CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD **JANUARY 1ST–DECEMBER 31ST 2018**

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

	Note	Year ended Dec 31 2018	Year ended Dec 31 2017
Revenue from sale of finished goods and services		511,580	469,059
Revenue from sale of merchandise and materials		11,926	14,844
Revenue	1	**523,506**	**483,903**
Cost of finished goods sold and services rendered		-394,414	-411,782
Cost of merchandise and materials sold		-12,106	-11,696
Cost of sales	3	**-406,520**	**-423,478**
Gross profit/(loss)		**116,986**	**60,425**
Other income	4	6,622	5,880
Distribution costs	3	-30,727	-37,223
Administrative expenses	3	-51,998	-48,497
Impairment of receivables and contract assets	4	-7,437	-447
Other expenses	4	-3,942	-5,453
Operating profit/(loss)		**29,504**	**-25,315**
Finance income	5	1,930	12,169
Finance costs	5	-5,927	-7,715
Share of net profit/(loss) of associates		144	98
Profit/(loss) before tax		**25,651**	**-20,764**
Income tax	6	-4,519	-4,355
Net profit/(loss) from continuing operations		21,132	-25,118
Profit/(loss) from discontinued operations	31	-1,906	-16,725
Net profit/(loss)		**19,226**	**-41,843**
Net profit/(loss) attributable to			
Owners of the parent		**19,054**	**-41,860**
Non-controlling interests		172	17
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on a defined benefit pension plan		192	2,581
Items that may be reclassified to profit or loss:			
Valuation of cash flow hedging derivatives		-3,323	5,455
Exchange differences on translating foreign operations		3,575	-9,555
Income tax on other comprehensive income		631	-1,037
Total other comprehensive income, net		**1,075**	**-2,555**
Total comprehensive income		**20,301**	**-44,399**

Total comprehensive income attributable to			
Non-controlling interests		4	52
EARNINGS PER SHARE:	8		
- basic earnings/(loss) per share attributable to owners of the parent		1.85	-4.06
- diluted earnings/(loss) per share attributable to owners of the parent		1.85	-4.06
- basic earnings/(loss) per share from continuing operations, attributable to owners of the parent		2.04	-2.44
- diluted earnings/(loss) per share from continuing operations, attributable to owners of the parent		2.04	-2.44

CONSOLIDOTED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2018	Dec 31 2017
ASSETS			
Non-current assets			
Property, plant and equipment	10	80,338	78,184
Investment property		358	371
Goodwill	12	38,816	36,019
Intangible assets	11	50,201	36,755
Long-term receivables	16	5,313	5,820
Other financial assets	17	30	2,000
Deferred tax assets	6	87	180
		175,143	**159,328**
Current assets			
Inventories	14	67,259	41,357
Trade receivables	16	54,994	67,783
Income tax assets	16	323	232
Other short-term receivables	16	14,927	17,008
Cash and cash equivalents	19	53,602	52,077
Other financial assets	17	1,354	5,328
Other non-financial assets	18	3,316	3,949
Contract assets	15	102,523	103,780
		298,298	**291,515**
Assets held for sale	7	**-**	**33,154**
TOTAL ASSETS		**473,441**	**483,997**

Error! Incorrect connection.

CONSOLIDOTED STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2018	Dec 31 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	20	3,616	3,616
Statutory reserve funds	20	193,449	176,142
Other components of equity	20	12,067	10,088
Hedging reserve		-586	2,106
Translation differences		21,182	17,439
Retained earnings/accumulated losses		-55,357	-58,144
Equity attributable to owners of the parent		**174,371**	**151,248**
Non-controlling interests		**-54**	**-58**
		174,317	**151,190**
Non-current liabilities			
Borrowings	21	1,719	8,055
Other financial liabilities	21	5,133	3,296
Deferred tax liabilities	6	11,409	7,814
Provision for retirement and similar benefits	24	2,808	2,820
Deferred income	25	14,932	12,793
Contract liabilities	15	1,537	-
		37,538	**34,778**
Current liabilities			
Borrowings	21	67,794	70,184
Other financial liabilities	21	2,948	1,560
Trade payables	23	45,989	59,981
Other current liabilities	23	11,065	16,114
Provision for retirement and similar benefits	24	9,773	10,330
Other provisions	24	12,947	5,420
Deferred income	25	1,127	1,015
Contract liabilities	15	109,943	100,271
		261,586	**264,875**
Liabilities directly related to discontinued operations	**31**	**-**	**33,154**
TOTAL EQUITY AND LIABILITIES		**473,441**	**483,997**

