

Relpol for its activities and achievements was awarded in the Żary Business Rose contest and won the title “Company of the Year 2018”. However, the history of the Company and the celebrations of its 60th anniversary of its activity in the industry, as well as its previous achievements in the Żary Business Rose contest were recognised as the “Economic Event of the Year 2018”.

In 2018, Relpol in recognition of its merits in the production of relays for industry and power engineering and in acknowledgement of its cooperation with the Association of Polish Electrical Engineers was awarded the Eng. Kazimierz Szpotański Medal.

The description of activities in other areas of the Company and the Capital Group’s operations is presented in the further part of the Management Board’s report.

In the first half of 2019, there were no significant failures.

## **7 Discussion of financial results as well as factors and events affecting the achieved results**

### **7.1 Discussion of the basic financial data and property situation**

Selected data from the profit and loss account	in PLN thousand			
	Relpol S.A.		Capital Group	
	1st half of 2019	1st half of 2018	1st half of 2019	1st half of 2018
Sales revenues in PLN thousand	62,370	63,102	67,014	67,824
Gross profit on sales in PLN thousand	<b>12,309</b>	<b>14,688</b>	<b>13,891</b>	<b>15,821</b>
<i>Gross margin on sales (%)</i>	19.74%	23.28%	20.73%	23.33%
EBIDTA in PLN thousand	<b>7,052</b>	<b>8,153</b>	<b>7,602</b>	<b>8,250</b>
<i>EBIDTA margin (%)</i>	11.31%	12.92%	11.34%	12.16%
EBIT in PLN thousand	<b>4,027</b>	<b>5,313</b>	<b>4,509</b>	<b>5,349</b>
<i>EBIT margin (%)</i>	6.46%	8.41%	6.73%	7.89%
Net profit	<b>3,311</b>	<b>4,573</b>	<b>3,343</b>	<b>4,402</b>
<i>Operating profit margin</i>	5.31%	7.25%	4.99%	6.49%

In the first half of 2019, the Company and the Capital Group achieved a high level of sales revenues, although slightly lower than in the first half of 2018. Consolidated sales revenues amounted to PLN 67,014 thousand and were 1.2% lower than those achieved in the same period of the previous year. The introduced exclusions and consolidation adjustments (concerning mutual turnover, margin on inventories) decreased the Group’s revenues by PLN 5,411 thousand and the costs of products sold by PLN 5,684 thousand.

In the first half of 2019, the Capital Group generated a net profit of PLN 3,343 thousand, i.e. by PLN 1,059 thousand (24.1%) below the profit achieved in the first half of 2018. The net profit of the Parent Company amounted to PLN 3,311 thousand and was by PLN 1,262 thousand, i.e. by 27.6% lower than the profit generated in the first half of 2018. Gross margin on sales of the Capital Group decreased from 23.3% to 20.7% and net profit from 6.5% to 5.0%.

The greatest influence on the results of the Capital Group has the Parent Company Relpol S.A. Relpol generated sales revenues in the amount of PLN 62,370 thousand, which in comparison to the first half of 2018 (PLN 63,102 thousand) represents a decrease by 1.2%. The share of the Parent Company's sales in consolidated sales was 93%. However, the net profit of the Parent Company, after consolidation adjustments, amounted to 99% of the net profit of the Capital Group.

Selected data from the balance sheet	Relpol S.A.		Capital Group		Structure 30/06/2019
	30/06/2019	31/12/2018	30/06/2019/	31/12/2018	
<b>TOTAL ASSETS</b>	<b>103,460</b>	<b>101,248</b>	<b>109,814</b>	<b>106,176</b>	
Fixed assets	40,587	39,158	41,624	40,201	37.9%
Current assets	62,873	62,090	68,190	65,975	62.1%
Inventory	30,485	30,535	31,826	31,514	29.0%
Trade receivables	29,393	28,910	31,246	30,371	28.5%
Cash	135	166	2,071	1,393	1.9%
<b>TOTAL LIABILITIES</b>	<b>103,460</b>	<b>101,248</b>	<b>109,814</b>	<b>106,176</b>	
Total	76,784	77,509	80,787	81,263	73.6%
Long-term liabilities	4,136	3,877	4,149	3,835	3.8%
Short-term liabilities	22,540	19,862	24,878	21,078	22.6%

As at the end of the first half of 2019, equity constituted the largest share in the balance sheet structure of both the Company and the Capital Group. External capitals constituted 26.4% of the balance sheet total of the Capital Group, of which 22.6% were short-term liabilities. As at 30/06/2019, short-term liabilities were 18,0% higher than as at 31/12/2018. This is mainly due to an increase in other liabilities and an increase in deferred income.

Current assets constitute a high share in the balance sheet of the Capital Group (62.1%). The largest item of current assets are inventories and trade receivables. In comparison to the balance as of 31/12/2018, inventories increased by 1% and trade receivables by 2.9%. Inventories include stocks of materials, semi-finished goods at various stages of manufacture, and stocks of finished goods. Both inventories and trade receivables are related to the scale of production and sales. The high level of inventories results from a wide range of products, from the necessity to provide customer service and meet customers' expectations regarding the current availability of all products ordered by them. Inventories are also affected by purchases of certain raw materials and materials made in greater quantities because of restrictions on their availability on the market, long delivery times or arrangements for receiving minimum batches. The increase in receivables results from high sales and extended payment periods for strategic customers.

Fixed assets constitute 37.9% of the balance sheet total. These are mainly fixed assets and intangible assets. Fixed assets increased by 3.5% in relation to the balance as at 31/12/2018.

