CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST–DECEMBER 31ST 2017**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

	Note	Year ended December 31st 2017	Year ended December 31st 2016
Revenue from sale of finished goods and services		469,059	535,884
Revenue from sale of merchandise and materials		14,844	14,286
Revenue	1.2	**483,903**	**550,170**
Cost of finished goods sold and services rendered		-410,622	-413,585
Cost of merchandise and materials sold		-11,696	-10,670
Cost of sales	3	**-422,318**	**-424,254**
Gross profit/(loss)		**61,585**	**125,916**
Other income	4	5,880	3,283
Distribution costs	3	-38,383	-35,416
Administrative expenses	3	-48,497	-50,474
Other expenses	4	-5,901	-6,606
Operating profit/(loss)		**-25,315**	**36,703**
Finance income	5	12,169	88
Finance costs	5	-7,715	-12,050
Share of net profit/(loss) of associates		98	-26
Profit/(loss) before tax		**-20,764**	**24,714**
Income tax	6	-4,355	2,461
Net profit/(loss) from continuing operations		-25,118	27,175
Profit/(loss) from discontinued operations		-16,725	-7,531
Net profit/(loss)		**-41,843**	**19,644**
Net profit/(loss) attributable to			
Owners of the parent		**-41,860**	**19,787**
Non-controlling interests		17	-143
EARNINGS PER SHARE:	8		
- basic earnings/(loss) per share attributable to owners of the parent		-4,06	1.86
- diluted earnings/(loss) per share attributable to owners of the parent		-4,06	1.86
- basic earnings/(loss) per share from continuing operations, attributable to owners of the parent		-2,44	2,56
- diluted earnings/(loss) per share from continuing operations, attributable to owners of the parent		-2,44	2,56
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on a defined benefit pension plan		3,971	1,138
Income tax on other comprehensive income		-1,390	-398

Items that may be reclassified to profit or loss:		
Valuation of cash flow hedging derivatives	5,455	-522
Exchange differences on translating foreign operations, including income tax effect	-9,555	6,106
Reclassification adjustments (increase in control of a subsidiary)	-	-
Income tax on other comprehensive income	-1,037	99
Total other comprehensive income, net	**-2,555**	**6,423**
Total comprehensive income	**-44,399**	**26,067**

Total comprehensive income attributable to		
Owners of the parent	-44,450	25,745
Non-controlling interests	52	321

Date: April 26th 2018

Piotr Walasek	Paweł Wyrzykowski	Sławomir Woźniak	Bartosz Klinowski
Chief Financial Officer	*President of the Management Board*	*Vice President of the Management Board*	*Member of the Management Board*

CONSOLIDOTED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	December 31st 2017	December 31st 2016
ASSETS			
Non-current assets			
Property, plant and equipment	10	78,184	98,292
Investment property		371	381
Goodwill	12	36,019	43,004
Intangible assets	11	36,755	29,619
Investments in associates	13	-	-
Long-term receivables	16	4,532	5,567
Other financial assets	17	2,000	8,369
Deferred tax assets	6	180	5,821
		158,040	**191,053**
Current assets			
Inventories	14	41,357	39,377
Trade receivables	16	69,071	97,827
Income tax assets	16	232	7,300
Other short-term receivables	16	17,008	29,116
Cash and cash equivalents	19	52,077	41,147
Other financial assets	17	5,328	266
Other non-financial assets	18	3,949	5,972
Contract settlement	15	103,780	106,554
		292,803	**327,560**
Assets held for sale	7	**33,154**	**104**
TOTAL ASSETS		**483,997**	**518,717**

CONSOLIDOTED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	December 31st 2017	December 31st 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	20	3,616	3,616
Statutory reserve funds	20	176,142	182,429
Other components of equity	20	10,088	9,284
Hedging reserve	20	2,106	-2,313
Retained earnings / accumulated losses	20	-40,705	7,259
Equity attributable to owners of the parent		**151,248**	**200,275**
Non-controlling interests		**-58**	**-544**
		151,190	**199,731**
Non-current liabilities			
Borrowings	21	8,055	27,462
Other financial liabilities	21	3,296	2,561
Trade payables	23	-	244
Other non-current liabilities	23	-	185
Deferred tax liabilities	6	7,814	10,834
Provision for retirement and similar benefits	24	2,820	5,113
Other provisions	24	-	176
Deferred income	25	12,793	13,574
		34,778	**60,149**
Current liabilities			
Borrowings	21	70,184	49,978
Other financial liabilities	21	1,560	7,014
Trade payables	23	58,981	67,712
Income tax payable	23	188	209
Taxes, customs duties and social security payable	23	6,048	6,839
Other current liabilities	23	9,879	6,256
Provision for retirement and similar benefits	24	10,330	11,584
Other provisions	24	5,420	6,214
Deferred income	25	1,015	1,015
Contract settlement	15	100,271	102,015
		264,875	**258,836**
Liabilities directly related to discontinued operations		**33,154**	**-**
TOTAL EQUITY AND LIABILITIES		**483,997**	**518,717**

Date: April 26th 2018

Piotr Walasek	Paweł Wyrzykowski	Sławomir Woźniak	Bartosz Klinowski
Chief Financial Officer	*President of the Management Board*	*Vice President of the Management Board*	*Member of the Management Board*

CONSOLIDATED STATEMENT OF CASH FLOWS

(PLN '000)

	Note	December 31st 2017	December 31st 2016
OPERATING ACTIVITIES			
Profit/(loss) before tax		**-20,764**	**18,850**
Total adjustments:	29	**31,488**	**-25,008**
Share of net profit of associates		-95	-3
Depreciation and amortisation		10,236	11,071
Foreign exchange gains/(losses)		-3,008	1,185
Interest and profit distributions (dividends)		1,920	3,490
Gain/(loss) on investing activities		-6,912	-1,877
Balance-sheet valuation of derivative instruments		-8,108	2,065
Change in provisions		1,956	-4,880
Change in inventories		-4,604	-3,984
Change in receivables		19,813	-13,941
Change in current liabilities (other than financial liabilities)		20,704	10,368
Change in accruals, deferrals and contracts		-757	-29,014
Other adjustments		343	511
Income tax (paid)/refunded		**5,567**	**-177**
Net cash from operating activities		**16,291**	**-6,335**
INVESTING ACTIVITIES			
Cash provided by investing activities		**392**	**2,779**
Proceeds from disposal of intangible assets and property, plant and equipment		250	761
Proceeds from disposals of financial assets		-	581
Other inflows from financial assets		142	1,436
Cash used in investing activities		**19,030**	**14,960**
Investments in intangible assets, property, plant and equipment, and investment property		19,030	14,960
Acquisition of financial assets		-	-
Net cash from investing activities		**-18,638**	**-12,182**
FINANCING ACTIVITIES			
Cash provided by investing activities		**32,618**	**25,223**
Net proceeds from issue of shares or other equity instruments, and contributions to equity		-	71
Borrowings		32,618	25,152
Cash used in investing activities		**18,788**	**22,910**
Acquisition of own shares		-	-
Dividends and other distributions to owners		4,947	3,007

Repayment of borrowings	10,521	15,867
Other financial liabilities	-	18
Payment of finance lease liabilities	1,102	581
Interest paid	2,214	3,437
Other cash used in financing activities	4	
Net cash from financing activities	**13,830**	**2,313**
Total net cash	**11,483**	**-16,203**
Net change in cash, including:	**10,930**	**-19,222**
- effect of exchange rate fluctuations on cash held	-136	-89
Cash at beginning of period	**40,730**	**57,436**
Cash at end of period	**52,077**	**41,233**

Date: April 26th 2018

Piotr Walasek	Paweł Wyrzykowski	Sławomir Woźniak	Bartosz Klinowski
Chief Financial Officer	*President of the Management Board*	*Vice President of the Management Board*	*Member of the Management Board*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Hedging reserve	Other components of equity	Exchange differences	Retained earnings / accumulated losses	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Equity as at January 1st 2017	**3,616**	**182,429**	**-2,313**	**9,284**	**27,029**	**-19,770**	**200,275**	**-544**	**199,731**
Profit/(loss) for the year	-	-	-	-	-	-41,860	**-41,860**	17	-41,843
Other comprehensive income	-	-	4,419	-	-9,590	2,581	**-2,590**	35	-2,555
Total comprehensive income for the year	**0**	**0**	**4,419**	**0**	**-9,590**	**-39,279**	**-44,450**	**52**	**-44,399**
Dividend	-	-	-	-	-	-4,947	-4,947	-	-4,947
Management stock options	-	-	-	804	-	-	804	-	804
Coverage of losses from previous years	-	-6,286	-	-	-	6,286	-	-	-
Accounting for increase of control at SECO/WARWICK Retech	-	-	-	-	-	-434	-434	434	-
Equity as at December 31st 2017	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-58,144**	**151,248**	**-59**	**151,190**
Equity as at January 1st 2016	**3,704**	**190,271**	**-1,891**	**24,231**	**21,388**	**-62,123**	**175,580**	**449**	**176,030**
Profit/(loss) for the year	-	-	-	-	-	19,787	**19,787**	-143	19,644
Other comprehensive income	-	-	-423	-	5,641	740	**5,958**	464	6,423
Total comprehensive income for the year	**-**	**-**	**-423**	**-**	**5,641**	**20,527**	**25,745**	**321**	**26,067**
Dividend	-	-	-	-	-	-3,007	-3,007		-3,007
Cancellation of treasury shares	-88	-	-	88	-	-	-	-	-
Disposal of own shares	-	-29	-	100	-	-	71	-	71
Management stock options	-	-	-	571	-	-	571	-	571
Coverage of loss brought forward	-	-23,519	-	-	-	23,519	-	-	-
Transfer from capital reserve to statutory reserve funds	-	15,705	-	-15,705	-	-	-	-	-
Accounting for increase of control at SWA	-	-	-	-	-	1,314	1,314	-1,314	-
Equity as at December 31st 2016	**3,616**	**182,429**	**-2,313**	**9,284**	**27,029**	**-19,770**	**200,275**	**-544**	**199,731**

(1) In the statement of financial position, exchange differences on translating foreign operations and retained earnings/accumulated losses are presented jointly.

Date: April 26th 2018

Piotr Walasek	Paweł Wyrzykowski	Sławomir Woźniak	Bartosz Klinowski
Chief Financial Officer	*President of the Management Board*	*Vice President of the Management Board*	*Member of the Management Board*

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2017

I. General information

1. Parent

The Parent of the SECO/WARWICK Group is SECO/WARWICK Spółka Akcyjna of Świebodzin. The Company was incorporated on January 2nd 2007 and registered by District Court for Zielona Góra, 8th Commercial Division of the National Court Register in the Register of Businesses of the National Court Register under No. KRS 0000271014.

Name:	**SECO/WARWICK S.A.**
Legal form:	Joint-stock company (spółka akcyjna)
Registered offices:	ul. Sobieskiego 8, 66-200 Świebodzin, Poland

Principal business activity according to the Polish Classification of Business Activities (PKD):

64.20,Z	Activities of financial holding companies,
25	Manufacture of fabricated metal products, except machinery and equipment,
28	Manufacture of machinery and equipment n.e.c.,
33	Repair, maintenance, and assembly of machinery and equipment,
46	Wholesale trade, except motor vehicles and motorcycles,
49	Land transport and transport via pipelines,
52	Warehousing and support activities for transportation,
62	Computer programming, consultancy and related activities,
71	Architectural and engineering activities; technical testing and analysis,
72	Scientific research and development.

National Court Register No.	KRS 0000271014
Industry Identification Number (REGON)	970011679

2. Duration of the Group

SECO/WARWICK S.A. and other entities of the SECO/WARWICK Group were incorporated to operate for an unlimited period of time, except SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd. established for a period of 27 years, and SECO/WARWICK France established for a period of 15 years.

The financial statements of all subordinates have been prepared for the same period as the Parent's financial statements, using uniform accounting policies.

The financial year of the Parent and the Group companies is the calendar year.

The SECO/WARWICK Group is one of the world's leading producers of heat processing equipment, and a technological leader in its field. Thanks to its innovative industrial furnace facilities, research and development centre, and cooperation with technical universities in Europe, the Group provides pioneering and globally unique solutions.

The SECO/WARWICK Group comprises seventeen companies based on three continents. These companies operate and implement technological processes for manufacturers involved with steel, titanium and aluminium production, aluminium recycling, forging, automotive, aerospace, commercial heat treating, HVAC/R, electronics, wind energy, medical equipment, nuclear and other industries.

3. Presented periods

These consolidated financial statements contain data for the period January 1st–December 31st 2017. The comparative data is presented as at December 31st 2016 (statement of financial position) and for the period January 1st– December 31st 2016 (statement of comprehensive income, statement of cash flows, and statement of changes in equity).

4. Composition of SECO/WARWICK S.A.'s governing bodies

As at December 31st 2017, the SECO/WARWICK S.A. Management Board was composed of:

- Paweł Wyrzykowski – President of the Management Board
- Sławomir Woźniak – Member of the Management Board
- Bartosz Klinowski – Member of the Management Board.

As at December 31st 2017, the SECO/WARWICK S.A. Supervisory Board was composed of:

- Andrzej Zawistowski – Chairman of the Supervisory Board
- Henryk Pilarski – Deputy Chairman of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- James A. Goltz – Member of the Supervisory Board
- Marcin Murawski – Member of the Supervisory Board
- Paweł Tamborski – Member of the Supervisory Board.

As at December 31st 2016, the SECO/WARWICK S.A. Supervisory Board was composed of:

- Andrzej Zawistowski – Chairman of the Supervisory Board
- Henryk Pilarski – Deputy Chairman of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- James A. Goltz – Member of the Supervisory Board
- Marcin Murawski – Member of the Supervisory Board
- Paweł Tamborski – Member of the Supervisory Board.

Changes in the composition of the Supervisory and Management Boards:

In 2017, the composition of the Supervisory Board did not change.

There were changes in the composition of the Management Board. On August 31st 2017, the SECO/WARICK S.A. Management Board was notified of Mr Wojciech Peret's resignation as Member of the Management Board. For details, see Current Report No. 17/2017.