CONSOLIDATED STATEMENT OF CASH FLOWS

(PLN '000)

	Note	Year ended Dec 31 2018	Year ended Dec 31 2017
OPERATING ACTIVITIES			
Profit/(loss) before tax		**25,651**	**-20,764**
Total adjustments:	29	**9,127**	**31,267**
Share of net profit of associates		-107	-95
Depreciation and amortisation		10,744	10,236
Foreign exchange gains/(losses)		679	-3,008
Interest and profit distributions (dividends)		2,413	1,920
Gain/(loss) on investing activities		-1,416	-6,912
Balance-sheet valuation of derivative instruments		3,817	-8,108
Change in provisions		-6,569	1,956
Change in inventories		-14,831	-4,604
Change in receivables		17,143	19,813
Change in current liabilities (other than financial liabilities)		-8,874	20,483
Change in accruals, deferrals and contracts		4,891	-757
Other adjustments		1,236	343
Income tax (paid)/refunded		**-667**	**5,567**
Net cash from operating activities		**34,112**	**16,070**
INVESTING ACTIVITIES			
Cash provided by investing activities		**2,553**	**392**
Proceeds from disposal of intangible assets and property, plant and equipment		1,419	250
Other inflows from financial assets		1,134	142
Cash used in investing activities		**24,352**	**19,030**
Investments in intangible assets, property, plant and equipment, and investment property		24,352	19,030
Net cash from investing activities		**-21,799**	**-18,638**
FINANCING ACTIVITIES			
Cash provided by financing activities		**9,970**	**32,839**
Borrowings		6,816	32,618
Grants		3,154	221
Cash used in financing activities		**21,308**	**18,788**
Dividends and other distributions to owners		-	4,947
Repayment of borrowings		16,711	10,521
Payment of finance lease liabilities		2,258	1,102
Interest paid		2,335	2,214
Other cash used in financing activities		3	4
Net cash from financing activities		**-11,337**	**14,051**

Total net cash flows	**975**	**11,483**
Net change in cash, including:	**1,525**	**10,930**
- effect of exchange rate fluctuations on cash held	550	-136
Cash at beginning of period	**52,369**	**40,730**
Cash at end of period	**53,602**	**52,077**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Hedging reserve	Other components of equity	Translation differences	Retained earnings / accumulated losses	**Equity attributable to owners of the parent**	Equity attributable to non-controlling interests	Total equity
Equity as at Jan 1 2018	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-58,144**	**151,248**	**-58**	**151,190**
Effect of IFRS 15	-	-	-	-	-	1,712	1,712	-	1,712
Effect of IFRS 9	-	-	-	-	-	-865	-865	-	-865
Equity as at Jan 1 2018 following adoption of IFRS 15 and IFRS 9	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-57,297**	**152,095**	**-58**	**152,037**
Profit/(loss) for the period	-	-	-	-	-	19,054	**19,054**	172	19,226
Other comprehensive income	-	-	-2,692	-	3,743	192	**1,244**	-169	1,075
Total comprehensive income for the year	**-**	**-**	**-2,692**	**-**	**3,743**	**19,246**	**20,297**	**4**	**20,301**
Management stock options	-	-	-	1,979	-	-	1,979	-	1,979
Coverage of loss brought forward	-	17,307	-	-	-	-17,307	-	-	-
Equity as at Dec 31 2018	**3,616**	**193,449**	**-586**	**12,067**	**21,182**	**-55,358**	**174,372**	**-54**	**174,317**
Equity as at Jan 1 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	**-**	**-**	**4,419**	**-**	**-9,590**	**-39,279**	**-44,450**	**52**	**-44,399**
Dividend	-	-	-	-	-	-4,947	-4,947	-	-4,947
Management stock options	-	-	-	804	-	-	804	-	804
Coverage of loss brought forward	-	-6,286	-	-	-	6,286	-	-	-
Accounting for increase of control at SECO/WARWICK Retech	-	-	-	-	-	-434	-434	434	-
Equity as at Dec 31 2017	**3,616**	**176,143**	**2,106**	**10,088**	**17,439**	**-58,144**	**151,248**	**-58**	**151,190**