The analysis of the consolidated balance sheet and the cash flow statement also indicates an increase in cash in the first half of 2019. Similarly as in the first half of 2018, there were positive cash flows from operating activities and negative cash flows from investing and financing activities. The largest item of cash flows from investing activities is expenditure on the purchase of tangible fixed assets and intangible assets. However, the largest item of cash flows on financing activities is repayment of credit instalments and lease liabilities. Cash flows from operating activities exceed cash flows from investing and financing activities.

## 7.2 Level and structure of sales revenues

in PLN thousand

Selected data from the balance sheet	Relpol S.A.		Capital Group		
	1st half of 2019	1st half of 2018	1st half of 2019	1st half of 2018	Sales structure of the Capital Group 1st half of 2019
Products and services	55,487	55,319	54,863	54,493	81.9%
Goods and materials	6,883	7,783	12,151	13,331	18.1%
<b>Total</b>	<b>62,370</b>	<b>63,102</b>	<b>67,014</b>	<b>67,824</b>	<b>100.0%</b>
Poland	18,517	19,731	18,517	19,731	27.6%
Europe, of which:	39,074	38,324	43,719	43,046	65.2%
<i>Germany</i>	26,347	25,240	26,347	25,240	39.3%
<i>Russia</i>	927	888	5,570	5,865	8.3%
<i>Italy</i>	1,827	1,993	1,827	1,993	2.7%
Asia	2,578	3,890	2,578	3,890	3.8%
North America	900	401	900	401	1.3%
South America	609	331	609	331	0.9%
Australia and other	692	425	691	425	1.0%
<b>Total</b>	<b>62,370</b>	<b>63,102</b>	<b>67,014</b>	<b>67,824</b>	<b>100.00%</b>

The main source of revenue generation were goods and services, which constitute 81.9% of sales revenues of the Capital Group. Commercial goods complement the Group's range of products and the core business of the distribution subsidiaries.

The high dynamics of sales to the German market, which has been maintained for several years, resulted in the fact that this market has the largest share in the sales structure of the Capital Group, gaining an advantage over the domestic market. It is currently the largest trading market of the Company and the Capital Group. Sales to Germany in the first half of 2019 amounted to PLN 26,347 thousand and was by 4.4% higher than the sales in the first half of 2018. Sales to the Polish market decreased by 6.2% and constitute 27.6% of total sales revenues of the Capital Group.

Sales on foreign markets account for 72.4% of the Capital Group's sales. However, sales to European countries (including Poland) constitute 92.8% of total sales.

When analysing sales on export markets, certain disproportions are visible. This is due to the fact that the Capital Group has customers in more than 50 countries around the world. These clients are in different financial situations, in countries with different levels of economy and different development perspectives.

From the point of view of the Capital Group, the economic situation in Europe is of the greatest importance.

In recent years, non-European markets have also become more and more important.

### **7.3 Result of sales**

In the first half of 2019, the gross result on sales of the Capital Group amounted to PLN 13,891 thousand and was by 12.2 % lower than in the first half of 2018 (PLN 15,821 thousand).

The gross result on sales at Relpol S.A. amounted to PLN 12,309 thousand and was by 16.2% lower than the result achieved in the first half of 2018 (PLN 14,688 thousand).

The following factors influenced the result on sales:

#### **a) the level of sales revenues.**

Sales revenues generated by the Capital Group in the first half of 2019 after consolidation adjustments were by 1.2% lower than in the first half of 2018.

In terms of sales revenues, the first half of 2019 was better for the Ukrainian company DP Relpol Altera and for Relpol Elektronik, and worse for Relpol S.A. and Relpol Eltim. The revenues of DP Relpol Altera and Relpol Elektronik were excluded from consolidation.

#### **b) the level of manufacturing cost of products, goods and materials sold.**

The manufacturing cost of products, goods and materials in the companies of the Capital Group were, with the exception of Relpol Elektronik, higher than in the first half of 2018.

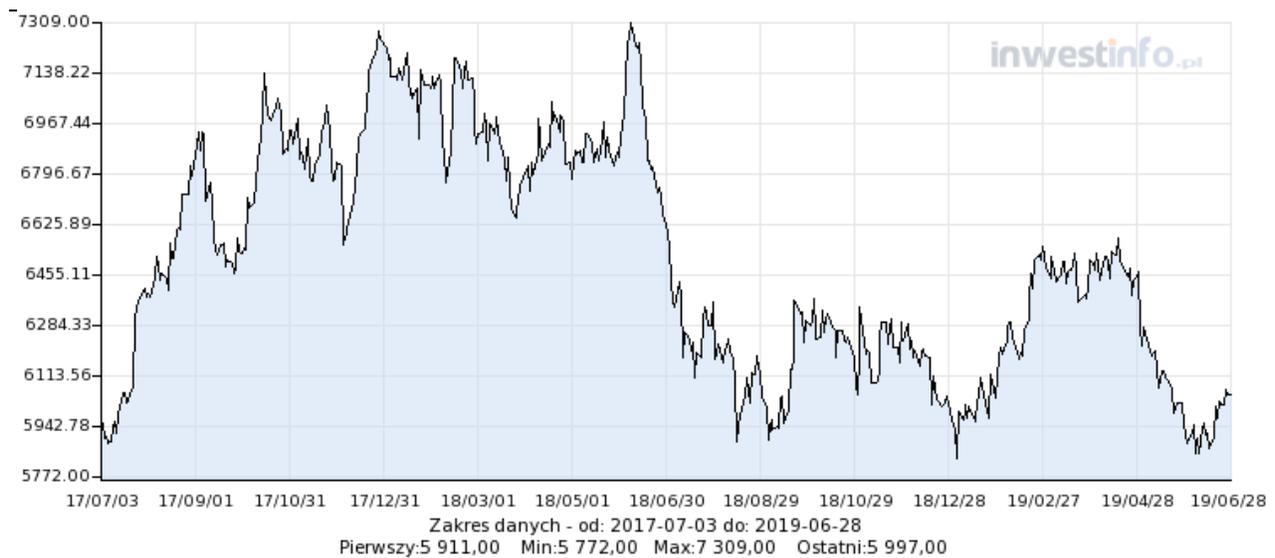
The main factors causing the increase in these costs are higher purchase prices of raw materials, goods, materials and services (including subcontracting), higher energy costs and higher costs of employment of employees.