As at the date of publication of this report:

There were changes in the composition of the Supervisory Board. Mr. Paweł Tamborski resigned from the position of Member of the Supervisory Board on February 16, 2018. On April 11, 2018, Mr. James A. Goltz by resolution No. 10 of the Extraordinary General Meeting of SECO / WARWICK S.A. was dismissed from the function of a member of the Supervisory Board and Mr. Jacek Tucharz by resolution No. 18 of the Extraordinary General Meeting of SECO / WARWICK S.A. he was appointed to act as a member of the Supervisory Board. After December 31,2017, the composition of the Management Board did not change.

5. Significant holdings of shares

Shareholders holding over 5% of the total voting rights as at December 31st 2017 are listed in the table below.

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
SW Holding	3,387,139	32.89%	3,387,139	34.92%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	11.58%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1,046,573	10.16%	1,046,573	10.79%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.57%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	6.19%
Metlife OFE	577,470	5.61%	577,470	5.95%

The data is based on notifications received from the shareholders.

SECO/WARWICK S.A. holds 598,500 treasury shares, representing 5.81% of the share capital. The Company does not exercise voting rights in respect of its treasury shares.

6. Auditors

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa
Rondo ONZ 1
00-124 Warsaw, Poland

7. Subsidiaries

SECO/WARWICK S.A. is the direct or indirect parent of the following companies:

December 31st 2017

- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.,
- SECO/WARWICK GmbH,
- SECO/WARWICK Germany GmbH,
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai) Indie,
- ALLIED FURNACES PVT. LTD.,
- ACE THERMAL TECHNOLOGIES PRIVATE LIMITED,
- SECO/WARWICK France,
- SECO/WARWICK Services Sp. z o.o.,
- SECO/WARWICK of Delaware Inc,
- Retech Tianjin Holdings LLC,
- SECO WARWICK USA HOLDING LLC,
- SECO VACUUM TECHNOLOGIES LLC.
- SECO/WARWICK Systems and Services India PVT. Ltd.

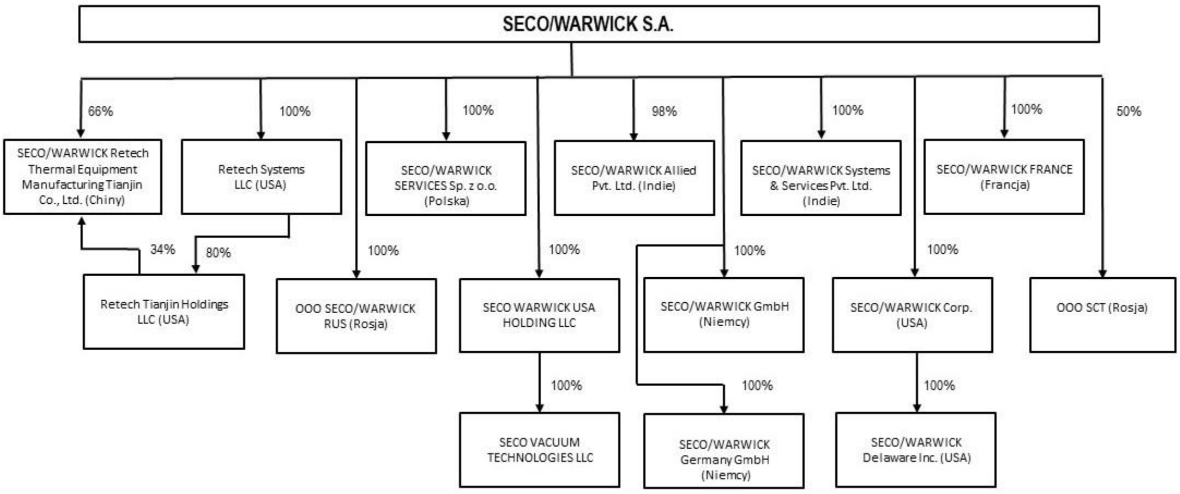
December 31st 2016

- SECO/WARWICK EUROPE Sp. z o.o.,
- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.,
- SECO/WARWICK GmbH,
- SECO/WARWICK Germany GmbH,
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai) Indie,
- ALLIED FURNACES PVT. LTD.,
- SECO/WARWICK France,
- SECO/WARWICK Services Sp. z o.o.,
- SECO/WARWICK of Delaware Inc,
- Retech Tianjin Holdings LLC,
- SECO WARWICK USA HOLDING LLC,
- SECO VACUUM TECHNOLOGIES LLC.

8. Associates

- OOO SCT (Solnechnogorsk) Russia, in which SECO/WARWICK S.A. holds a 50% interest, conferring the right to 50% of the total voting rights in the company.

9. Organisation of the Group:



II. Key financial data translated into the euro

The table below presents average EUR/PLN exchange rates quoted by the National Bank of Poland for the periods covered by these financial statements:

Financial year	Year ended December 31st 2017	Year ended December 31st 2016
Average exchange rate for the period*	4.2447	4.3757
Exchange rate effective for the last day of the period	4.1709	4.4240

**) Average of the exchange rates effective for the last day of each month in the period.*

Assets and equity and liabilities in the consolidated statement of financial position have been translated using the EUR/PLN exchange rates quoted by the National Bank of Poland for the last day of the period.

Items of the consolidated statement of comprehensive income and consolidated statement of cash flows have been translated using the exchange rates calculated as the arithmetic means of the EUR/PLN mid-rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period.

The table below presents key items of the consolidated statement of financial position, statement of comprehensive income and statement of cash flows disclosed in the consolidated financial statements and the comparative data, translated into the euro:

Consolidated financial highlights	2017	2016	2017	2016
	(PLN '000)		(EUR '000)	
Revenue	483,903	550,170	114,003	125,734
Cost of sales	-422,318	-424,254	-99,494	-96,957
Operating profit/(loss)	-25,315	36,703	-5,964	8,388
Profit/(loss) before tax	-20,764	24,714	-4,892	5,648
Net profit/(loss) attributable to owners of the parent	-41,860	19,787	-9,862	4,522
Net cash flows from operating activities	16,291	-6,335	3,838	-1,448
Net cash flows from investing activities	-18,638	-12,182	-4,391	-2,784
Net cash flows from financing activities	13,830	2,313	3,258	529
	Dec 31 2017	**Dec 31 2016**	**Dec 31 2017**	**Dec 31 2016**
Total assets	483,997	518,717	116,041	117,251
Total liabilities	299,653	318,985	71,844	72,103
Including current liabilities	264,875	258,836	63,505	58,507
Equity	151,190	199,731	36,249	45,147
Share capital	3,616	3,616	867	817

III. Authorisation of the financial statements

The Parent's Management Board authorised these consolidated financial statements for issue on April 26th 2018.

IV. Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union. As at the date of authorisation of these financial statements for issue, given the ongoing process of implementing the IFRS standards in the EU and the Group's business, within the scope of accounting policies applied by the Group there were no differences between the IFRS which were in effect and the IFRS endorsed by the EU.

IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

V. Going concern assumption and comparability of accounts

These consolidated financial statements have been prepared on the assumption that the Group would continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. December 31st 2017. As at the date of authorisation of these financial statements, the Parent's Management Board was aware of no facts or circumstances that would involve a threat to the Group's continuing as a going concern in the 12 months after the end of the reporting period, as a result of an intended or forced discontinuation or material limitation of the existing business.

VI. Basis of consolidation

These consolidated financial statements include the Company's financial statements and the financial statements of the entities controlled by the Company and its subsidiaries.

a) Subsidiaries

An entity is the Group's subsidiary if the Group has:

- power over the entity,

- exposure, or rights, to its variable returns,

- the ability to use its power over the entity to affect the amount of its own returns.

The acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

a) the aggregate of:

(i) the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value,

(ii) the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3, and

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

Following initial recognition, goodwill is recognised at cost less any cumulative impairment losses. Goodwill is not amortised.

Non-controlling interests are recognised at the fair value of net assets attributable to such interests. In subsequent periods, losses attributable to non-controlling interests are attributed to owners of the parent and non-controlling interests even if, as a consequence, the value of non-controlling interests turns negative. Subsidiaries sold during a financial year are consolidated from the beginning of the financial year to the date of disposal. Financial results of entities acquired during a year are recognised in the financial statements from the date of acquisition.

Income and expenses, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, but only to the extent there is no evidence of impairment of the asset transferred in the transaction. The accounting policies of the subsidiaries have been changed whenever it was deemed necessary to align them with the accounting policies applied by the Group.

b) Equity and transactions related to non-controlling shareholdersnter

Interests held by non-controlling shareholders include interests in consolidated companies which are not owned by the Group. Equity held by non-controlling shareholders is determined as the value of net assets of the related entity which are attributable, as at the acquisition date, to shareholders from outside the group. The value is reduced/increased by any increase/decrease in equity attributable to the value of interests held by non-controlling shareholders.

c) Associates

An associate is an entity over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of total voting rights in an entity's governing bodies. Investments in associates are equity accounted and are initially recognised at cost.

The Group's share in an associate's net profit/(loss) is recognised in the statement of comprehensive income, and the Group's share of the movements in the entity's other components of equity after the acquisition date is recognised under other components of equity. The carrying amount of the investment is adjusted for the total changes as from the acquisition date.

d) Companies included in the consolidated financial statements

The following Group entities are included in these consolidated financial statements for the periods ended December 31st 2017 and December 31st 2016:

Item	% of total voting rights	
	Dec 31 2017	**Dec 31 2016**
SECO/WARWICK S.A.	Parent	
SECO/WARWICK EUROPE Sp. z o.o.	-	100%
SECO/WARWICK Corp.	100%	100%
SECO/WARWICK Rus	100%	100%
Retech Systems LLC	100%	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	90%	90%
SECO/WARWICK GmbH	100%	100%
SECO/WARWICK Germany GmbH	100%	100%
SECO/WARWICK Allied Pvt. Ltd.	98%	98%
ALLIED FURNACES PVT. LTD	98%	98%
ACE THERMAL TECHNOLOGIES PRIVATE LIMITED	98%	98%
SECO/WARWICK SYSTEMS AND SERVICES Indie PVT Ltd	100%	-
SECO/WARWICK France	100%	100%
SECO/WARWICK Services Sp. z o.o.	100%	100%
SECO/WARWICK of Delaware, Inc	100%	100%
Retech Tianjin Holdings LLC	80%	80%
SECO WARWICK USA HOLDING LLC	100%	100%

VII. Applied accounting policies, including methods of measurement of assets, equity and liabilities, income and expenses

These consolidated financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value.

Historical cost is generally determined on the basis of fair value of the consideration paid for the goods or services.

Fair value is the price that can be obtained from selling an asset or paid to transfer a liability in an arm's length transaction in the main (or most advantageous) market at the measurement date and under current market conditions, irrespective of whether the price is directly observable or estimated using a different measurement technique. When measuring an asset or liability at fair value, the Group takes into account the characteristics of the asset or liability if market participants take these characteristics into account when measuring the assets or liabilities at the measurement date..

These financial statements are presented in the złoty ("PLN"), and unless specified otherwise, all amounts are given in thousands of PLN.

Summary of material accounting policies

<u>Presentation of the statement of financial position</u>

In accordance with IAS 1 *Presentation of Financial Statements*, assets and liabilities are presented in the statement of financial position as current and non-current.

In accordance with IFRS 5, non-current assets held for sale are presented separately in the statement of financial position.

<u>Presentation of the statement of comprehensive income</u>

In accordance with IAS 1 *Presentation of Financial Statements*, in the statement of comprehensive income expenses are presented by function.

<u>Earnings per share</u>

Earnings per share for each period are determined by dividing net profit for the period by the weighted average number of shares outstanding in the period. The weighted average number of shares accounts for the dilutive effect of the issue of shares on the Warsaw Stock Exchange.

Intangible assets

As intangible assets the Group recognises assets which are identifiable (separable or saleable), are controlled by the entity and are highly probable to bring future economic benefits to the entity.

Intangible assets comprise mainly software and development costs and are initially measured at cost including purchase price, import duties, non-refundable purchase taxes, less discounts and rebates, and increased by expenditure directly attributable to preparing the asset for its intended use.

The table below summarises the Group's accounting policies with respect to intangible assets:

Item	Capitalised development costs	Patents and licences	Software
Useful life	5–20 years	5–10 years	5–15 years
Amortisation method	Amortised using straight-line method after completion of work	Amortised over contract term using straight-line method	Amortised using straight-line method
Origin	Generated	Acquired	Acquired

Item	Capitalised development costs	Patents and licences	Software
Impairment testing/measuring recoverable amount	Annual usability testing	Annual impairment testing	Annual impairment testing

Property, plant and equipment

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation charges are calculated using the straight-line method by estimating the useful lives of given assets, which are as follows:

Buildings and structures	from 10 to 40 years
Machinery and equipment	from 5 to 30 years
Vehicles	from 5 to 10 years
Other tangible assets	from 5 to 15 years

Non-current assets held under finance lease contracts are recognised in the statement of financial position and depreciated in accordance with the same policies as those applied to other non-current assets.

Non-current assets held under finance leases and liabilities corresponding to those assets were initially recognised at amounts equal to the discounted value of future lease payments. Lease payments made in the reporting period were charged to finance lease liabilities in an amount equal to the principal instalment, while the excess (finance costs) was charged in full to finance costs of the period.

Any gains and losses arising on sale or liquidation of an asset are determined as the difference between net proceeds from the disposal, if any, and the carrying amount of the asset, and are recognised in profit or loss.

Tangible assets under construction

Tangible assets under construction include expenditures on property, plant and equipment that are not yet ready for use and are highly probable to be completed. Tangible assets under construction are presented in the statement of financial position at cost less any impairment losses. Tangible assets under construction are not depreciated.

Investment property

The Group classifies as investment property all property which is considered a source of income (earns rentals) and/or is held for capital appreciation.

Investment property is carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged over the estimated useful life of the investment property, using the straight-line method. Land is not depreciated.

Financial assets and liabilities

Financial assets include shares in related entities, assets measured at fair value through profit or loss, hedging derivatives, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing, overdraft facilities, financial liabilities at fair value through profit or loss, hedging derivatives, trade payables, liabilities to suppliers of tangible assets, and lease liabilities.

Except for investments in subsidiaries, jointly controlled entities and associates, which are carried at cost in accordance with IAS 27 and IAS 28, financial assets and liabilities are recognised and measured in line with IAS 39 *Financial Instruments: Recognition and Measurement*.