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2018

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 2018. The comparative data is presented as at December 31st 2017 (statement of financial position) and for the period January 1st– December 31st 2017 (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 the date of issue of these financial statements, the Management Board of SECO/WARWICK S.A. was composed of:

- Paweł Wyrzykowski – President of the Management Board
- Sławomir Woźniak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board
- Earl Good – Member of the Management Board

As at December 31st 2018 and December 31st 2017, the Management Board of SECO/WARWICK S.A. was composed of:

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

As at the date of issue of these financial statements and December 31st 2018, the Supervisory Board of SECO/WARWICK S.A. 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
- Marcin Murawski – Member of the Supervisory Board
- Jacek Tucharz – Member of the Supervisory 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.

Changes in the composition of the Supervisory and Management Boards:

During the financial year:

There were changes in the composition of the Supervisory Board. Mr Paweł Tamborski tendered his resignation as member of the Supervisory Board, with effect as of February 16th 2018. On April 11th 2018, Mr James A. Goltz was removed from the Supervisory Board by Resolution No. 10 of the Extraordinary General Meeting of SECO/WARWICK S.A., while Mr Jacek Tucharz was appointed to the Supervisory Board by Resolution No. 18 of the Extraordinary General Meeting of SECO/WARWICK S.A.

In 2018, the composition of the Management Board did not change.

Subsequent to the reporting date and until the date of issue of these financial statements, the following changes took place:

On December 13th 2018, Mr Earl Good was appointed Member of the Management Board as of January 2nd 2019.

5. Audit firm

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

6. Significant holdings of shares

Shareholders holding over 5% of the total voting rights as at December 31st 2018 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	32.89%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	10.91%
Aviva Otwarty Fundusz Emerytalny Aviva Santander	1,046,573	10.16%	1,046,573	10.16%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.19%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	5.83%
Metlife OFE	577,470	5.61%	577,470	5.61%

The data is based on notifications received from the shareholders.

As at the date of issue of these financial statements, there were no changes in the list of shareholders holding more than 5% of total voting rights at the Company's General Meeting.

SECO/WARWICK S.A. holds 496,334 treasury shares, representing 4.82% of the share capital. The Company does not exercise voting rights in respect of its treasury shares.

7. Subsidiaries

As at December 31st 2018, SECO/WARWICK S.A. was the direct or indirect parent of the following companies:

- SECO/WARWICK Corporation
- SECO/WARWICK Rus
- Retech Systems LLC
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.
- SECO/WARWICK Germany GmbH
- 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.

Changes in the composition of the Group:

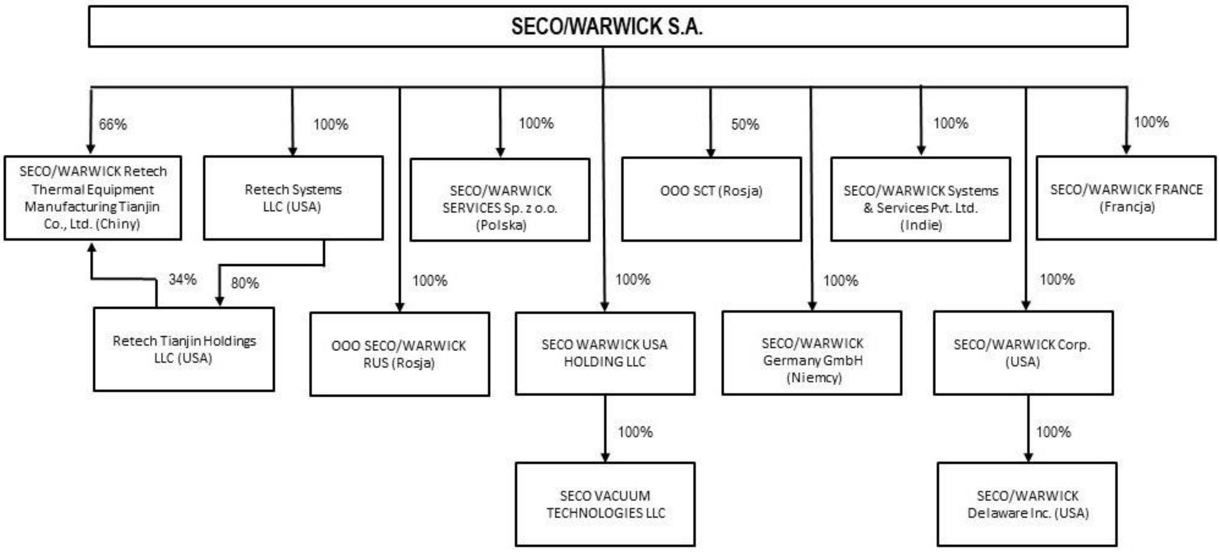
On October 2nd 2018, SECO/WARWICK GmbH of Germany was liquidated.

On October 25th 2018, an agreement was signed for the sale of shares in ALLIED FURNACES PVT. LTD. and ACE THERMAL TECHNOLOGIES PRIVATE LIMITED of Mumbai (India). Subsequently, on December 28th 2018, an agreement for the sale by SECO/WARWICK S.A. of all the shares inSECO/WARWICK Allied Pvt. Ltd. was signed.

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 Dec 31 2018	Year ended Dec 31 2017
Average exchange rate for the period*	4.2669	4.2447
Exchange rate effective for the last day of the period	4.3000	4.1709

**) 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	2018	2017	2018	2017
	(PLN '000)		(EUR '000)	
Revenue	523,506	483,903	122,690	114,003
Cost of sales	-406,520	-423,478	-95,273	-99,767
Operating profit/(loss)	29,504	-25,315	6,915	-5,964
Profit/(loss) before tax	25,651	-20,764	6,012	-4,892
Net profit/(loss) attributable to owners of the parent	19,054	-41,860	4,465	-9,862
Net cash flows from operating activities	34,111	16,070	7,994	3,786
Net cash flows from investing activities	-21,799	-18,638	-5,109	-4,391
Net cash flows from financing activities	-11,337	14,051	-2,657	3,310
	Dec 31 2018	**Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**
Total assets	473,441	483,997	110,103	116,041
Total liabilities	299,124	299,653	69,564	71,844
Including current liabilities	261,586	264,875	60,834	63,505
Equity	174,317	151,190	40,539	36,249
Share capital	3,616	3,616	841	867

III. Authorisation of the financial statements

The Parent's Management Board authorised these consolidated financial statements for issue on April 24th 2019.

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").

V. Going concern basis

These consolidated financial statements have been prepared on the assumption that the Group Companies would continue as going concerns for the 12 months from the end of the most recent reporting period, i.e. December 31st 2018. 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 Companies continuing as going concerns in the 12 months from 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 financial statements of 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 shareholders

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 2018 and December 31st 2017:

Item	% of total voting rights	
	Dec 31 2018	**Dec 31 2017**
SECO/WARWICK S.A.	Parent	
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%
SECO/WARWICK Germany GmbH	100%	100%
SECO/WARWICK Allied Pvt. Ltd.	-	98%
ALLIED FURNACES PVT. LTD	-	98%
ACE THERMAL TECHNOLOGIES PRIVATE LIMITED	-	98%
SECO/WARWICK Systems and Services India PVT.	100%	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%
SECO VACUUM TECHNOLOGIES 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. Any differences between the total amounts and the sum of their components are due to rounding.