#### **- Impact of raw material prices on manufacturing costs of products, goods and materials sold**

Relays are manufactured using plastics and details containing raw materials such as copper, silver and gold. They are found in contacts, tapes and winding wires used to manufacture relays. Prices of raw materials constitute a significant share in the costs of products sold.

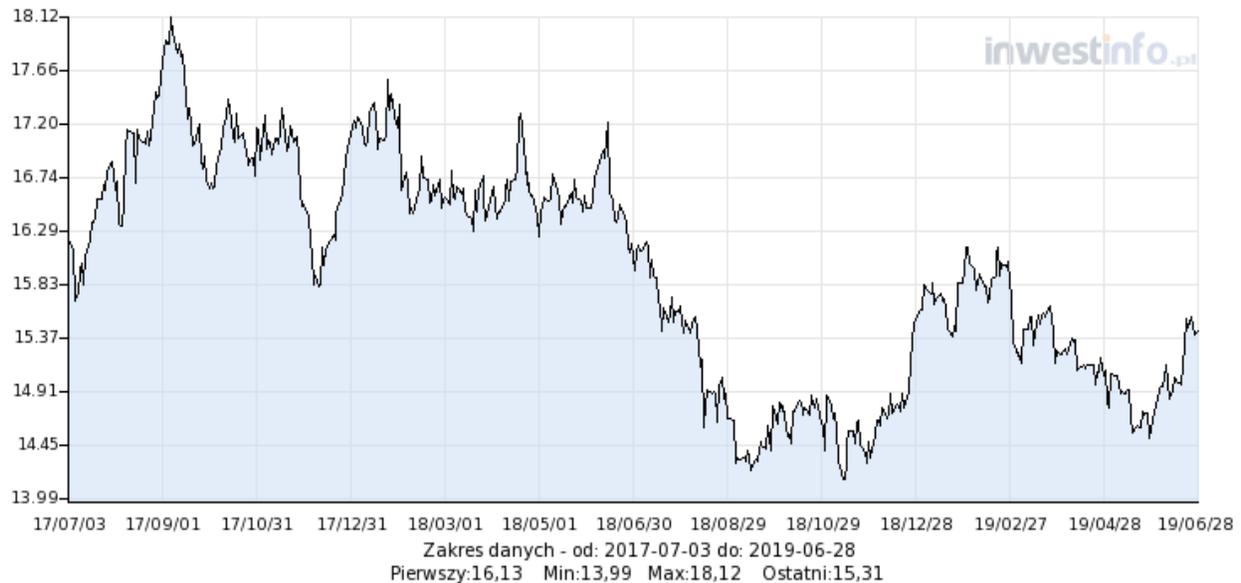
On average, copper and silver prices in the first half of 2019 remained at a level lower than in the first half of 2018. The price of gold is slightly different. Gold, like the previous metals, was heavily depreciating in mid-2018 and then making up for its losses. On the other hand, in June 2019, gold prices rose sharply, reaching their maximum in the two-year gold price performance period presented in the chart. An increase in the prices of raw materials adversely affects the results of the Company and the Capital Group, reducing the profitability of sales. Fluctuations in the prices of basic raw materials are presented in the charts.