Recognition and measurement of financial assets

Upon initial recognition, financial assets are measured at fair value plus, in the case of investments that are not measured at fair value through profit or loss, transaction costs directly attributable to them.

Shares in related parties

Shares in subsidiaries, associates and joint ventures are recognised at historical cost, net of impairment losses.

Loans advanced

Loans advanced and recognised and disclosed at the amounts originally agreed in the loan agreement, net of any impairment losses.

Receivables

Trade receivables are recognised and carried at amounts initially invoiced, less any impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of a receivable is no longer probable.

If the effect of the time value of money is material, the value of a receivable is determined by discounting the projected future cash flows to their present value using a discount rate that reflects the current market estimates of the time value of money. Where discounting is used, an increase in receivables as a result of the passage of time is recognised as finance income.

Other receivables include in particular prepayments for future purchases of property, plant and equipment, intangible assets and inventories.

Cash and cash equivalents

Cash and cash equivalents are held primarily to meet the Group’s short-term cash requirements and not for investment or other purposes.

Cash and cash equivalents include cash in bank accounts, cash in hand, as well as all liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Recognition and measurement of financial liabilities

Liabilities under bank loans and other financial liabilities

Liabilities under bank loans and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Transaction costs directly attributable to the acquisition or issue of a financial liability are added to the carrying amount of the liability because the liability is initially recognised at the fair value of the consideration paid or received to settle the liability. Subsequently, these costs are amortised over the life of the liability using the effective interest method.

Trade payables

Short-term trade payables are recognised at amounts due.

Hedge accounting

Balance sheet valuation of derivative instruments is recognized in the Group's equity. When the transaction for which the foreign exchange forward contract is concluded has an impact on the profit and loss account - the valuation originally recognized in equity is reclassified to the profit and loss account.

The Group assumed that due to the fact that derivative instruments are concluded under concluded contracts for the implementation of long-term contracts (settled with the cost-of-completion stage), the transaction affects the profit and loss account in proportion to the percentage of the completion of a given contract.

There are three types of hedging relationships:

a) fair value hedge: a hedge of the exposure to changes in the fair value of a recognised asset or liability or an identified portion of such an asset, liability or highly probable future liability that is attributable to a specific risk and could affect the statement of comprehensive income;

b) cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability and (ii) could affect the statement of comprehensive income;

c) hedge of net assets in a foreign operation as defined in IAS 21.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

e) The hedge is assessed on an ongoing basis and determined to be highly effective in all the reporting periods for which the hedge was designated.

Inventories

Inventories are measured at the lower of cost and net realisable value. Any downward adjustment of the value of inventories to the net selling price is made through recognition of write-downs.

Furthermore, slow-moving inventory, obsolete inventory or inventory whose usability has been impaired in any way are revalued as at the end of each financial year. If the circumstances which caused the decrease in the value of inventories cease to exist, the write-down is reversed.

The effects of measurement to the net selling price are charged to the cost of own products sold.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases.

Deferred tax liabilities are recognised for substantially all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that does not affect profit/loss before tax nor taxable income/tax loss. In addition, no deferred tax is recognised if the temporary differences arise on initial recognition of goodwill.

A deferred tax liability is recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets resulting from negative temporary differences related to such investments and shares are recognized only to the extent that it is probable that there will be sufficient taxable profits, on the basis of which it will be possible to use tax benefits resulting from temporary differences and that it is expected that the temporary differences will be reversed in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. An unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it is probable that future taxable profit will be available against which the asset can be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.

The Group offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspections by authorities that are entitled to impose high fines and penalties, and any additional tax liabilities resulting from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland.GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws.In accordance with GAAR, no tax advantage can be obtained through an arrangement which is abusive. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

The Company discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements.

Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Company discloses such settlement taking into consideration the assessed uncertainty.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects that the costs covered by the provision will be reimbursed, e.g. under an insurance agreement, then such reimbursement is recognized as a separate asset, but only when it is practically certain that such reimbursement will actually take place.

Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements. If the effect of the time value of money is material, the amount of provision is determined by discounting the forecast future cash flows to their present value using a gross discount rate reflecting current market estimates of the time value of money and the possible risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Estimates of the financial result and impact are based on the judgement of the management of the companies, supported by their past experience with similar transactions and, in some cases, by reports of independent experts.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group recognises the following provisions:

- provision for warranty repairs – on the basis of the historical cost of warranty repairs;
- provision for probable costs related to the current financial year which will be invoiced only in the following year (accrued expenses). Depending on the type of accrued expenses, they are charged to cost of sales, distribution costs or administrative expenses;
- provision for a defined benefit plan. Fixed contributions are paid to a separate entity (a fund), as a consequence of which the actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested will be insufficient to meet the expected benefits) are borne by the Group.

Assumptions underlying the estimates and the provision amounts are reviewed as at each reporting date.

Employee benefits

The Group recognises the following employee benefits provision:

- provision for accrued holiday entitlements – in an amount equivalent to the number of days of accrued unused holidays multiplied by average gross daily pay;
- provision for employee benefit obligations – bonus payments, salaries and wages;

Accruals and deferred income

Contract settlement

Contract-related prepayments and accrued income include any excess of estimated revenue related to the stage of completion of a long-term contract, in accordance with IAS 11, over prepayments received and aggregate amount invoiced under the contract.

Contract-related accruals and deferred income include probable values of current-period liabilities arising in particular under:

- services provided to the entity by its trading partners, where the liability can be reliably estimated,
- up to the estimated contract revenue, prepayments received under construction contracts reduce the receivables under settlement of long-term contracts.

Deferred income

Deferred income includes, in particular, government grants to finance assets and revenues.

Government grants are disclosed in the statement of financial position at the amount of funds received and then recognised as income over the periods necessary to match them with the related costs they are intended to compensate, on a systematic basis. Government grants are not credited directly to equity.

Accruals and deferrals settled over a period longer than 12 months are classified as non-current accruals and deferrals, whereas those settled over a period of 12 months or shorter are classified as current accruals and deferrals.

Revenue

The Group recognizes revenues in accordance with IAS 18 and IAS 11. According to IAS 18, revenues from the sale of products, goods, materials and services, net of VAT, rebates and discounts are recognized when significant risks and benefits arise their property has been transferred to the buyer. However, in accordance with IAS 11, when settling long-term contracts, the Group applies the method of percentage progress of works. The use of this method requires the Group to estimate the proportion of work done so far to all services to be performed.

Functional currency and presentation currency

a) Functional currency and presentation currency

Items of the financial statements are measured in the currency of the primary economic environment in which the Company operates („functional currency"). The financial statements are presented in the Polish zloty (PLN), which is the Group's functional and presentation currency.

b) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as from changes in the carrying amounts of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

VIII. Material judgements and estimates

Preparation of the consolidated financial statements requires making estimates, as many of the items presented in the financial statements cannot be measured accurately. The Management Board reviews such estimates taking into account changes in the factors on which such estimates were based, new information and past experience. Therefore, the estimates made as at December 31st 2016 may change in the future.

Depreciation/amortisation charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Depreciation/amortisation charges for assets used under finance lease contracts

Depreciation/amortisation charges for items of property, plant and equipment and intangible assets used under finance lease contracts are determined based on their expected useful lives, which is consistent with the depreciation/amortisation policy applied with respect to assets owned by the Group. The Group does not apply useful lives equal to the contract term. The Group assumes that leased assets must be purchased upon expiry of the lease.

Deferred tax assets

Deferred tax assets are recognised in respect of all unused tax losses to be deducted in the future to the extent it is probable that taxable profit will be available which will allow these losses to be utilised.

Provision for accrued holiday entitlements

Provision for accrued holiday entitlements is determined based on the number of days of accrued unused holidays as at the end of the reporting period.

Provision for old-age and disability retirement benefits

Disability severance payments and retirement bonuses are paid to employees of the Group's subsidiaries operating under Polish law in accordance with the provisions of Art. 92 of the Polish Labour Code, whereas at foreign companies such payments or bonuses are paid in accordance with the local labour laws. Actuarial valuation of long- and short-term benefits is performed at the end of each financial year.

Provision for warranty repairs

Provision for warranty repairs is calculated on the basis of the historical costs of manufacturing of the equipment sold and of the warranty repairs made in the previous years.

Long-term contracts

To account for long-term contracts, the Group applies the provisions of IAS 11 *Construction Contracts*. When the outcome of a construction contract can be measured reliably, the percentage of completion method is used. The percentage of completion is determined by reference to costs incurred to date in comparison with total contract costs determined in accordance with the Group's best estimate.

At the end of each reporting period, the Group estimates the result on each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognised in profit or loss.

The amount of such loss is determined irrespective of: whether or not work has commenced on the contract, the stage of contract completion, or the amount of profits expected to arise on other contracts which are not treated as single construction contracts in accordance with IAS 11:9.

The Group applies the above rules to settle commercial contracts executed in the course of the Group's principal business where the contract term exceeds three months and the contract total value is significant from the point of view of reliability of the financial statements (revenue, costs, and financial result). The Group recognises only documented revenue, i.e. revenue which is guaranteed under the original contract, adjusted to account for any subsequent amendments (annexes). Changes in contract revenue are recognised when it is certain (the contract or its annexes) or at least when it is probable (initialled annexes or initialled contracts) that the customer will accept the changes and the amounts of revenue resulting from those changes, and when the value of that revenue can be measured reliably.

The stage of contract completion is determined by reference to the contract costs actually incurred in the reporting period and documented by appropriate accounting evidence, and the costs of trading partners not yet invoiced.

Revenue as at the end of the reporting period is determined based on the percentage of contract completion, net of any revenue which affected the financial result in previous reporting periods. Estimated contract revenue attributable to a given reporting period is recognised as revenue from sale of finished goods for the period, and disclosed under assets in the statement of financial position as receivables under settlement of contracts.

Any excess of prepayments received under a contract over the estimated revenue attributable to a given reporting period is recognised under liabilities as prepaid deliveries. Up to the amount of the estimated contract revenue, prepayments reduce the receivables under settlement of long-term contracts.

Any excess of invoiced revenue is recognised under contract settlement.

Derivative financial instruments

Derivative instruments are initially recognised at fair value as at the relevant contract date, and subsequently they are remeasured at fair value as at the end of each reporting period. The resulting gains or losses are recognised directly in profit or loss, unless the instrument is used as a hedging instrument. In such a case, the moment of recognition depends on the nature of the hedging relationship.

Subjective judgement

Where a given transaction does not fall within the scope of any standard or interpretation, the Management Board, guided by its subjective judgment, determines and applies accounting policies that ensure that the financial statements contain appropriate and reliable information. In the period covered by these financial statements, no transactions were identified whose recognition would require the application of the Management Board's subjective judgement as defined above.

IX. Changes in accounting policies

The accounting principles (policy) applied to prepare these financial statements are consistent with those applied to prepare the Company's financial statements for the year ended December 31st 2016, save for the following. Amendments to the IFRS presented below were applied in these consolidated financial statements as of their effective dates. However, they had no material effect on the disclosed financial information, they did not apply to transactions executed by the Company:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets in respect of Unrealised Losses*

  The amendments clarify the issues relating to the occurrence of negative temporary differences in the case of debt instruments measured at fair value, the estimation of probable future taxable income and the assessment whether the generated income will allow the negative temporary differences to be realised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*

  The amendments require an entity to disclose information that enables users of financial statements to evaluate changes in liabilities resulting from financing activities. Comparative information is not required for prior periods.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities* as part of *Annual Improvements to IFRS Standards 2014–2016*

  The amendments clarify that the requirements specified in the standard also apply to an entity's shares in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or non-consolidated structured entities that are classified (or included in a disposal group that has been classified) as held for sale or discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Company did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective as not yet endorsed by the European Union.

X. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but are not yet effective:

- IFRS 9 *Financial Instruments* (issued on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018;
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) - effective for annual periods beginning on or after January 1st 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on May 28th 2014) − effective for annual periods beginning on or after January 1st 2018 − including amendments to IFRS 15 *Effective Date of IFRS 15* (issued on September 11th 2015);
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) − effective date deferred indefinitely by the IASB;
- IFRS 16 *Leases* (published on January 13th 2016) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on June 20th 2016) − effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* as part of *Annual Improvements to IFRS Standards 2014–2016* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018.
- Amendments to IAS 1 *First-time Adoption of International Financial Reporting Standards* as part of *Annual Improvements to IFRS Standards 2014–2016* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 40: *Transfer of Investment Property* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- IFRS 17 *Insurance Contracts* (issued on January May 18th 2017) – effective for annual periods beginning on or after January 1st 2021;

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on June 7th 2017) – effective for annual periods beginning on or after January 1st 2019;
- IFRS 9 *Financial Instruments* (issued on October 12th 2017) − effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures* (issued on October 12th 2017) - applicable to annual periods beginning on or after January 1st 2019;
- *Annual Improvements to IFRS Standards 2015-2017* (issued on December 8th 2017) – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (published on February 7th 2018) – effective for annual periods beginning on or after January 1st 2019;
- Amendments to the *Conceptual Framework for Financial Reporting* (published on March 29th 2018) – effective for annual periods beginning on or after January 1st 2020.

Effective dates are the dates resulting from the content of the standards announced by the International Financial Reporting Board. The dates of application of the standards in the European Union may differ from the dates of application resulting from the content of the standards and are published at the time of approval for application by the European Union.

XI. Impact assessment IFRS 15

IFRS 15 "Revenues from contracts with customers". The standard was published on May 28, 2014 and applies to reporting periods beginning on January 1, 2018 or later. This standard was adopted by the European Union on September 22, 2016.

IFRS 15 is the subject of a dedicated project launched within the Group. The completed work confirms the expected effect of applying IFRS 15 for the first time. The impact of the standard on the Company mainly refers to:

a) recognition of revenues from long-term contracts carried out in time or at a specific moment

b) recognition of a warranty provision related to the contracts being performed

c) identification of a significant element of financing contracts

The standard will be applied by the Company using the "modified retrospective method" in which the cumulative effect of applying the standard is recognized for the first time as a contractual asset, contractual obligation, reserves under the guarantee and retained earnings as at the date of the first application of the standard, ie January 1, 2018 . "Modified retrospective method" is one of the possible methods permitted by IFRS 15.