Summary of material accounting policies

Presentation of the statement of financial position

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.

Presentation of the statement of comprehensive income

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

Earnings per share

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. To determine whether an internally generated intangible asset meets the criteria for recognition as an asset, an entity divides the generation of the asset into two stages:
- research stage,
- development stage.

All expenditure incurred in the research stage is charged directly to expenses of the period. Intangible assets created as a result of development work are capitalised by the Group only if the following criteria are met:
- it is certain that the intangible asset will be completed,
- it is possible to demonstrate that the asset can be used or sold,
- the expenditure incurred can be measured reliably.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful lives and tested for impairment whenever there is an indication of their impairment.

The amortisation period and amortisation method for intangible assets with definite useful lives are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates.

Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

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 assessment as to whether there are indications of impairment and annual impairment testing of unfinished development work	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

Classification of financial assets

Financial assets are classified into the following categories:

- Financial assets at amortised cost,
- Financial assets at fair value through profit or loss,

- Financial assets at fair value through other comprehensive income.

The Group classifies a financial asset based on its business model of financial asset management and the asset's contractual cash flow characteristics (the SPPI test). The Group reclassifies investments in debt instruments when, and only when, their management model changes.

Measurement on initial recognition

With the exception of certain trade receivables, on initial recognition financial assets are recognised at fair value, which – in the case of financial assets other than those at fair value through profit or loss – is increased by transaction costs directly attributable to their acquisition.

Derecognition

Financial assets are derecognised upon:

- expiry of contractual rights to cash flows from the asset, or
- upon transfer of contractual rights to cash flows from the asset following a transaction whereby the Group transferred substantially all risks and rewards related to that financial asset.

Measurement subsequent to initial recognition

For the purpose of measurement subsequent to initial recognition, financial assets are classified into one of the following four categories:

- Debt instruments at amortised cost,
- Debt instruments at fair value through other comprehensive income,
- Equity instruments at fair value through other comprehensive income,
- Financial assets at fair value through profit or loss.

Debt instruments – financial assets at amortised cost

A financial asset is carried at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the category of financial assets at amortised cost, the Group classifies:

- trade receivables,
- loans that meet the SPPI classification test and, in line with the business model, are recognised as held to collect cash flows,
- cash and cash equivalents.

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

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 contracts accounted for over time (with progress measured based upon incurred costs), the Group assumed that the transactions affect profit or loss through finance income or finance costs in proportion to the percentage of completion of a given contract, while the remaining portion of measurement is recognised in other comprehensive income.

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 to net realisable value.

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 other expenses. The Company uses the weighted average price method to measure change in inventories.

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 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 Group 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 Group 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, by reference to the stage of contract completion,
- provision for probable costs related to the current financial year which will be invoiced only in the following year (trade payables). 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 provisions for employee benefits:

- 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;

Share-based payments

Group’s employees (including management board members) receive awards in the form of shares.

Share-based payment transactions are measured by reference to the fair value of the equity instruments as at the grant date, and the fair value is measured by an independent expert using a binomial model. When measuring equity-settled transactions, market vesting conditions (related to the Group’s share price) and non-vesting conditions are taken into account.

The cost of equity-settled share-based payment transactions is recognised together with a corresponding increase in equity in the period in which the performance conditions and/or service conditions are satisfied and which ends on the date when the rights are fully vested in eligible employees (the 'vesting date’). The accumulated cost recognised under equity-settled transactions as at each reporting date until the vesting date reflects the passage of the vesting period and the number of awards which, in the opinion of the Group's Management Board as at that date, based on best estimate of the number of equity instruments, will finally vest.