### Copper prices (in USD per tonne) on the London Metal Exchange



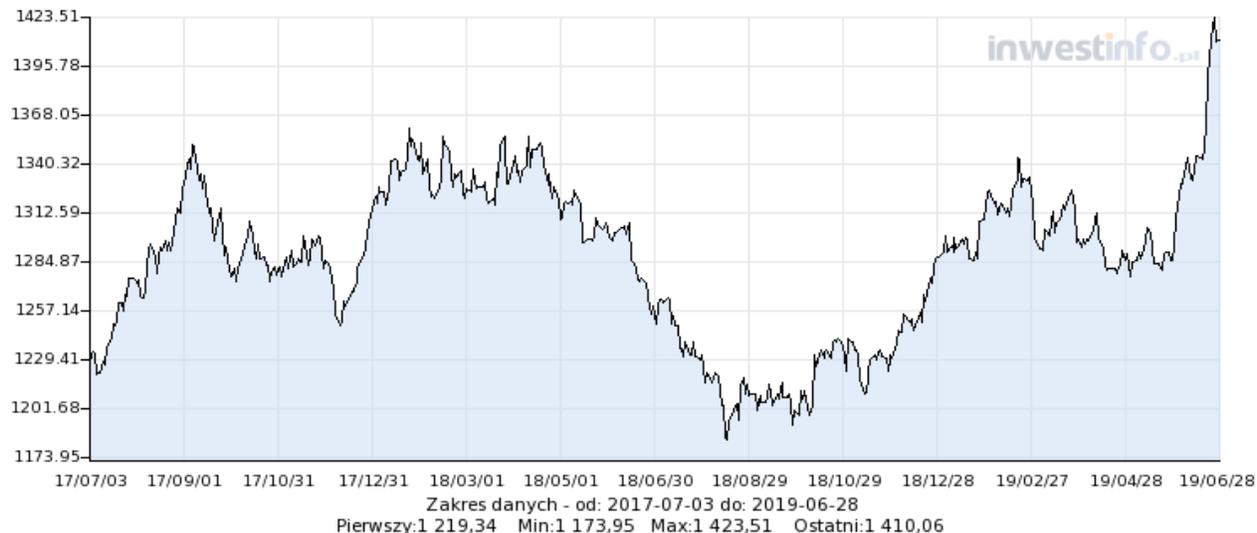
Source: <https://www.inwestinfo.pl/>

### Silver prices (in USD per ounce) on the London Metal Exchange



Source: <https://www.inwestinfo.pl/>

## Gold prices (in USD per ounce) on the London Metal Exchange



Source: <https://www.inwestinfo.pl/>

### - Impact of currency exchange rates on revenues and manufacturing cost of products, goods and materials sold

Higher exchange rates result, on the one hand, in higher sales revenues and, on the other hand, in higher costs of purchase of certain imported production materials and goods.

Fluctuations in exchange rates always occur and are inherent in the business of companies in which exports account for a large percentage of revenues from sales, as is the case with the Relpol Capital Group. Sales to foreign markets constitute 72% of consolidated sales revenues, of which approx. 65% are generated in EUR. The remaining currencies are USD, as well as RUB and UAH in the case of subsidiaries. The transactions of the consolidated subsidiaries on their home markets are carried out in their home currencies (i.e. RUB, UAH). On the other hand, the Parent Company's transactions with these companies and with other customers on the eastern markets are carried out in EUR or USD.

A stable EUR/PLN exchange rate facilitates planning and reduces the negative impact of the currency situation on the Capital Group's results. This inhibits the creation of large exchange rate differences, especially negative ones, which reduce the financial result.

From the point of view of the Relpol Capital Group, the balance of foreign currency inflows and outflows is important. A persistently high level of exports makes it possible to cover currency expenses and generate surplus of currencies. When comparing the streams of foreign currency revenues and expenditures of Relpol S.A., it should be noted that higher exchange rates have a greater impact on the growth of revenues from sales than on the growth of production costs. Therefore, a higher EUR and USD exchange rate is more advantageous for the Company. In addition, a higher USD exchange rate increases the price competitiveness of Relpol's products against goods originating from China.

### EUR exchange rate in the period from 2 January 2018 till 30 June 2019



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

After a dynamic growth in the second quarter of 2018 to PLN/EUR 4.40 (on 03/07/2018), the EUR exchange rate gradually decreased in subsequent days of July to about PLN 4.26, and then stabilised and in subsequent quarters of 2018 and 2019 fluctuated at the level of about PLN/EUR 4.30, with the exception of decreases at the end of June 2019. Finally, the average EUR exchange rate in the first half of 2019 was 1.14% higher than in the first half of 2018.

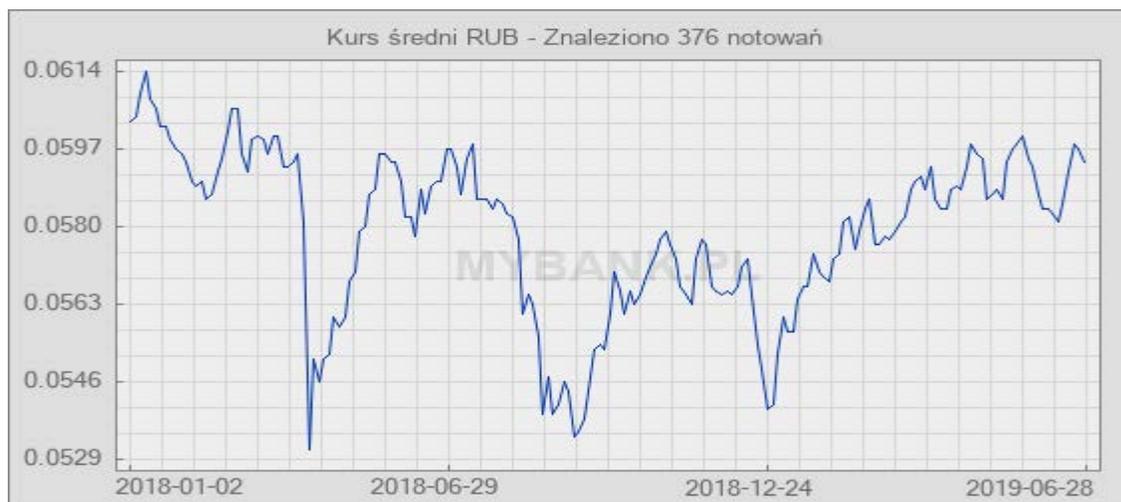
### USD exchange rate in the period from 2 January 2018 till 30 June 2019



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

In the period presented, the US dollar exchange rate behaved similarly to the EUR exchange rate. It increased significantly from PLN 3.32 in February 2018 to PLN 3.77 at the end of June 2018, and then it stabilised and in subsequent quarters fluctuated at the level of approx. PLN 3.70. It dropped slightly only at the end of June 2019. Finally, the average USD exchange rate in the first half of 2019 was 7.8% higher than in the same period of 2018.