The application of IFRS 15 will result in the recognition of a profits retained in the amount of PLN -1,1 million. IFRS 15 has no impact on the Company's financial results for 2017 due to the use of the "modified retrospective method".

XII. Impact assessment IFRS 9

The IFRS 9 standard was published on July 24, 2014 and applies to annual reporting periods beginning on January 1, 2018 or later. The standard was adopted by the European Union on November 22, 2016. In general (apart from a few limited redundancies), the standard applies retrospectively in relation to classification, measurement and impairment and prospective in relation to hedge accounting. IFRS 9 modifies the recognition criteria in the books of hedging transactions and major categories of financial assets and liabilities. Due to the type of transactions in the Company, no significant changes are expected in this respect. IFRS 9 also requires changes in terms of impairment by adequately modeling "expected losses" instead of "losses incurred". The Management Board believes that the application of the standard will not have a material impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2017

Note 1. REVENUE AND TOTAL INCOME

Revenue from sales and total revenue and income of the Group:

Item	2017	2016
Revenue from sale of finished goods and services	469,059	535,884
Sales of merchandise and materials	14,844	14,286
TOTAL sales revenue	**483,903**	**550,170**
Other income	5,880	3,283
Finance income	12,169	88
TOTAL revenue and income	**501,952**	**553,541**

Note 2. OPERATING SEGMENTS

The Group's principal business activity consists in manufacture of five key groups of products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment systems and metallurgy equipment used for melting, and vacuum casting of metals and specialty alloys. In accordance with the Company's management accounts, a separate aftersales segment has also been established. The SECO/WARWICK Group's operations are divided into five core business segments corresponding to the product groups:

Vacuum furnaces (Vacuum)

Vacuum furnaces have multiple applications in a number of industries, including machine tool, aviation, power, electrical engineering, medical equipment, automotive and specialised industries. Vacuum furnaces may be used in a wide variety of processes, such as heat treatment of steel and alloys, brazing, sintering, and degassing.

Melting furnaces

Vacuum melting furnaces are used in the metallurgical industry for consolidation, smelting and refining of specialty metals, including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Their physical properties require processing in technologically advanced equipment and in high vacuum conditions.

A separate group of melting furnaces are melting and holding furnaces used for the manufacture of precision castings (such as components of jet engines, power turbines and medical implants).

Melting furnaces may also be used as an element of the globally-unique processes involving disposal of hazardous waste (such as nuclear by-products).

Thermal

Atmosphere furnaces are widely used in the process of thermal and thermochemical treatment of steel and metals in protective atmospheres for improved hardness. Atmosphere furnaces designed for thermochemical treatment are used for gas carburising, gas nitriding and in other processes. Such furnaces are used chiefly in the automotive and metal industries, including for the manufacturing of roller bearings, as well as in commercial hardening plants and specialty industries.

Aluminium heat treatment and aluminium heat exchanger brazing systems (Aluminium Process)

The Aluminium Process solutions offered by the Group are used in the manufacturing of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. Aluminium Process systems are also used to heat treat aluminium castings. CAB systems are used primarily in the automotive industry for brazing of heat exchangers mounted in passenger cars and heavy goods vehicles (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive industry, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.

Aftersales

The Aftersales Segment offers conversion, upgrades and modification of customer-owned equipment, including equipment manufactured by third parties. This segment also includes sale of spare parts and all after sale services.

The segments' financial data includes only segment revenue, expenses, and profit or loss. It is impracticable for the Group to allocate assets to particular segments as its plant and equipment (including buildings and structures) is shared by all segments.

Other

The segments' financial statements include only segment revenue, expenses, and profit or loss. It is impracticable for the Group to allocate assets to the particular segments as its plant and equipment (including buildings and structures) is shared by all the segments.

OPERATING SEGMENTS – 2017

Item	Continuing operations						Discontinued operations	Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftesales	Total			
Total segment revenue	**136 597**	**95 166**	**47 806**	**118 594**	**85 451**	**483 613**	**-**	**290**	**483 903**
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	**-**	-	-	**-**
Total segment expenses	**-105 432**	**-105 507**	**-43 294**	**-106 284**	**-56 489**	**-417 006**	**-**	**-5 313**	**-422 318**
Gross profit/(loss)	**31 164**	**- 10 341**	**4 512**	**12 310**	**28 962**	**66 607**	**-**	**-5 023**	**61 585**

OPERATING SEGMENTS – 2016

Item	Continuing operations						Discontinued operations	Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftesales	Total			
Total segment revenue	**114 105**	**176 983**	**46 866**	**125 135**	**86 925**	**550 014**	**-**	**156**	**550 170**
Sales to customers accounting for 10% or more of revenue	-	69 317	-	-	-	**69 317**	-	-	**69 317**
Total segment expenses	**-81 024**	**-148 686**	**-40 044**	**-97 766**	**-56 437**	**-423 957**	**-**	**-297**	**-424 254**
Gross profit/(loss)	**33 081**	**28 297**	**6 822**	**27 369**	**30 488**	**126 057**	**-**	**-141**	**125 916**

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Depreciation and amortisation	10,236	9,819
Raw materials and consumables used	266,677	245,713
Services	83,443	94,913
Taxes and charges	2,440	2,549
Salaries and wages	106,413	107,576
Social security and other benefits	24,639	26,321
Defined benefit plan	1,283	161
Other expenses	35,853	49,212
Total operating expenses, including:	**530,984**	**536,265**
Distribution costs	-38,383	-35,416
Administrative expenses	-48,494	-50,474
Change in products	-11,583	-15,986
Work performed by entity and capitalised	-10,303	-10,135
Cost of merchandise and materials sold	-11,600	-10,670
Cost of products sold and services rendered	**410,622**	**413,585**

EMPLOYEE BENEFITS EXPENSE

PERSONNEL COSTS	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Salaries and wages	106,413	107,005
Social security and other benefits	24,626	25,892
Defined benefit pension plan at SWC	1,283	161
Retirement benefits	13	376
Share-based payment scheme	-	-
Other employee benefits	-	53
Total employee benefits expense, including:	**132,335**	**133,488**
Items recognised as cost of sales	79,061	89,570
Items recognised as distribution costs	15,630	19,914
Items recognised as administrative expenses	37,643	24,004

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Reversal of impairment losses on receivables	-	-
Reversal of provisions	-	-
Gain on disposal of property, plant and equipment	20	34
Penalties and compensation/damages received	3,375	88
Income from lease of tangible assets and investment property	1,142	1,516
Grant for development work	1,001	1,011
Other	342	633
Total other income	**5,880**	**3,283**

OTHER EXPENSES	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Impairment losses on receivables	447	-382
Provisions recognised	4,412	2,197
Loss on disposal of property, plant and equipment	7	324
Court expenses, compensation/damages, penalties	2	925
Revaluation of tangible asset	0	75
Cost of lease of tangible assets	219	1,126
Cost of discontinued production	-	-
Cost of services, to be re-charged	-	-
Donations	50	341
Goodwill impairment losses	-	-
Liquidation of tangible assets	257	1,051
Other	506	950
Total other expenses	**5,901**	**6,606**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Interest income	43	88
Valuation of derivative instruments	7,532	-
Gain on derivative instruments at maturity	4,475	-
Other	118	-
Total finance income	**12,169**	**88**

FINANCE COSTS	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Interest paid	2,937	2,266
Loss on derivative instruments at maturity	-	3,683
Valuation of derivative instruments	-	1,522
Net foreign exchange losses	4,302	2,366
Impairment loss on shares in OOO SCT	-	1,881
Other	476	331
Total finance costs	**7,715**	**12,050**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2017 and December 31st 2016 were as follows:

INCOME TAX DISCLOSED IN PROFIT OR LOSS	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Current income tax	**570**	**574**
Current income tax expense	412	1,992
Adjustments to current income tax for previous years	158	**-1,421**
Deferred income tax	**3,785**	**-3,035**

Related to temporary differences and their reversal	3,785	-3,035
Related to reduction of income tax rates	-	-
Income tax benefit on transactions involving items of equity	-	-
Tax expense recognised in profit or loss	**4,355**	**-2,461**

Deferred income tax disclosed in the statement of profit or loss equals the difference between the balances of deferred tax liabilities and deferred tax assets as at the end and as at the beginning of the reporting periods, excluding items charged or credited to equity.

	Dec 31 2017		**Dec 31 2016**	
Item	***carrying amount***	***amount recognised in the statement of comprehensive income***	***carrying amount***	***amount recognised in the statement of comprehensive income***
Deferred tax liabilities				
Accelerated tax depreciation/amortisation	8,749	158	10,489	1,102
Finance leases	134	-64	198	-84
Other	97	-503	384	250
Foreign exchange gains	-	-	216	-138
Measurement of long-term contracts	5,914	18	7,048	3,696
Valuation of financial assets	-	-	-	-
Forward transactions	1,240	732	40	-26
Tax goodwill on acquisition of RETECH	7,794	-	11,798	-
Deferred tax liabilities	**23,928**	**340**	**30,174**	**4,801**
Deferred tax assets				
Provision for disability severance payments and retirement bonuses	164	47	117	-
Provision for length-of-service awards and bonuses	888	74	759	53
Provision for accrued holiday entitlements	396	47	744	25
Provision for losses on contracts	642	44	847	259
Provision for warranty repairs	-	-15	15	-8
Provision for other employee benefits	8	-	-	0
Other provisions	253	-828	1,026	230
Losses deductible from future taxable income	6,185	- 275	9,907	6,460
Assets under long-term contracts	3,111	-3,258	6,369	-782
Foreign exchange losses	387	98	241	-144
Settlement of grant	900	17	883	309
Other	-67	12,437	523	1,429
Valuation of financial instruments	4	-699	1,306	270
Salaries, wages and social security contributions payable in subsequent periods	297	144	133	- 120

Lease liabilities	838	248	525	154
Write-downs of inventories	50	12	271	-
Impairment losses on receivables	2,241	888	1,496	-300
Impairment losses on investments	-	-	-	-
Deferred tax assets	**16,295**	**8,982**	**25,161**	**7,836**

Item	Dec 31 2017		Dec 31 2016	
	carrying amount	amount recognised in equity	carrying amount	amount recognised in equity
Valuation of hedging instruments	4	-699	1,306	270
Deferred tax assets	**4**	**-699**	**1,306**	**270**

Item	Dec 31 2017		Dec 31 2016	
	carrying amount	amount recognised in equity	carrying amount	amount recognised in equity
Valuation of hedging instruments	1,240	732	40	-26
Deferred tax liabilities	**1,240**	**732**	**40**	**-26**

Note 7. ASSETS HELD FOR SALE

Held-for-sale assets are presented as a separate item of assets. As at December 31st 2017, the Group carried assets held for sale – subsidiary company SECO/WARWICK Allied of India (Mumbai) in amount of PLN 33 154 thousand. As at December 31st 2016, the Group carried assets held for sale a part of land owned by SECO/WARWICK Allied of India (Mumbai), worth PLN 104 thousand.

Note 8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares by the weighted average number of outstanding ordinary shares in the period.

Diluted earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

Item	Dec 31 2017	Dec 31 2016
Net profit/(loss) from continuing operations attributable to shareholders	-25,135	27,318
Loss from discontinued operations attributable to shareholders	-16,725	-7,531
Net profit/(loss) attributable to owners of the parent	-41,860	19,787
Interest on redeemable preference shares convertible into ordinary shares	-	-
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**-41,860**	**19,787**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	10,298,554	10,660,812
Earnings per share	**-4.06**	**1.86**
Dilutive effect:		

Number of potential subscription warrants	-	-
Number of potential shares issued at market price	-	-
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	10,298,554	10,660,812
Diluted earnings per share	**-4.06**	**1.86**

Note 9. DIVIDENDS PROPOSED OR APPROVED BY THE DATE OF AUTHORISATION OF THESE FINANCIAL STATEMENTS

On May 26th 2017, the Annual General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to pay PLN 4,947,027.54 (four million, nine hundred and forty-seven thousand, twenty-seven złoty, fifty-four grosz) as dividend for 2016. Dividend per share was PLN 0.51. The dividend record date and the dividend payment date were July 4th 2017 and July 18th 2017, respectively.