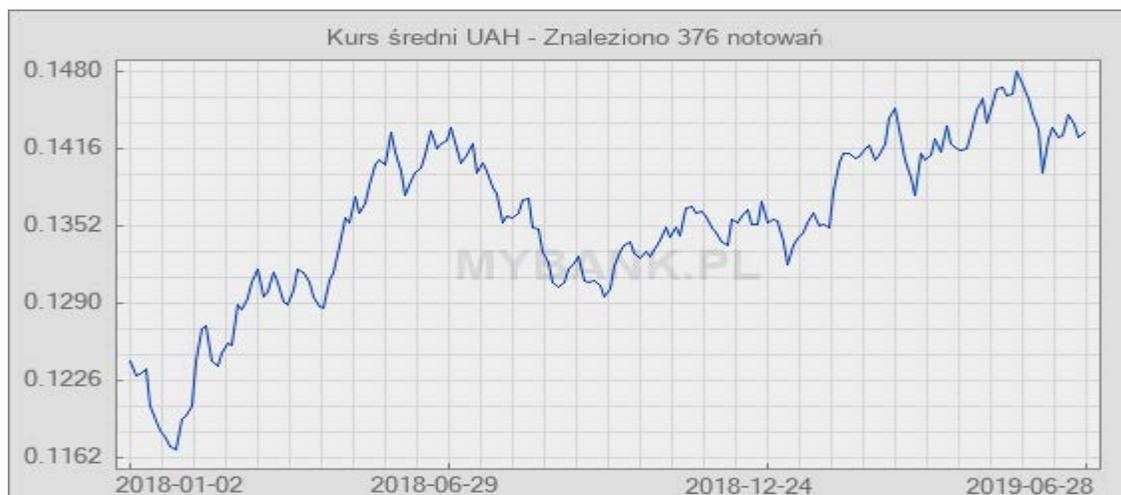
### RUB exchange rate in the period from 2 January 2018 till 30 June 2019



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

The exchange rate of the Russian rouble was much more volatile in this period. The highest rates were at the beginning of January 2018. In subsequent quarters, the rouble price fell three times sharply, and then bounced back and made up for the losses. The smallest fluctuations in this currency were in the first half of 2019. Finally, the average RUB exchange rate in the first half of 2019 was 1.0% lower than in the same period of 2018. Revenues in RUB are generated by the Russian company, and are then converted into PLN in the consolidated financial statements. The lower the RUB exchange rate, the less favourable the conversion in the consolidated financial statements is. The RUB exchange rate is not significant for sales transactions between the parent company and customers in Russia. These transactions are concluded in USD.

### UAH exchange rate in the period from 2 January 2018 till 30 June 2019



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

The Ukrainian hryvnia was more stable than the Russian rouble. In the presented period, the lowest hryvnia rates were recorded in January 2018 (PLN 0.1162). Throughout the first half of 2018, the hryvnia exchange rate was increasing. In July and August 2018 it started to lose its value but from September 2018 it was again in an upward trend, reaching a maximum of PLN 0.1480 on 21/05/2019. Finally, the average exchange rate of UAH in the first half of 2019 was 6.7% higher than in the same period of 2018. There are two subsidiaries operating in Ukraine, of which DP Relpol Altera is consolidated and its financial statements are converted from UAH to PLN.

#### **- Impact of labour costs on manufacturing costs of products, goods and materials sold**

Significant changes occur in the labour market. Labour costs are increasing at the locations where the Capital Group carries out its production and assembly activities. In order to reduce those costs and ensure flexibility in the employment of production workers, domestic companies use labour outsourcing services.

### **7.4 Manufacturing activity**

In the first half of 2019, production departments at Relpol S.A. and subcontractors implemented production plans resulting from incoming customer orders, focusing on timely and quantitative implementation and shortening of delivery times. At the same time, works were carried out, resulting from the plans for 2019, aimed at reducing the technical cost of manufacturing and launching the production of new IDP installation relays. Works were carried out related to changes in technological processes and an increase in production capacity.

The implemented activities include:

1. A new family of RPI installation relays - i.e. electromagnetic relays in installation module housings, designed for direct mounting on a 35 mm rail - was introduced into production. These relays are characterised by low energy consumption. The installation relays can be supplied with AC, DC or AC/DC voltage. They have load AC1 to 16 A/250 V and to 8 A/250 V.
2. The introduction of a new family of RPC time relays for time control in industrial and home automation systems was completed. Time relays are characterised by differentiated functionality depending on the selected model. The product range includes both single-function and multi-function relays for more complex tasks.
3. Equipment for the production of normally-open spring for miniature relays was purchased and implemented in the production process. The aim of this measure is to replace worn-out equipment with modern and more efficient machines, using better technical solutions.
4. A solar relay coil winder was purchased and implemented in the production process in order to increase production capacity and abandon the purchase of services from a subcontractor.
5. The use of analytical tools enabling the observation of stock exchange quotations of raw materials and their potential impact on the technical cost of production, both current and future, was continued. The aim of this activity is to be able to react to the changing prices of strategic raw materials at the operational level as soon as possible.
6. The organisational and technological changes were introduced in the production departments in the form of:
  - works related to the visualisation of goals and cascading of tasks for 2019,

- activities consisting in the implementation of changes in technological processes, aimed at reducing their labour-intensive character and improving the quality of products,
- activities aimed at reducing the operating costs of machinery through the analysis, availability and performance capability of production stations and the number of repairs of machines and devices in relation to the production volume,
- activities consisting in the continuation of the above-standard consumption of materials at the level of 2018,
- activities consisting in the maintenance of the productivity of the employees involved directly in the manufacture at the level of 2018.

The above activities allowed the optimisation of inventory, reduction of the ongoing production value and an increase in the production capacity, which in turn led to greater availability of products offered to customers.

In the second half of 2019, works related to the supervision of production processes will be continued in order to implement sales plans, together with the implementation of investment plans and the performance of detailed tasks included in the plan for 2019.

### **7.5 Logistics activities**

In the first half of 2019, actions were taken to reduce the costs of raw materials and materials purchase through price negotiations, improving the liquidity of supplies and quantitative optimisation of supplies. These actions were taken in the following areas:

1. Policy of cooperation with suppliers.
  - Successive signing of trade agreements with strategic suppliers of raw materials in order to define mutual responsibility within the framework of this cooperation.
2. Transport
  - Optimisation of raw material transport costs by transferring costs and responsibility for delivery to raw material suppliers.
3. Material quality policy
  - Implementation of a new system of quality control of raw materials for more detailed verification of purchased materials.
  - Adjustment of complaint handling procedures, analysis of a delivery control report and supplier evaluation to changes initiated by the quality control department.

The Logistics Department on an ongoing basis performs tasks aimed at ensuring timely deliveries, optimisation of the use of raw materials in the production process and the level of warehouse stocks.

### **7.6 Environmental protection measures**

An important part of the Parent Company's strategy is the implementation of tasks based on the Integrated Quality and Environmental Management System certified and audited each year, in accordance with PN-EN ISO 9001:2015-10 and PN-EN ISO 14001:2015-09. The basis for setting

environmental objectives is the environmental aspects identified in individual production processes and applied technologies and the risk assessment carried out.

Particular attention is paid to activities related to the company's strategy in connection with the following objectives:

- observance and compliance with environmental legal requirements,
- minimising material and utilities consumption,
- raising employees' awareness of the company's impact on the environment.

Innovative and technological projects are carried out, taking into account the impact of the company on the local environment.

### **7.7 Commercial activities and marketing**

Analysts' forecasts for 2019 regarding GDP or inflation are rather positive. Production or PMI optimism indices, in turn, have been on a downward trend in recent months. In the first half of the year, Relpol S.A. made sales resulting from orders placed in 2018, which recorded record high sales, as well as current orders received in 2019, but fewer than in 2018. This is the result of high stock levels at the end of 2018, both for end users of relays and distribution companies directly supplying the market with these products. Sales in the first half of 2019 were only 1.2% lower than in the previous year.

Still the largest sales market is Western Europe, which accounts for more than 50% of the market. The domestic market is about 28% and the eastern market about 10%. Lower sales of electromagnetic relays on the domestic and eastern markets than in the previous year were compensated by sales to the Western European market, including the vast majority to Germany. On the domestic market, lower sales were the result of delayed and postponed energy investments and investments in railway infrastructure. Higher sales were recorded in the area of stationary radiation monitors, which are installed in airports and metal waste management plants. The Eastern market, on the other hand, developed strongly at the end of 2018, which led to the need to consume warehouse stocks in the first half of 2019. The Western European market, i.e. the company's strategic partners, was characterised by a stable growth of sales in the area of industrial relays. As a result, sales in the first half of 2019 were similar to the sales in the first half of 2018.

The Capital Group is consistently expanding its sales offer for existing partners by adding products which they have not purchased so far, but also expanding the sales network by new partners. In the second half of 2019, an increase in sales to Eastern markets compared to the first half of the year is expected due to the acquisition of a new partner and to the domestic market, which should implement delayed energy projects. The Western European market should maintain a similar level of sales, despite unfavourable news on the decline in production in Germany and the worsening of the entrepreneurial climate.

In the second half of the year, Relpol will introduce several new products and even product lines to the market, hoping to attract the interest of customers. As a result, the sales at the end of 2019 should be at a level very similar to that of 2018.

Promotional and marketing activities are continued. Relpol S.A. actively participated in fairs in Dubai and Hannover and presented itself as a company offering innovative solutions in the area of stationary radiation monitors. The products of the Capital Group were also presented at fairs in

Russia, Belarus and Ukraine. In the second half of 2019, Relpol will also take part in Poland's largest power and electrical engineering trade fair Energetab, the largest national railway trade fair TRAKO, industrial trade fairs and several other local exhibitions. During this time, a lot of marketing activities will be devoted to new product groups introduced to the commercial offer, as well as to supplementing and extending this offer with a group of supervisory relays. Promotional and marketing activities are also carried out in the area of digital security systems designed for medium voltage power grids. In the first half of the year, in several Polish cities, scientific and technical seminars entitled Power Engineering Protection Automatics in Medium Voltage Networks - Modern Solutions and Innovations were held, organised by Relpol S.A., the Lublin University of Technology, PGE branches in Zamość, Lublin and Łódź, as well as by Inogy and Bitner. In the coming months such seminars will be held, among others, in Tauron Opole and PGE Rzeszów. In May, a conference organised by Relpol, with the participation of the Poznań University of Technology, entitled "Contemporary issues of medium voltage networks 2019" was held. In addition, extensive cooperation with universities was continued, including the handover of laboratory workstations equipped with the CZIP PRO device. This year, such workstations have already been provided to: the Poznań University of Technology, the Lublin University of Technology and the University of Zielona Góra (last year also the Wrocław University of Technology). In the second half of this year it is planned to hand over similar workstations to the Gdańsk, Kielce, Silesian and Rzeszów Universities of Technology.

The system informing about the availability of our products for the main partners is being improved. We are also working on the introduction of the so-called product radar, i.e. information on the websites about the availability of Relpol products at the main distribution partners. The end of these activities and the launch of the tools is scheduled for the turn of the 3rd and 4th quarter.

### **7.8 Results on other operating activities**

Other operating activities in the first half of 2019 decreased the result of the Capital Group by PLN 559 thousand. This was mainly due to the creation of provisions PLN 555 thousand, among others, unused holiday leaves, inventory revaluation write-offs PLN 300 thousand and receivables revaluation write-offs PLN 67 thousand. In the first half of 2018, the result on other operating activities was also negative and amounted to PLN -1,060 thousand.