Note 10. PROPERTY, PLANT AND EQUIPMENT

Item	Dec 31 2017	Dec 31 2016
Tangible assets	72,487	95,553
Tangible assets under construction	5,697	2,738
Prepayments for tangible assets under construction	-	-
Property, plant and equipment	**78,184**	**98,292**

OWNERSHIP STRUCTURE – net amount	Dec 31 2017	Dec 31 2016
Owned	73,751	93,858
Used under lease, tenancy or similar contract	4,433	4,433
Total	**78,184**	**98,292**

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2017

Item	Land	Buildings and structures	Machinery and equipment	Vehicles	Other tangible assets	Total
Gross carrying amount as at Jan 1 2016	**7,464**	**56,251**	**60,578**	**10,456**	**8,018**	**142,767**
Increase, including:	**216**	**2,172**	**3,742**	**2,675**	**1,706**	**10,511**
acquisitions	-	2,191	3,423	159	1,706	7,479
tangible assets generated internally	-	206	-	-	-	206
concluded lease contracts	-	-	-	2,516	-	2,516
other	216	- 225	319	-	-	310
Decrease, including:	**6,797**	**16,385**	**2,280**	**1,777**	**3,497**	**30,735**
sale	-	-	46	1,266	-	1,312
liquidation	-	429	942	89	31	1,492
reclassification – assets held for sale	6,797	15,956	1,292	422	3,419	27,885
Other	-	-	-	-	47	47

Gross carrying amount as at Dec 31 2017	**883**	**42,038**	**62,040**	**11,354**	**6,228**	**122,543**
Cumulative amortisation as at Jan 1 2017	**-**	**13,206**	**30,541**	**6,243**	**5,636**	**55,626**
Increase, including:	**-**	**1,038**	**4,631**	**1,387**	**542**	**7,597**
amortisation	-	1,038	4,631	1,387	542	7,597
Decrease, including:	**-**	**3,571**	**1,304**	**1,414**	**2,456**	**8,747**
sale	-	11	441	38	78	569
liquidation	-	109	72	1,059	-	1,240
revaluation	-	-	-	-	-	-
reclassification – assets held for sale	-	3,451	791	317	2,378	6,938
Cumulative amortisation as at Dec 31 2017	**-**	**10,673**	**33,867**	**6,215**	**3,721**	**54,476**
Impairment losses as at Jan 1 2017	**-**	**1,422**	**1,005**	**3**	**0**	**2,430**
Increase, including:	**-**	**-**	**-**	**-**	**-**	**-**
impairment	-	-	-	-	-	-
Decrease, including:	**-**	**1,422**	**-**	**-**	**-**	**1,422**
- write-downs/impairment losses reversed	-	1,422	-	-	-	1,422
Impairment losses as at Dec 31 2017	**-**	**- 0**	**1,005**	**3**	**0**	**1,008**
Net exchange differences on translating financial statements into presentation currency	822	2,534	1,446	215	412	5,428
Net carrying amount as at Dec 31 2017	**1,705**	**33,898**	**28,614**	**5,351**	**2,919**	**72,487**

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2016

Item	Land	Buildings and structures	Machinery and equipment	Vehicles	Other tangible assets	Total
Gross carrying amount as at Jan 1 2016	**8,136**	**56,196**	**57,546**	**10,530**	**8,462**	**140,870**
Increase, including:	**-**	**4,520**	**5,372**	**2,027**	**499**	**12,419**
acquisitions	-	4,520	5,372	289	418	10,599
concluded lease contracts	-	0	-	1,738	-	1,738
Other	-	-	-	0	81	81
Decrease, including:	**672**	**4,465**	**2,340**	**2,102**	**943**	**10,521**
sale	464	-	0	887	60	1,411
liquidation	-	171	1,488	785	156	2,599
sale of S/W Brasil	-	4,294	778	337	646	6,056
reclassification – assets held for sale	104	-	-	-	-	104
Other	104	-	74	92	81	351
Gross carrying amount as at Dec 31 2016	**7,464**	**56,251**	**60,578**	**10,456**	**8,018**	**142,767**
Cumulative amortisation as at Jan 1 2016	**-**	**12,230**	**27,419**	**6,415**	**5,179**	**51,243**

Increase, including:	**-**	**1,668**	**5,126**	**1,270**	**797**	**8,861**
amortisation	-	1,668	5,126	1,270	797	8,861
Decrease, including:	**-**	**691**	**2,005**	**1,441**	**340**	**4,478**
sale	-	-	496	838	1	1,335
liquidation	-	139	455	290	81	964
revaluation	-	-	46	-	61	107
sale of S/W Brasil	-	553	1,008	313	198	2,072
Cumulative amortisation as at Dec 31 2016	**-**	**13,206**	**30,541**	**6,243**	**5,636**	**55,626**
Impairment losses as at Jan 1 2016	**-**	**-**	**526**	**13**	**345**	**884**
Increase, including:	**-**	**1,422**	**115**	**3**	-	**1,540**
impairment	-	1,422	115	3	-	1,540
Impairment losses as at Dec 31 2016	-	**1,422**	**1,005**	**3**	**0**	**2,430**
net exchange differences on translating financial statements into presentation currency	2,058	4,825	3,125	303	531	10,842
Net carrying amount as at Dec 31 2016	**9,522**	**46,448**	**32,157**	**4,513**	**2,913**	**95,553**

Tangible assets under construction:

Tangible assets under construction as at Jan 1 2017	*Expenditure incurred in the financial year*	*Accounting for the expenditure*					*As at Dec 31 2017*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	*Intangible assets*	
2,738	**8,989**	1,328	2,866	139	1,312	385	**5,697**

Tangible assets under construction as at Jan 1 2016	*Expenditure incurred in the financial year*	*Accounting for the expenditure*					*As at Dec 31 2016*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	*Intangible assets*	
10,197	**4,948**	4,357	4,898	1891	573	689	**2,738**

On May 22nd 2013, SECO/WARWICK S.A. executed a USD 3,000 thousand (PLN 12,538 thousand) investment loan agreement with Bank Handlowy w Warszawie S.A.The facility was contracted to finance acquisition of shares in Engefor Engenharia Industria e Comercio Ltda.

It is secured by a mortgage of up to USD 3,750 thousand created on the perpetual usufruct right to a property situated at ul. Zachodnia in Świebodzin and the related ownership title to a building, held by SECO/WARWICK S.A., with its registered office at ul. Zachodznia 76, Świebodzin, Poland, and entered in the Land and Mortgage Register under No. ZG1S/00010363/4.

On February 3rd 2015, SECO/WARWICK S.A. executed a PLN 41,250,000 investment loan agreement with mBank S.A. of Warsaw. The facility was contracted to finance the repurchase of up to 1,500,000 Company shares under the share buyback programme established pursuant to Resolution No. 5 of the Company's Extraordinary General Meeting of October 30th 2014. As at December 31st 2017, the total amount drawn under the facility was PLN 14,204,575.00.

The loan is secured by a contractual mortgage created over a property owned by the State Treasury and comprising the following lots:

- Nos. 94/6, 951/1, 951/2, situated at ul. Sobieskiego 8, Świebodzin
- No. 95/7, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/94, situated at ul. Zachodnia 76, Świebodzin
- Nos. 94/16, 94/22, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/4, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/19, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/25, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/80, situated at ul. Zachodnia 76, Świebodzin
- No. 94/14, situated at ul. Sobieskiego 8, Świebodzin.

Leased tangible assets

Tangible assets	Dec 31 2017			Dec 31 2016		
	Gross amount	Depreciation	Net amount	Gross amount	Depreciation	Net amount
Real property	-	-	-	-	-	-
Machinery and equipment	-	-	-	-	-	-
Vehicles	6,218	1,785	4,433	4,080	1,337	2,743
Other tangible assets	-	-	-	-	-	-
Total	**6,218**	**1,785**	**4,433**	**4,080**	**1,337**	**2,743**

As at December 31st 2017 and December 31st 2016, the Group did not use any machinery or equipment under finance lease contracts or lease contracts with a purchase option.

Note 11. INTANGIBLE ASSETS

OWNERSHIP STRUCTURE – net amount	Dec 31 2017	Dec 31 2016
Owned	36,756	29,619
Used under lease, tenancy or similar contract	-	-
Total	**36,756**	**29,619**

Changes in intangible assets (by type) in the period January 1st–December 31st 2017

Item	*Patents and licences, software*	*Development expense*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2016	**7,646**	**27,955**	**5,093**	**40,693**

Increase, including:	**203**	**9,370**	**-**	**9,574**
acquisitions	203	9,370	-	9,574
Other	-	-	-	-
Decrease, including:	**-**	**-**	**-**	**-**
liquidation	-	-	-	-
Gross carrying amount as at Dec 31 2017	**7,849**	**37,325**	**5,093**	**50,267**
Cumulative amortisation as at Jan 1 2017	**4,387**	**4,233**	**2,540**	**11,159**
Increase, including:	**510**	**1,353**	**543**	**2,406**
amortisation	484	1,353	543	2,380
Other	26	-	-	26
Decrease, including:	**-**	**25**	**-**	**25**
Other	-	25	-	25
Cumulative amortisation as at Dec 31 2017	**4,897**	**5,561**	**3,083**	**13,540**
Impairment losses as at Jan 1 2017	-	-	-	-
Increase:	-	-	-	-
Decrease:	-	-	-	-
Impairment losses as at Dec 31 2017	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	22	7	-	29
Net carrying amount as at Dec 31 2017	**2,974**	**31,771**	**2,010**	**36,756**

Changes in intangible assets (by type) in the period January 1st–December 31st 2016

Item	***Patents and licences, software***	***Development expense***	***Other intangible assets***	***Total***
Gross carrying amount as at Jan 1 2016	**8,845**	**18,784**	**5,084**	**32,713**
Increase, including:	**713**	**9,174**	**14**	**9,901**
acquisitions	690	9,174	14	9,878
Other	23	0	0	23
Decrease, including:	**1,913**	**3**	**5**	**1,921**
liquidation	1,907	3	5	1,915
sale of S/W Brasil	6	0	-	6
Gross carrying amount as at Dec 31 2016	**7,646**	**27,955**	**5,093**	**40,693**
Cumulative amortisation as at Jan 1 2016	**5,838**	**3,048**	**1,985**	**10,870**
Increase, including:	**309**	**1,186**	**559**	**2,055**
amortisation	287	1,186	559	2,032
Other	23	-	-	23
Decrease, including:	**1,760**	**1**	**4**	**1,765**

liquidation	1,760	1	4	**1,765**
Cumulative amortisation as at Dec 31 2016	**4,387**	**4,233**	**2,540**	**11,159**
Impairment losses as at Jan 1 2016	-	-	-	-
Increase:	-	-	-	-
Decrease:	-	-	-	-
Impairment losses as at Dec 31 2016	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	79	7	-	86
Net carrying amount as at Dec 31 2016	**3,338**	**23,729**	**2,553**	**29,619**

Intangible assets are not pledged as security for liabilities.

As at December 31st 2017 and December 31st 2016, the Group had no intangible assets held for sale.

In 2017 and 2016, no impairment losses were recognised.

The Group companies which incur significant research and development costs are SECO/WARWICK Europe (R&D costs of PLN 9,374 thousand) and Retech (R&D costs of PLN 2,304 thousand).

Note 12. GOODWILL

Item	**Dec 31 2017**	**Dec 31 2016**
Consolidation goodwill at beginning of period	43,004	40,194
Decrease in goodwill – impairment loss on SECO/WARWICK Corporation	-	-
Decrease in goodwill – impairment loss on Retech Systems	-	-
Exchange differences on translation of goodwill	-6,985	2,809
Total goodwill at end of period	**36,019**	**43,003**

In 2017, no increase/decrease in goodwill was recognised.

The Parent carried out impairment tests on goodwill in the subsidiaries Retech Systems LLC and SECO/WARWICK Germany GmbH. Tests performed at two subsidiaries revealed no goodwill impairment. The recoverable amounts attributable to individual cash-generating units were determined based on their calculated value in use.

Cash-generating unit

Value in use was calculated based on the 2018 budget and projections for the following four years. The projections reflect the management's business experience and an analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH (Germany)*
Average discount rate (pre-tax)	11.61%	13.34%

Average revenue growth rate	12.7%	6.0%
Growth rate after the forecast period	1.0%	1.0%
Goodwill	34,325	1,693
Net assets	19,654	-5,008
Recoverable amount	63,337	6,358
Goodwill impairment (PLN '000)	NO	NO

Other important assumptions for the calculation of the value in use:

Estimates of the value in use of a cash-generating unit are sensitive to changes of the following variables:

• free cash flows;

• discount rates;

• market share in the projection period.

Free cash flows are estimated based on historical data concerning individual cash-generating units and forecast operating profit, depreciation and amortisation, capital expenditure, changes in non-cash current assets and non-financial liabilities.

Discount rate – the weighted average cost of capital (WACC) was used as a discount rate for the purposes of impairment tests; WACC was adjusted on a case-by-case basis (i.e. for the individual tested equity interests and goodwill) for premiums and discounts related to risks specific to a given tested asset (as well as for country risk and differences in the inflation rates expected in the countries in which the individual companies of the Seco/Warwick Group operate).

Growth rates are estimated based on the published findings of industry research.

Market assumptions - these assumptions are important because, in addition to the use of industry data for growth rates, the management assesses how the assets and financial position of individual cash-generating units may change during the financial period against competitors. The management expects the market share to remain stable over the projection period.

Sensitivity to changes of assumptions

In testing goodwill for impairment, the recoverable amount was simulated with changed discount rates in the years 2018-2022 for each company:

Item	*Retech Systems LLC (USA)*	*SECO/WARWICK Germany GmbH (Germany)*
Recoverable amount:		
Discount rates assumed in the test	63,337	6,358
Discount rates increased by 1%	58,268	5,805
Discount rates increased by 3%	50,410	4,854
Revenue increased by 1%	63,250	6,330
Revenue increased by 3%	63,100	6,292
Gross margin increase by 1%	74,446	7,604
Gross margin increased by 3%	96,664	10,054

Note 13. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

OOO SCT

The Group holds 50% of ordinary shares in OOO SCT (a company operating under Russian law), representing 50% of the total voting rights in the company. The Russian shareholder holds the other 50% of the voting rights.

The investment in OOO SCT is measured with the equity method in accordance with IAS 28.

Investment in associate	
As at Dec 31 2016	**0**
Share of profit of associate – 2017	98
Exchange differences on translating foreign operations	-217
Goodwill impairment losses	119
As at Dec 31 2017	**0**

On the basis of the impairment test, the full investment in the associate was written off.

As prescribed by IAS 12.44, the Group recognises deferred tax for temporary differences arising from investments in associates only to the extent it is probable that the temporary difference will reverse in the foreseeable future.

The Parent's Management Board considers the investment in OOO SCT to be a long-term investment (currently there are no plans to sell the shares). Therefore, in accordance with IAS 12.44, no deferred tax was recognised in respect of the temporary differences arising from investments in associates.

Note 14. INVENTORIES

Item	**Dec 31 2017**	**Dec 31 2016**
Materials (at cost)	29,354	31,097
Semi-finished products and work in progress	10,740	7,031
Finished goods	1,180	1,098
Merchandise	84	151
Total inventories (carrying amount)	**41,357**	**39,377**
Write-downs	3,326	3,807
Gross inventories	**44,683**	**43,184**

CHANGE IN INVENTORY WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	**Total**
Jan 1 2016	**1,748**	**1,382**	**213**	**5**	**3,347**
Increase, including:	**463**	**-**	**-**	**-**	**463**
- write-downs recognised in correspondence with other expenses	463	-	-	-	463

Net exchange differences on translating financial statements into presentation currency	-	-	-	-	-
Decrease, including:	**3**	**-**	**-**	**-**	**3**
- write-downs reversed in correspondence with other income	147	-	-	-	147
Net exchange differences on translating financial statements into presentation currency	-144	-	-	-	-144
Dec 31 2016	**2,208**	**1,382**	**213**	**5**	**3,807**
Increase, including:	**64**	**1,868**	**-**	**-**	**1,931**
- write-downs recognised in correspondence with other expenses	64	1,868	-	-	1,931
Net exchange differences on translating financial statements into presentation currency	-	-	-	-	-
Decrease, including:	**2,378**	**-**	**35**	**-**	**2,413**
- write-downs reversed in correspondence with other income	1,930	-	35	-	1,965
Net exchange differences on translating financial statements into presentation currency	448	-	-	-	448
Dec 31 2017	**-107**	**3,249**	**178**	**5**	**3,325**

The reversal of revaluation write-offs occurred after the verification of inventories, and write-offs for inventories deemed to be of full value were reversed.