### **7.9 Result of financing activities**

The financing activities in the first half of 2019 decreased the result of the Capital Group by PLN 214 thousand. The biggest influence had the surplus of negative exchange rate differences over positive ones PLN -384 thousand.

In the first half of 2018, the result on financing activities was positive and amounted to PLN 487 thousand. At that time, there was a surplus of positive exchange rate differences over negative ones in the amount of PLN 549 thousand.

### **7.10 Net result**

In the first half of 2019, the Capital Group generated a net profit of PLN 3,343 thousand which, compared to PLN 4,402 thousand of the net profit in the first half of 2018, means a decrease by PLN 1,059 thousand.

The net profit attributable to shareholders of the Parent Company amounted to PLN 3,323 thousand and was 951 thousand lower (22.3%) than in the first half of 2018.

The net profit of the Capital Group decreased consolidation adjustments and the net loss incurred by the subsidiary DP Relpol Altera.

The net profit of Relpol S.A. in this period amounted to PLN 3,311 thousand, which means a decrease by PLN 1,262 thousand (by 27.6%) in comparison to the first half of 2018.

## 8 Selected ratios assessing the situation of Relpol S.A. and the Capital Group

### 8.1. Profitability ratios

Ratio	Calculation method	Relpol S.A.		Capital group	
		1st half of 2019	1st half of 2018	1st half of 2019	1st half of 2018
Gross return on sales	Gross result on sales/ sales *100%	19.74%	23.28%	20.73%	23.33%
Return on sales	Result on sales/ sales *100%	7.19%	9.76%	7.56%	9.45%
Net return on sales	Net profit/ sales *100%	5.31%	7.25%	4.99%	6.49%
ROE	Net profit for 12 months/ average value of equity *100%	10.16%	10.38%	10.51%	9.32%
ROA	Net profit for 12 months/ average value of assets *100%	7.70%	7.98%	7.92%	7.14%

The profitability ratios deteriorated in relation to the data for the first half of 2018. The reason for this increase was higher production costs of sold products. Higher net profit for the period of 12 consecutive months contributed to the improvement of ROE and ROA ratios.

### 8.2. Level of deb

Ratio	Calculation method	Relpol S.A.		Capital Group	
		1st half of 2019	1st half of 2018	1st half of 2019	1st half of 2018
Overall level of debt	Liabilities/assets * 100%	25.91%	24.68%	26.43%	25.47%
Financing with fixed capital	(equity+ long-term liabilities)/assets *100%	78.08%	79.22%	77.35%	78.17%
Equity-to-fixed-assets ratio	Equity/ fixed assets*100%	189.18%	189.30%	194.09%	193.05%

The debt of the Capital Group increased in comparison to 30/06/2018. The assets of the Capital Group are financed with fixed capital in 77%.

### 8.3. Liquidity ratios

Ratio	Calculation method	Relpol S.A.		Capital Group	
		1st half of 2018	1st half of 2019	1st half of 2018	1st half of 2019
Current liquidity	Current assets / short-term liabilities	2.78	2.90	2.74	2.81
Quick liquidity	Current assets – inventory / short-term liabilities	1.43	1.54	1.46	1.55
Working capital	(Current assets - short-term	116.4	109.2	116.3	108.1

liabilities)/sales * number of days in the period				
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Liquidity ratios in both comparable periods are at a high level. The Capital Group has no problems with discharging its liabilities.

#### 8.4. Efficiency ratios

Ratio	Calculation method	Relpol S.A.		Capital Group	
		1st half of 2018	1st half of 2019	1st half of 2018	1st half of 2019
Assets turnover ratio	Sale for 12 months/average level of assets	1.25	1.27	1.27	1.29
Inventory cycle	(Average level of inventories/cost of products and goods sold) * number of days in the period	108	99	105	96
Receivables cycle	(Average level of trade receivables/sales) * number of days in the period	82	75	81	74
Liabilities cycle	(Average level of trade liabilities / cost of products and goods sold) * number of days in the period	31	29	32	31

A long inventory turnover cycle results from the nature of the industry in which the Capital Group operates. The liabilities turnover cycle increased by 1 day and the inventory and receivables turnover cycle by 7-9 days.

### 9 Description of the basic risk factors and treats

In the course of its business activities the Issuer analyses, monitors and assesses the risk factors which may affect the current and future financial standing of the Company and the Capital Group. As a result of the performed monitoring there are action taken to minimise the effect of individual risk factors on the activity of the Company and the Capital Group.

The Issuer identified the following main areas of risk and threats:

#### 9.1 Financial risks

1. Interest rate risk.
2. Credit risk.
3. Liquidity risk.
4. Risk of cash concentration.

#### 9.2 Non-financial risks

1. Capital management risk.
2. Macroeconomic risk.
3. Competition-related risk.
4. Risk of dependency on one customer.
5. Risk related to purchases and dependency on the main supplier.
6. Risk related to the build-up and impairment of inventory.

7. Risk of losing key employees.
8. Risk related to the equipment breakdown.
9. Risk related to the IT systems failure.
10. Risk of the product responsibility.
11. Risk of changes in legal regulations and their interpretation

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 published on the company's website

[https://www.repol.pl/pl/Relacje-Inwestorskie/Raporty/Raporty-okresowe/\(param\\_0\)/option\\_18](https://www.repol.pl/pl/Relacje-Inwestorskie/Raporty/Raporty-okresowe/(param_0)/option_18)

#### 10. Indication of atypical factors and events affecting the financial statements.

All material events are described in the Management Board's report or the financial statements and the notes. No other atypical factors or events occurred.