Note 15. LONG-TERM CONTRACTS

Included in the consolidated financial statements at amounts due:	**Dec 31 2017**	**Dec 31 2016**
From customers under construction contracts	103,780	106,554
To customers under construction contracts	-100,271	-102,015
	3,509	4,539

Costs incurred to the reporting date are costs incurred from the commencement of a long-term contract to the reporting date. The data in the table covers all contracts recognised by the Group companies in their records as at the reporting date.

Revenue from a contract in progress recognised as revenue in 2017 amounted to PLN 560,596 thousand (2016: PLN 548,674 thousand).

As at December 31st 2017, prepayments received from customers for contract work totalled PLN 141,064 thousand (2016: PLN 96,102 thousand).

Note 16. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2017	Dec 31 2016
Trade receivables (net)	**69,071**	**97,827**
non-current	**-**	**0**
- from related entities	-	0
- from other entities	-	0
current	**69,071**	**97,827**
- from related entities	-	0
- from other entities	69,071	97,827
Impairment losses (positive value)	**4,502**	**18,508**
Trade receivables (gross)	**73,573**	**116,336**
Other receivables:		
non-current	**4,532**	**5,567**
current	**17,240**	**36,416**
taxes, customs duties and social security receivable	4,615	15,641
other receivables:	12,625	20,775
Other receivables (gross)	**21,772**	**41,983**

As at December 31st 2017, trade receivables of PLN 4,502 thousand (2016: PLN 18,508 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised.

Changes in impairment losses on receivables were as follows:

Item	Dec 31 2017	Dec 31 2016
As at beginning of the period	**18,508**	**19,478**
Increase	447	1,929
Use (-)	-64	-3,131
Assets designated as assets for sale	-13,916	
Net exchange differences on translating financial statements into presentation currency	-474	232
As at end of the period	**4,502**	**18,508**

Aging of trade receivables (gross) as from the end of the reporting period:

Item	Dec 31 2017	Dec 31 2016
Up to 1 month	33,137	55,455
More than 1 month, up to 6 months	19,079	22,299
more than 6 months, up to 1 year	5,412	9,433
more than 1 year	1,288	482
past due	10,155	10,158
Total trade receivables (net)	**69,071**	**97,827**
Long-term receivables	-	-
Short-term receivables	69,071	97,827

Impairment losses on trade receivables	4,502	18,508
Total trade receivables (gross)	**73,573**	**116,336**

Note 17. OTHER FINANCIAL ASSETS AND LIABILITIES

Loans advanced (including loans advanced to members of the Management Board)

	Dec 31 2017	Dec 31 2016
Increase in loans advanced, including:	**74**	**134**
- non-current	-	67
- current	74	67

Financial assets

Item	Dec 31 2017	Dec 31 2016
Financial assets available for sale	3	3
Long-term deposits	-	8,279
Other	88	154
Derivative financial instruments	7,237	199
Total financial assets, including:	**7,328**	**8,636**
- non-current	2,000	8,369
- current	5,328	266

Financial liabilities

Item	Dec 31 2017	Dec 31 2016
Bank loans	78,239	77,441
Other financial liabilities:	4,856	9,575
- derivative financial instruments	19	6,694
- lease liabilities	4,412	2,762
- other financial liabilities	425	119
Total financial liabilities, including:	**83,095**	**87,015**
- non-current	11,351	30,023
- current	71,744	56,992

	Dec 31 2017		Dec 31 2016	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments	7,237	19	199	6,694
Total financial assets and liabilities at fair value through profit or loss				
- non-current	-	-	-	-
- current	-	-	-	-

Total hedging instruments				
- non-current	1,983	-	-	559
- current	5,254	19	199	6,135

Disclosures of derivative financial instruments which qualify for hedge accounting

In 2017, SECO/WARWICK EUROPE S.A. used currency forwards to hedge on average 55% of its export cash flows denominated in EUR, 70% of its cash flows denominated in USD, and 72% of its cash flows denominated in GBP. The purpose was to hedge the budgeted exchange rates for contracts. Any changes in the value of EUR-, USD- or GBP-denominated cash flows are offset by changes in the fair value of the hedging instrument. Hedge accounting is applied if the criteria provided for in IAS 39:88 are met.

The balance-sheet valuation of derivative instruments is recognised in equity. If a transaction which has been hedged with a currency forward affects profit or loss, the valuation previously recognised in equity is reclassified to profit or loss.

Given that transactions in derivative instruments are entered into for the purposes of concluded long-term contracts (accounted for based on the stage of completion measured by reference to contract costs incurred), the Group assumed that the transactions affect profit or loss in proportion to the percentage of completion of a given contract.

The Group further assumed that the measurement of derivative instruments as at the reporting date provided by partner banks reliably reflect the fair value of its currency forwards, and so this value was disclosed in its accounting records.

The table below presents total values of hedging relationships open as at December 30th 2017.

Dec 29 2017	Notional amount of contract (EUR '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 29 2016	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	56,085	30,490	23,211	3,803	2,492	1,311	from Jan 15 to Sep 30 2018

Dec 29 2017	Notional amount of contract (USD '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 29 2016	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	50,566	32,214	11,614	2,014	803	1,211	from Jan 31 2018 to Jan 31 2019

Dec 29 2017	Notional amount of contract (CZK '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 29 2016	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	31,000	31,000	27,900	68	1	67	from Jan 30 2018 to Apr 27 2019

Dec 29 2017	Notional amount of contract (GBP '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 29 2017	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	1,355	940	550	41	31	10	from Sep 28 2017 to Jan 31 2018

The table below presents total values of hedging relationships open as at December 31st 2016.

Dec 31 2016	Notional amount of contract (EUR '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 30 2016	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	58,044	34,376	22,127	-1,195	-748	-447	from Jan 31 2017 to Dec 5 2018
Dec 31 2016	**Notional amount of contract (USD '000)**	**Original notional amount of hedging instrument**	**Remaining notional amount of hedging instrument as at Dec 30 2016**	**Fair value of instrument (PLN '000)**	**Amount recognised in profit or loss (PLN '000)**	**Amount recognised in equity (PLN '000)**	**Date of final settlement of hedging instrument**
TOTAL	41,887	24,599	14,114	-5,220	-2,877	-2,343	from Jan 12 2017 to May 4 2018
Dec 31 2016	**Notional amount of contract (CZK '000)**	**Original notional amount of hedging instrument**	**Remaining notional amount of hedging instrument as at Dec 30 2016**	**Fair value of instrument (PLN '000)**	**Amount recognised in profit or loss (PLN '000)**	**Amount recognised in equity (PLN '000)**	**Date of final settlement of hedging instrument**
TOTAL	31,000	31,000	31,000	-66	-40	-26	from Jan 30 2017 to Jan 31 2018

Note 18. OTHER NON-FINANCIAL ASSETS

Item	Dec 31 2017	Dec 31 2016
Insurance policies	1,590	2,100
Subscriptions	20	2
VAT to be settled in the following period	1,115	1,785
Lease of software	544	521
Prepayments	0	644
Other	680	920
Total current prepayments and accrued income	**3,949**	**5,972**

Note 19. CASH AND CASH EQUIVALENTS

Item	Dec 31 2017	Dec 31 2016
Cash at banks and cash in hand	50,285	36,979
Short-term deposits	1,792	4,168
Other cash equivalents	-	-
Total cash and cash equivalents	**52,077**	**41,147**

Note 20. SHARE CAPITAL AND STATUTORY RESERVE FUNDS/CAPITAL RESERVES

Share capital

Item	Dec 31 2017	Dec 31 2016
Number of shares	10,298,554	10,298,554
Par value of shares	0.2	0.2
Share capital	2,059	2,059
Share capital restated using hyperinflation index	1,557	1,557
Share capital at end of the period	**3,616**	**3,616**

Shareholding structure:

Shareholders as at Dec 31 2017	Share preference	Type of limitation on rights to shares	Number of shares
SW Holding	None	-	3,387,139
Spruce Holding Limited Liability Company (USA)	None	-	1,123,337
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	None	-	1,046,573
Bleauhard Holdings LLC	None	-	637,028
Nationale-Nederlanden Otwarty Fundusz Emerytalny	None	-	600,000
SECO/WARWICK S.A.	None	-	598,500
Metlife OFE	None	-	577,470
Other	None	-	2,328,507
TOTAL			**10,298,554**

Changes in share capital:

Item	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Share capital at beginning of the period	**3,616**	**3,704**
Share capital increases during the period		
Share capital increase	-	-
Share capital restated using hyperinflation index (IAS 19)	-	-
Share capital reductions during the period	**-**	**88**
Cancellation of treasury shares	-	**88**
Share capital at end of the period	**3,616**	**3,616**

Other components of equity

Item	Statutory reserve funds	Other components of equity
Balance as at Jan 1 2016	**190,271**	**24,231**
Increase		
Cancellation of treasury shares	-	88
Disposal of own shares	-	100
Transfer from capital reserve to statutory reserve funds	15,705	-
Management stock options	-	571
Decrease		
Transfer from capital reserve to statutory reserve funds	-	-15,705
Coverage of loss brought forward	-23,519	-
Disposal of own shares	-29	-
Balance as at Dec 31 2016	**182,429**	**9,284**
Increase		
Management stock options	**-**	804
Decrease		
Transfer of retained earnings/deficit to statutory reserve funds	-6,286	-
Balance as at Dec 31 2017	**176,143**	**10,088**

Other capital reserves were recognised in connection with share buyback and implementation of the management stock option plan.

Non-controlling interests:

	Dec 31 2017	Dec 31 2016
Non-controlling interests at beginning of the period	**-543**	**450**
Recognition of share of S/W Retech's profit or loss for the period	171	-148
Accounting for increase in equity interest held in S/W Retech	434	
Recognition of share of exchange differences on translation of S/W Retech's operations	21	-2
Recognition of share of S/W Allied's profit or loss for the period	-155	5
Accounting for increase in equity interest held in S/W Allied		-1,314

Recognition of share of exchange differences on translation of S/W Allied's operations	14	466
Non-controlling interests at end of the period	**-58**	**-543**

Note 21. FINANCIAL LIABILITIES

Item	Dec 31 2017	Dec 31 2016
Bank loans	78,239	77,441
Other financial liabilities:	4,856	9,575
- valuation of financial instruments	19	6,694
- lease liabilities	4,412	2,762
- other financial liabilities	425	119
Total financial liabilities	**83,095**	**87,015**
- non-current	11,351	30,023
- current	71,744	56,992

Short-term and long-term borrowings

Item	Dec 31 2017	Dec 31 2016
Long-term borrowings	**8,055**	**27,462**
Overdraft facility – fixed interest rate	171	8,652
Investment loan – variable interest rate	7,885	15,517
Preference shares	-	3,293
Short-term borrowings	**70,184**	**49,979**
Overdraft facility – fixed interest rate	5,235	24,323
Overdraft facility – variable interest rate	57,249	16,413
Investment loan – variable interest rate	7,413	8,961
Credit card limit	286	282
Loan		
Total borrowings	**78,239**	**77,441**

Bank loans by maturity:

Item	Dec 31 2017	Dec 31 2016
Short-term borrowings	70,184	49,978
Long-term borrowings	8,055	27,462
- repayable in more than 1 year, up to 3 years	8,055	25,898
- repayable in more than 3 years, up to 5 years	-	1,565
Total borrowings	**78,239**	**77,441**

Borrowings by currency:

Item	Dec 31 2017		Dec 31 2016	
	amount in foreign currency	amount in PLN	amount in foreign currency	amount in PLN
PLN	-	71,555	-	37,023
EUR	370	1,541	571	2,525
USD	923	3,202	3,642	14,995
CNY	3,627	1,940	6,881	4,139
INR	0	0	304,759	18,758
BRL	-	-	-	-
Total borrowings		**78,239**		**77,441**

Note 22. LEASES

Operating leases

Liabilities under operating leases – the Group as a lessee:

Item	Dec 31 2017	Dec 31 2016
Lease payments made	**300**	**360**
Outstanding balance:		
Up to 1 year	131	82
From 1 year to 5 years	267	116
Over 5 years	-	-
Total	**398**	**198**

In 2017 and 2016, operating lease contracts included lease of office equipment and vehicles used by SECO/WARWICK Corporation.

Finance leases

As at December 31st 2017 and December 31st 2016, liabilities under finance leases and lease contracts with a purchase option were as follows:

Item	Dec 31 2017		Dec 31 2016	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Up to 1 year	1,307	1,116	793	828
From 1 year to 5 years	3,722	3,296	2,612	1,934
Over 5 years	-	-	-	-
Total minimum lease payments	**5,028**	**4,412**	**3,406**	**2,762**
Finance costs	616	-	643	-
Present value of minimum lease payments, including:	**4,412**	**4,412**	**2,762**	**2,762**
current	1,116	1,116	656	656
non-current	3,296	3,296	2,106	2,106

Note 23. TRADE AND OTHER PAYABLES

Item	Dec 31 2017	Dec 31 2016
current	76,096	81,016
non-current	0	429
Total	**76,096**	**81,445**

TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Item	Dec 31 2017	Dec 31 2016
Trade payables		
To related entities	-	-
To other entities	59,981	67,712
Total	**59,981**	**67,712**
Taxes, customs duties, social security and other charges payable	6,048	6,839
Salaries and wages payable	6,170	3,970
Income tax payable	188	209
Other liabilities	3,709	2,286
Total other liabilities	**16,114**	**13,304**
Total trade and other payables	**76,096**	**81,016**

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 62,720 thousand as at the end of 2017, and PLN 68,429 thousand as at the end of 2016. The guarantees were issued in respect of:

Items		Dec 31 2017	Dec 31 2016
APG	advance payment guarantee	43 435	56 564
BB	bid bond	-	147
CRG	credit repayment guarantee	2 085	-
PBG	performance bond guarantee	1 969	7 393
SBLC	stand-by letter of credit	11 140	4 324
WAD	bid bond guarantee	4 091	-
CRB	credit repayment bond.	-	-
Total		**62 720**	**68 429**

Social assets and liabilities of the Company Social Benefits Fund (Polish companies)

The Act on Company Social Benefits Fund of March 4th 1994 (as amended) stipulates that an employer must set up a Company Social Benefits Fund if it has more than 20 full-time employees. The Company has set up such a fund and makes periodic contributions to the fund in the amount of the basic contribution / contribution agreed upon with the trade unions. The fund holds property, plant and equipment. The purpose of the fund is to subsidize the Company's social activities, loans granted to its employees and other social costs.

The Group set off the fund's assets against its liabilities towards the fund, as the fund's assets do not represent a separate category of assets.

The table below presents analytic data on the fund's assets, liabilities and expenses, as well as the fund's net balance.

Item	Dec 31 2017	Dec 31 2016
Total tangible assets contributed to the fund	-	-
Loans advanced to employees	45	45
Cash	204	59
Liabilities to the fund	203	99
Net balance	47	5
Contributions to the fund during the year	626	523

Capital commitments

As at December 31st 2017, the Group had commitments of PLN 2,676 thousand to incur capital expenditure on property, plant and equipment.

Note 24. PROVISIONS

EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

Retiring employees of the Polish companies of the Group received retirement bonuses in amounts established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the Group recognises a provision for the present value of the retirement bonus obligations. The amount of the provision and reconciliation of changes in the provision during the year are presented in the table below.

Provision for retirement bonuses and similar benefits

LONG-TERM PROVISION FOR RETIREMENT BONUSES AND BENEFITS	from Jan 1 2017 to Dec 31 2017	from Jan 1 2016 to Dec 31 2016
as at beginning of the period	**5,113**	**6,277**
increase	291	100
- provisions of acquired entities	-	-
- provision recognised	291	100
provision used	-	-
provision reversed	2,584	1,264
as at end of the period	**2,820**	**5,113**

The actuary made the following assumptions as at the end of the reporting period to calculate the amount of the obligations:

Item	Dec 31 2017	Dec 31 2016

Discount rate (%)	3.2	3.1
Expected inflation rate (%)	2.3	2.5
Expected rate of growth of salaries and wages (%)	5.0	5.0

CHANGE IN SHORT-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY CATEGORY)	**from Jan 1 2017 to Dec 31 2017**	**from Jan 1 2016 to Dec 31 2016**
1. Provision for accrued holiday entitlements		
as at beginning of the period	**4,903**	**2,944**
- provision recognised	26,931	19,733
- provision used	86	-
- provision reversed	26,532	17,774
- separation of discontinued operations	259	-
as at end of the period	**4,957**	**4,903**
2. Provision for bonuses		
as at beginning of the period	**6,651**	**5,076**
- provision recognised	23,494	18,800
- provision used	3,876	2,581
- provision reversed	20,922	14,644
- translation differences	-	-
as at end of the period	**5,347**	**6,651**
3. Provision for retirement bonuses		
as at beginning of the period	**28**	**3,869**
- provision recognised	24	0
- provision used	-	-
- provision reversed	27	3,841
- translation differences	-	-
as at end of the period	**25**	**28**

The table below presents the main assumptions adopted by the actuary to calculate the amount of pension benefits obligation at SECO/WARWICK Corp. as at the reporting date:

Item	**Dec 31 2017**	**Dec 31 2016**
Discount rate (%)	3.31	3.73
Expected rate of return on assets (%)	7.00	7.00

RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)

Item	**2017**	**2016**
Change in plan's obligation		
Obligation at beginning of the period	**15,286**	**19,132**
Administration costs	-	-
Interest expense	552	720
Actuarial gain/(loss)	213	-422
Contributions paid	-950	-1,078
Obligation at end of the period	**15,102**	**18,352**

Change in plan's assets		
Fair value of plan's assets at beginning of the period	**12,459**	**14,373**
Actual return on plan assets	1,967	907
Contributions paid in	209	752
Contributions paid out	-985	-1,078
Fair value of plan's assets at end of the period	**13,651**	**14,954**

OTHER PROVISIONS

Item	*Provision for warranty repairs and returns*	*Provision for penalty*	*Other provisions*	*Other provisions – contingent liability*	*Total*
As at Dec 31 2015	**214**	**-**	**9,148**	**-**	**9,362**
Provisions recognised during the financial year	18	-	-	-	19,076
Provisions used	-	-	-1,905	-	-1,905
Provisions reversed	-109	-	-1,152	-	-20,319
As at Dec 31 2016	**123**	**-**	**6,091**	**-**	**6,214**
Provisions recognised during the financial year	263	-	989	-	1,252
Provisions used	-	-	-1,922	-	-1,922
Provisions reversed	-80	-	-	-	-
Assets held for sale	-45	-	-		-45
As at Dec 31 2017	**261**	**-**	**5,158**	**-**	**5,419**

Note 25. DEFERRED INCOME

Item	Dec 31 2017	Dec 31 2016
- grant [1]	13,809	14,589
Deferred income, including:	**13,809**	**14,589**
- non-current	12,793	13,574
- current	1,015	1,015

[1] grants for research and development projects from the Polish Agency for Enterprise Development (PARP) and the Polish National Centre for Research and Development (NCBiR)

Note 26. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	Dec 31 2017	Dec 31 2016
Depreciation and amortisation	**10,236**	**11,071**
Amortisation of intangible assets	2,254	2,208
Depreciation of property, plant and equipment	7,932	8,853
Depreciation of investment property	51	10

Change in provisions (excluding elimination of income tax liabilities) results from the following items:	**1,956**	**-4,880**
Net change in provisions	-7,361	-4,129
Elimination of change in deferred tax liabilities	-	-1,011
Exchange differences	2,873	261
Assets held for sale	3,863	
Provisions for employee benefits	2,581	
Change in inventories results from the following items:	**-4,604**	**-3,983**
Net change in inventories	-1,980	-4,647
Assets held for sale	-575	
Exchange differences	-2,050	664
Change in receivables (excluding elimination of income tax receivable) results from the following items:	**19,814**	**-13,941**
Balance-sheet change in short-term receivables	47,932	-17,996
Elimination of income tax receivable	-6,657	159
Assets held for sale	-11,867	
Exchange differences	-9,594	3,897
Change in current liabilities (excluding financial liabilities) results from the following items:	**20,706**	**10,368**
Balance-sheet change in current liabilities	-9,639	12,584
Assets held for sale	20,286	
Change in investment commitments	-2,359	-
Exchange differences	6,767	-2,008
Elimination of income tax payable	-	-207
Change in lease liabilities	-1,054	
Valuation of derivative instruments	6,675	-
Change in prepayments and accrued income and long-term contracts (excluding elimination of income tax assets) results from the following items:	**-758**	**-29,014**
Net change in accruals and deferrals and long-term contracts	2,272	-28,851
Elimination of change in deferred tax assets	-5 271	-
Exchange differences	2,242	-163
Change in other adjustments results from the following items:	**343**	**511**
Management stock options	804	571
Other	-461	-60

Note 27. RELATED PARTIES

Related-party transactions were concluded in the companies' ordinary course of business, on an arm's length basis.

Note 28. REMUNERATION OF KEY PERSONNEL

Senior management of the SECO\WARWICK GROUP comprises members of the Management and Supervisory Boards.

Remuneration of the MANAGEMENT BOARD

Name and surname	Remuneration for the period	Other benefits	Total remuneration for the period
Dec 31 2017			
Paweł Wyrzykowski	1 589	198	1 787
Bartosz Klinowski	438	85	523
Sławomir Woźniak	460	15	475
Wojciech Peret (1)	400	12	412
Total	**2 887**	**309**	**3 197**
Dec 31 2016			
Paweł Wyrzykowski	750	24	774
Jarosław Talerzak	390	23	413
Wojciech Peret	384	19	403
Total	**1 524**	**66**	**1 590**

(1) Remuneration of Mr Wojciech Peret for the period January-August 31st 2017 for serving on the Company's Management Board.

For details of awarded management stock options, see Note 34 "Management stock options."

Remuneration of the SUPERVISORY BOARD

Name and surname	Total remuneration	
	Dec 31 2017	Dec 31 2016
Andrzej Zawistowski, including:	205	223
- for his service as Chairman of the Supervisory Board	120	120
- under contract for advisory services(1)	85	103
Jeffrey Boswell, including:	151	161
- for his service as Member of the Supervisory Board	-	0
- under employment contract(2)	151	161
James A. Goltz, including:	379	840
- for his service as Member of the Supervisory Board	-	0
- under employment contract(3)	379	840
Dr Gutmann Habig (4)	-	46
Henryk Pilarski	54	54
Witold Klinowski, including:	-	196
- for his service as Member of the Supervisory Board(5)	-	20
- under contract for advisory services(6)	-	176
Marcin Murawski (8)	43	44
Paweł Tamborski (9)	42	22
Total	**874**	**1,586**

(1) Under a service contract between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities as USŁUGI DORADCZE Andrzej Zawistowski. The contract of July 2nd 2012 sets the terms and conditions for the provision of technical and product development advisory services.

(2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.

(3) Under an employment contract between Retech Systems LLC and Mr James A. Goltz.

(4) Mr Gutmann Habig was removed from his position of member of the Supervisory Board by Resolution No. 28 of the General Meeting of June 24th 2016.

(5) Mr Witold Klinowski tendered his resignation as member of the Supervisory Board, with effect as of June 24th 2016.

(6) Under a contract for the provision of technical and product development advisory services of October 3rd 2013, executed between SECO/WARWICK EUROPE Sp. z o.o. and Mr Witold Klinowski.

(7) Mr Marcin Murawski was appointed Member of the Supervisory Board by Resolution No. 33 of the General Meeting of May 26th 2015.

(8) Mr Paweł Tamborski was appointed Member of the Supervisory Board by Resolution No. 29 of the General Meeting of June 24th 2016.

Note 29. FINANCIAL ASSETS AND LIABILITIES

Item	Category (IAS 39)	Carrying amount		Maximum credit risk exposure in 2017
		Dec 31 2017	Dec 31 2016	
Financial assets				
Financial assets available for sale (non-current)	AFS	3	3	3
Loans advanced (short-term)	L&R	74	67	-
Loans advanced (long-term)	L&R	0	67	0
Trade and other receivables	L&R	86,311	134,243	86,311
Derivative financial instruments	L&R	5,254	199	5,254
- *Hedging instruments*	L&R	5,254	199	5,254
Cash and cash equivalents	L&R	52,077	41,147	52,077
Financial liabilities				
current				
Interest-bearing borrowings, including:	OFL at AC			
- *Overdraft facility*	OFL at AC	62,770	41,017	-
- *Short-term borrowings*	OFL at AC	7,413	8,961	-
- *Finance lease liabilities (current)*	OFL at AC	1,116	772	-
Trade and other payables	OFL at AC	59,843	62,129	-
Hedging instruments	OFL at AC	19	6,135	-
non-current				
Long-term borrowings bearing interest at variable rates	OFL at AC	8,055	27,462	-
Other liabilities (non-current), including:	OFL at AC	12,793	13,758	-
- *Finance lease liabilities*	OFL at AC	3,296	2,600	-

L&R – Loans and receivables,

OFL at AC – Other financial liabilities at amortised cost.

There are no differences between the carrying amount and the fair value of any of the financial assets and liabilities.

The table presents the fair value hierarchy reflecting the significance of the inputs used in making fair value measurements.

	Dec 31 2017		
	Level 1	**Level 2**	**Level 3**
Financial assets			
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-
Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	5,254	-
- Currency forwards	-	5,254	-
Cash and cash equivalents	-	-	-
TOTAL	**-**	**5,254**	**-**
Financial liabilities			
current			
Interest-bearing borrowings, including:	-	-	-
- *Overdraft facility*	-	-	-
- *Short-term borrowings*	-	-	-
- *Finance lease liabilities (current)*	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	19	-
non-current	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- *Finance lease liabilities*	-	-	-
TOTAL	-	**19**	**-**

	Dec 31 2015		
	Level 1	**Level 2**	**Level 3**
Financial assets			
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-
Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	199	-
- Currency forwards	-	199	-
Cash and cash equivalents	-	-	-
TOTAL	**-**	**199**	**-**
Financial liabilities			
current			

Interest-bearing borrowings, including:	-	-	-
- Overdraft facility	-	-	-
- Short-term borrowings	-	-	-
- Finance lease liabilities (current)	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	6,135	-
non-current	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- Finance lease liabilities	-	-	-
TOTAL	-	**6,135**	**-**

Note 30. EMPLOYMENT STRUCTURE

Item	Dec 31 2017	Dec 31 2016
Blue-collar employees	528	434
White-collar employees	415	456
Employees on parental leaves	3	4
Total	**946**	**894**

Note 31. DISCONTINUED OPERATIONS

The Management Board of SECO / WARWICK S.A. on December 20th 2017, adopted a resolution to sell 98% of shares in SECO / WAWRICK Allied Pvt. Ltd. ("SW Allied") based in India. This information was announced to the public on the same day in current report no. 19/2017.

In the consolidated annual report of the SECO / WARWICK Group for 2017, the operations of SW Allied were recognized in the profit and loss account as discontinued operations, whereas in the Group's balance sheet as assets held for sale and liabilities related to assets held for sale.

Due to the classification of SW Allied as assets held for sale, the consolidated statement of comprehensive income for 2017 will be charged with PLN 12.5 million.

The table below presents discontinued operations.

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revenue from sale of finished goods	17 540	16 194
Revenue from sale of merchandise and materials	-	-
Revenue	**17 540**	**16 194**
Finished goods sold	-15 389	-14 065
Merchandise and materials sold	-	-
Cost of sales	**-15 389**	**-14 065**
Gross profit/(loss)	**2 151**	**2 129**
Other income	584	482
Distribution costs	-213	-51

Administrative expenses	-5 842	-6 433
Other expenses	-419	-1 067
Operating profit/(loss)	**-3 738**	**-4 941**
Finance income	574	962
Finance costs	-1 191	-1 886
Profit/(loss) before tax	**-4 355**	**-5 864**
Actual tax expense	-	-
Net profit/(loss)	**-4 355**	**-5 864**
Settlement of sales	-12 370	**-**
Net profit/(loss)	**-16 725**	**-5 864**

Note 32. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and increase the shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. In order to maintain or adjust the capital structure, the Company may change dividend payments, return capital to shareholders or issue new shares. In the year ended December 31st 2017, no changes were introduced to the objectives, principles and processes applicable in this area.