#### 11. The Management Board's position on feasibility of the previously published forecast of results for the year.

The Issuer did not publish any forecasts for the Company or the Capital Group for 2019.

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

Data as of 21/08/2019

Shareholder	Number of shares held (pcs)	Number of votes at the General Shareholders' Meeting	Share in the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN '000)	Participation in the share capital	Change with regard the statements for the 1st quarter of 2019 (16/05/2019)
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

On 13/06/2019, BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. sold 65,571 shares of the Company, which resulted in a decrease in the share of BNP Paribas TFI in the total number of votes at the General Meeting of Shareholders of Relpol S.A. from 5.63% to 4.95%.

The Capital Group does not hold any own shares.

#### 13. Statement of the issuer's shares or rights to them held by members of the management and supervisory bodies.

Shares held by the Management Board and Supervisory Board as at 21/08/2019

<b>Data</b>	<b>Number of shares held (in pcs)</b>	<b>% of votes at the General Meeting</b>	<b>Nominal value of shares held (in PLN '000)</b>
<b>Management Board of Relpol S.A.</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Supervisory Board of Relpol S.A., of which:</b>	<b>3,779,943</b>	<b>39.34</b>	<b>18,900</b>
1. Ambroziak Adam	3,171,000	33.00	15,855
2. Osiński Piotr	613,943	6.39	3,070

There were no changes as compared to the last published financial statements for the 1Q 2019.

**14. Indication of the owners of any securities that give special control rights in relation to the issuer.**

The Company did not issue any such securities.

**15. Information on the system of control over employee share schemes.**

At present, there are no employee share schemes.

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

The issuer is not aware of any such agreements.

**17. Proceedings pending before a court, an authority competent to conduct arbitration proceedings or before a public administration body.**

In the period from 01/01/2019 to 30/06/2019 no proceedings regarding liabilities or receivables of the issuer the value of which amounts to at least 10% of the equity capital were initiated before a court or a public administration body.

**18. Information on conclusion by the Company or its subsidiary of one or more transactions with related entities, if they are individually or jointly significant and were concluded on terms other than market terms.**

From 1 January 2019 until the date of publication of the financial statements, Relpol S.A. and its subsidiaries did not enter into any transactions with related entities that would be material and would be concluded on terms other than market terms.

**19. Information on sureties and guarantees granted and received in the financial year.**

The Capital Group did not grant or receive any loans, guarantees or sureties in the period from 01/01/2019 to 30/06/2019.

## **20. Description of external and internal factors material for the development of the Capital Group and description of business development prospects.**

The financial results achieved by the Capital Group in the perspective of at least the next quarter will be mostly affected by macroeconomic factors independent of the companies and internal factors.

### **The external factors include:**

- exchange rates and their fluctuations,
- political and economic situation on the commercial markets of the Capital Group,
- domestic and foreign economic growth rate,
- prices of raw materials (copper, silver, crude oil),
- expenditure on domestic and foreign investments,
- development of renewable energy sources,
- increased demand for radiation protection systems,
- development of the political situation in Ukraine and Russia,
- wage pressure,
- the announced increase in energy costs.

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

- adjustment of costs to the current economic situation on the market,
- an increase in production capacity by investing in production lines,
- an increase in the market share based on the currently offered products,
- rationalisation of the commercial product portfolio,
- acquisition of new customers on the existing and new markets,
- promotion and acquisition of counterparties for solar inverter relays,
- 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,
- acquisition of new customers for CZIP.

## **21. Information on contracts significant for the issuer's activity, including contracts concluded between shareholders, insurance contracts, partnering agreements or cooperation agreements known to the issuer.**

1. Agreements for limitation of receivables and credits in banks:  
**BNP PARIBAS SA (formerly Raiffeisen Bank), credit collateral according to the investment credit facility agreement**
  - a) power of attorney to the current account and other accounts of the company at the bank;
  - b) blank bill of exchange.**mBank S.A. credit collateral according to the agreement:**
  - a) blank bill of exchange.
2. Multi-annual cooperation agreement with Zettler Electronics GmbH in Germany regarding the supply of Relpol products to the company.

3. Multi-annual cooperation agreement with ABB Stotz Kontakt GmbH in Germany regarding the supply of Relpol products to the company.
4. The cooperation agreements with other foreign customers – specifying the commercial terms of the delivered products and goods, pursuant to which the customers place framework orders.
5. Cooperation agreement with Relpol Elektronik and DP Relpol Altera, specifying the terms and conditions of the cooperation.
6. Lease agreements for the leasing of machinery, IT equipment and means of transport.
7. Comprehensive insurance of the company's assets against all risks, as well as products in domestic and international transport, taken out with Ergo Hestia.
8. Third party liability insurance policy for business activities or use of property taken out with Ergo Hestia.

## **22. Information on credit and loan agreements concluded and terminated in a given year.**

Information on loans and advances is presented in section 17 of the consolidated financial statements for the first half of 2019.

## **23. Information on loans granted, with particular emphasis on loans granted to related entities.**

In the period from 01/01/2019 to 30/06/2019, the Capital Group did not grant any loans, guarantees or sureties.

## **24. Loans granted to the governing bodies of the company**

As at 30/06/2019, no loans were granted to the members of the Management Board, the Supervisory Board or their relatives.

## **25. Issuance of securities.**

In the first half of 2019, the parent company did not issue, redeem or repay any debt or equity securities.

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

Investment outlays will be incurred on an ongoing basis from bank loans and own funds.

## **27. Important information and agreements concluded after the balance sheet date.**

All information is described in the report on the operations or the financial statements.

**Signatures of Members of the Management Board:**

.....  
**Krzysztof Pałgan**  
**Vice-President of the Management**

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