The Group monitors its equity using a gearing ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Company's net debt includes interest-bearing borrowings, trade and other payables, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to equity holders of the parent, less capital reserve from unrealised net gains.

The gearing ratio at end of the year:

	As at Dec 31 2017	**As at Dec 31 2016**
	PLN'000	**PLN'000**
Debt	82,651	80,813
Cash and cash equivalents	-52,077	-41,147
Net debt	30,574	39,666
Equity	151,190	199,731
Net debt to equity	**20.22%**	**19.86%**

The level of the net debt to equity ratio is a result of the Management Board's conservative approach to debt. Accumulated cash is used to fund the Group's operating activities.

Note 33. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

As part of its operating and financial activities, the Group is exposed to risks related primarily to its financial instruments. Those risks may be broadly defined as market risk, and comprises currency risk, interest rate risk, liquidity risk and credit risk. The Group manages financial risks in order to limit the adverse impact of changes in foreign exchange rates and interest rates, as well as to stabilise cash flows and ensure an appropriate level of financial liquidity and flexibility. The Group's financial risk management policies are determined by the Management Board of the Parent. As part of the risk management process, an expert system for management accounting was developed and implemented. The key parameters of operational and financial risks are monitored on the basis of monthly reports prepared by the Group companies.

33.1 Currency risk

Due to its active and extensive presence on foreign markets, the Group enters into certain sales and purchase transactions denominated in foreign currencies. The Group also has loans and other financial liabilities denominated in foreign currencies. This exposes the Group to the risk of exchange rate fluctuations.

Financial assets and liabilities denominated in foreign currencies and translated into PLN at the closing rate effective as at the reporting date are presented below:

	As at Dec 31 2017	**As at Dec 31 2017**	**As at Dec 31 2016**	**As at Dec 31 2016**
	in foreign currency	**in PLN**	**in foreign currency**	**in PLN**
Liabilities				
EUR	2,794	11,655	2,906	12,854
USD	4,047	14,088	4,547	19,005
Assets				
EUR	11,939	49,795	15,459	68,390
USD	4,104	14,286	5,479	22,899
Notional amount of hedging instrument				
EUR	23,211	96,811	22,127	97,890
USD	11,614	40,432	14,114	58,987
Goodwill				
EUR	406	1,693	391	1,730
USD	9,860	34,325	9,204	38,464

The Group is mainly exposed to foreign currency risk related to EUR and USD.

Presented below is a sensitivity analysis for financial assets and liabilities, showing the effect of movements in the EUR/PLN and USD/PLN exchange rates on the Group's profit or loss and other comprehensive income.

Assumptions:

- exchange rate at reporting date Dec 31 2017

+ 10% increase in exchange rate

- 10% decrease in exchange rate

Exchange rate at Dec 31 2017	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.4813	0.3481	-0.3481
EUR	4.1709	0.4171	-0.4171

Exchange rate at Dec 31 2016	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	4.1793	0.4179	-0.4179
EUR	4.4240	0.4424	-0.4424

Exposure to currency risk changes during the year depending on the volume of transactions carried out in foreign currencies. However, the following sensitivity analysis is considered to be representative of the Group's exposure to foreign currency risk.

Effect on equity		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
ASSETS					
Increase in exchange rate	10%	4,861	6,136	5,149	7,012
Decrease in exchange rate	-10%	-4,861	-6,136	-5,149	-7,012
LIABILITIES AND BANK LOANS					
Increase in exchange rate	10%	-5,452	-7,799	-10,847	-11,074
Decrease in exchange rate	-10%	5,452	7,799	10,847	11,074
TOTAL					
Increase in exchange rate	10%	-591	-1,663	-5,698	-4,062
Decrease in exchange rate	-10%	591	1,663	5,698	4,062

Effect on profit/loss		Effect of USD	Effect of USD	Effect of EUR	Effect of EUR
		Period ended	Period ended	Period ended	Period ended
		Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
ASSETS					
Increase in exchange rate	10%	1,429	2,290	4,979	6,839
Decrease in exchange rate	-10%	-1,429	-2,290	-4,979	-6,839
LIABILITIES AND BANK LOANS					
Increase in exchange rate	10%	-5,452	-7,799	-10,847	-11,074
Decrease in exchange rate	-10%	5,452	7,799	10,847	11,074
TOTAL					
Increase in exchange rate	10%	-4,023	-5,509	-5,867	-4,235
Decrease in exchange rate	-10%	4,023	5,509	5,867	4,235

33.2 Interest rate risk

The Group companies use interest-bearing liabilities. As a result, the Group is exposed to interest rate risk – the risk is estimated on the basis of interest rate increase/decrease by 1%.

	Effect on net profit/loss	Effect on net profit/loss
	+ 1%/- 1%	+ 1%/- 1%
	Year ended Dec 31 2017	**Year ended Dec 31 2016**
Lease liabilities	+/- 44	+/- 28
Other financial liabilities at amortised cost	+/- 782	+/- 774

In 2017, total bank loans were PLN 78,239 thousand (2016: PLN 77,441 thousand) and financial liabilities were PLN 4,412 thousand (2016: PLN 2,762 thousand). The effect of interest rate movements on profit or loss and equity was calculated by adding/deducting 1pp to/from the average interest rate.

The objective of interest rate risk management is to limit the adverse impact of changes in market interest rates on cash flows to the level acceptable to the Group.

33.3 Liquidity risk

Liquidity risk is the risk that the Group may face difficulties in meeting financial liabilities. The liquidity risk management process at the Group involves forecasting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring the liquidity ratios based on balance sheet items and maintaining access to various sources of financing at the level of individual Group companies.

The Group also manages liquidity risk by maintaining open and unused credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Group recognises bank loans as financial instruments which may potentially cause concentration of liquidity risk as the Company maintains relationships with selected financial institutions only. As at December 31st 2017, bank loans represented 26% of total current liabilities (December 31st 2016: 19%).

The table below presents the Group’s financial liabilities by maturity as at December 31st 2016 and December 31st 2015, based on contractual undiscounted payments.

Dec 31 2017	**Payable on demand**	**Up to 1 year**	**1–5 years**	**Over 5 years**	**Total as at Dec 31 2017**
Trade payables	-	59,981	-	-	**59,981**
Leases	-	1,116	3,296	-	**4,412**
Derivative instruments	-	19	-	-	**19**
Interest-bearing borrowings	-	70,184	8,055	-	**78,239**
Other liabilities	-	16,539	-	-	**16,539**
TOTAL	**-**	**147,839**	**11,351**	**-**	**159,190**

Dec 31 2016	**Payable on demand**	**Up to 1 year**	**1–5 years**	**Over 5 years**	**Total as at Dec 31 2016**
Trade payables	-	67,712	244	-	**67,956**
Leases	-	656	2,106	-	**2,762**
Derivative instruments	-	6,135	559	-	**6,694**
Interest-bearing borrowings	-	49,978	27,462	-	**77,441**
Other liabilities	-	13,526	80	-	**13,607**
TOTAL	**-**	**138,008**	**30,452**	**-**	**168,460**

33.4 Credit risk

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. The management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables. There are no overdue receivables that are not deemed irrecoverable.

The Group defines its exposure to credit risk as the total amount of outstanding receivables and monitors the balances owed by each customer on a regular basis. As in the previous year, as at December 31st 2017 the value of receivables in relation to one trading partner was within the range of 10%–15% of total net receivables.
The age structure of receivables is presented in Note 16.

The Group manages counterparty credit risk mainly through the use of the following mechanisms and techniques:

- assessment of a counterparty's financial standing, including the granting of credit limits;

- application of uniform contractual provisions regarding credit risk;

- system of ongoing monitoring of payments;

- ongoing monitoring of a counterparty's financial standing.

Note 34. MANAGEMENT STOCK OPTIONS

I. The incentive scheme of April 23rd 2015 for the years 2016-2018

With a view to providing additional incentives to the management staff to continue work on the development and consolidation of the SECO/WARWICK Group, and to further increase the value of SECO/WARWICK shares, on April 23rd 2015 the Supervisory Board approved the key objectives of the 2016–2018 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2016–2018 Incentive Scheme").

The Supervisory Board determined the Individual Objectives and the Joint Objective for the Incentive Scheme Participants, the achievement of which is a precondition for a Scheme Participant to become eligible for benefits under the Scheme. The objectives cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a Scheme Participant. For the entire Group, the Individual Objective for the President of the Management Board, Chief Financial Officer, and Chief Operating Officer at SECO/WARWICK S.A., the Parent, is the consolidated net profit of the Group. For 2016 and 2017, this objective is set at PLN 18m.

On April 27th 2017, having examined the Company's and the Group's audited financial information for 2016, the Supervisory Board passed a resolution to review the Individual Objectives and the Joint Objective defined in the Rules of the Incentive Scheme, relating to the achievement of specific operating and financial metrics for 2016.

Following the review, the Supervisory Board granted the eligible participants of the Incentive Scheme 81,657 share options, conferring the rights to acquire 81,657 Company shares at a price of PLN 0.20 per share. Of that number, 73,393 share options were granted to the Management Board members and the commercial proxy.

II. Termination of the Incentive Scheme

On March 14th 2018, the Supervisory Board passed a resolution to terminate the 2016–2018 Incentive Scheme (the "Resolution") adopted pursuant to Resolution No. 9 of the Supervisory Board of April 23rd 2015.

Pursuant to the Resolution, the Incentive Scheme had to be terminated in its entirety due to material distortion of the Company's financial result for the financial year 2017 caused mainly by significant one-off events at the Group with an adverse effect on the Group's financial performance in 2017, which rendered the original assumptions of the Incentive Scheme inadequate.

The Resolution also defined the terms and conditions on which the terminated Incentive Scheme would be settled:

1. The Company will conclude with nine beneficiaries of the terminated Incentive Scheme (the "Beneficiaries") agreements (the "Agreements") under which a total of 102,166 Company shares will be issued to the Beneficiaries free of charge. The Beneficiaries will also be paid compensation bonuses in a total amount of PLN 389.6 thousand;
2. Under the Agreements, the Beneficiaries will waive any claims against the Company related to the Incentive Scheme or its termination.

III. Adoption of the 2018–2020 Incentive Scheme for members of the SECO/WARWICK Group's management staff

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018−2020 Incentive Scheme, approve the Rules of the Incentive Scheme, and allocate the Company's treasury shares for the purposes of the Incentive Scheme. The Meeting also passed Resolution No. 21 approving the list of participants of the 2018−2020 Incentive Scheme. The above information was published in Current Report No. 09/2018 of April 11th 2018.

Note 35. LITIGATION

Seco/Warwick Corporation (SWC), a subsidiary of the Issuer, with its registered office in Pennsylvania, USA, along with a third party which is not associated with the Issueris the "Third Party"), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1982–1986. SWC and the Third Party are seeking coverage for the claims being raised against SWC and the Third Party in connection with product liability personal injury lawsuits filed by individuals alleging injury from asbestos as a result of their exposure to the Third Party's products manufactured by legal predecessors of SWC and the Third Party in 1958-1984 (the "Asbestos Claims"). SWC was established in 1984 and was not a part of the Issuer's Group until 2006.

SWC and the Third Party have alleged in court that the insurance policy contract entered into by LMI extends additional coverage to include the Asbestos Claims, including the costs of settlements entered into with the injured parties and the legal costs incurred to verify the legitimacy of such claims and negotiate the settlements. LMI claims that the policy limits have been exhausted, citing certain special provisions of the insurance policy. SWC and the Third Party disagree with LMI's interpretation of the contract provisions.

To the best of the Issuer's knowledge, by the date of these financial statements, 648 Asbestos Claims had been filed against SWC, of which 245 Claims were dismissed, 40 Claims ended in settlement with the insurers for a total amount of USD 3,185 thousand, and with respect to 363 Claims verification procedures are underway or the terms of potential settlement with the injured parties are being negotiated.

If no agreement is reached with LMI on continued insurance coverage for SWC or if the lawsuit against LMI is dismissed, there arises the risk that SWC will be forced to bear the costs relating to the Asbestos Claims while SWC and the Third Party pursue the excess carriers to take over the asbestos product liability claims.

To the best of the Issuer's knowledge, the risk of SWC being forced to bear further costs relating to the Asbestos Claims is not significant, as the Third Party holds other excess insurance policies contracted with other insurance providers, which policies can, according to the information obtained from SWC, cover the Asbestos Claims.

As at the date of this report, the Issuer is not in a position to make a reliable estimate of the total amount of the Issuer's contingent liability related to the claims described above. The Issuer will disclose to the public further material information relating to this event.

Note 36. TAX SETTLEMENTS

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administrative authorities, which are authorised to impose high penalties and sanctions. Lack of reference to well-established legal regulation in Poland results in ambiguities and inconsistencies in the applicable laws and regulations. Frequent differences in opinions as to the legal interpretation of tax regulations, both between governmental bodies and between governmental bodies and businesses, create areas of uncertainty and conflict. Therefore, the tax risk in Poland is significantly higher than that usually existing in countries with more developed tax systems.

Tax settlements may be subject to tax inspection for a period of five years from the end of the year in which the tax was paid. As a result of such inspections, the Group’s current tax settlements may be increased by additional tax liabilities.

In the opinion of the Management Board, as at December 31st 2017, there was no need to recognise provisions for known and quantifiable tax risk. The Company pays its tax liabilities when due.

Note 37. EVENTS SUBSEQUENT TO THE REPORTING DATE

In 2017, no significant events occurred at the Company after the reporting date.

Date: April 26th 2018

Piotr Walasek	Paweł Wyrzykowski	Sławomir Woźniak	Bartosz Klinowski
Chief Financial Officer	*President of the Management Board*	*Vice President of the Management Board*	*Member of the Management Board*