No costs are recognised in respect of awards which do not finally vest, except for the awards where the rights are vested depending on market vesting conditions or non-vesting conditions. Such rights are treated as acquired regardless of whether such market vesting conditions or non-vesting conditions are satisfied, provided that all other performance conditions or service conditions are met.

If the terms on which equity-settled awards were granted are modified, the Group recognises, at a minimum, the cost of the original award as if it were not modified. Furthermore, costs of any increase in the value of a share-based payment transaction as a result of such modifications, measured as at the modification date, are recognised.

When an equity-settled award is cancelled, it receives the same treatment as if it vested on the date of cancellation and any unrecognised award-related costs are recognised immediately. It also applies to awards where the non-vesting conditions under the control of the Group or the employee are not met. However, if the cancelled award is replaced with a new one, both the new award, which is identified as a replacement award on the grant date, as well as the cancelled award are accounted for as if they were a modification of the original award (as described in the above paragraph).

Contract assets/liabilities

Contract assets include any excess of estimated revenue related to the stage of completion of a long-term contract, in accordance with IFRS 15, over prepayments received and aggregate amount invoiced under the contract.

Contract liabilities reflect the Group’s obligations to transfer services or equipment to a customer for which the Group has already received consideration in the form of an advance payment or for which consideration is due based an invoice issued.

Deferred income

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

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

If one of the following criteria specified in IFRS 15.35 is met:
a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or
b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date,
Revenue is recognised by measuring progress towards complete satisfaction of a performance obligation, and in other cases revenue is recognised when control of the product is transferred to the customer. The progress towards satisfaction of a performance obligation is measured by reference to incurred costs in comparison with total contract costs (input method).
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.

Any excess of prepayments received under a contract over the estimated revenue attributable to a given reporting period is recognised under liabilities as prepayments received for 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 liabilities.

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. For contracts denominated in a currency other than the functional currency, the revenue at the end of the reporting period is calculated first of all based on the exchange rate used for partial invoicing, pro rata to the percentage of contract completion. In order to determine the exchange rate applicable to advance payments, the transaction date is the date of initial recognition of the advance payment as an asset or liability. If there are multiple advance payments or receipts, the transaction date is determined for each such payment or receipt. Estimated contract revenue attributable to a given reporting period is recognised as revenue from sale of finished goods and services for the period, and as contract assets in the statement of financial position.
Remuneration under contracts concluded by the Company is fixed and includes no variable components. The contracts contain a single performance obligation as the nature of the delivery requires the Group to provide a comprehensive service, that is delivery and installation. Given the complexity of equipment installation, the contract covers not only the purchase of the equipment, but also the supplier’s supervision over its installation and the training needed for the equipment to be properly started and operated.

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 Group 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

When preparing the consolidated financial statements of the Group, the Management Board of the Parent has to make certain judgements, assumptions and estimates which affect the presented revenue, costs, assets, liabilities, as well as related notes and disclosures concerning contingent liabilities. Uncertainties related to these assumptions and estimates may result in material changes to carrying amounts of assets and liabilities 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 will be purchased upon expiry of the lease.

Impairment of development costs

The Group carries out annual impairment tests for development costs in relation to incurred expenditure on development work in progress, in the case of intangible assets with indefinite useful lives and intangible assets that are not in use.

Goodwill impairment

The Group carried out goodwill impairment tests, which required estimation of the value in use of a cash-generating unit. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The underlying assumptions are presented in Note 12.

Deferred tax assets

Deferred tax assets are recognised in respect of all temporary differences to the extent it is probable that taxable profit will be available which will enable these differences to be utilised.

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

The Group provides guarantees for sold products, assuring the customer that the product conforms to the specifications agreed upon by the parties. Since the guarantees are not a separate service under IFRS 15, the Group recognises such guarantees in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The 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.

Provision for disputes concerning exposure to asbestos

According to the Company's Management Board's judgment, disputes concerning exposure to asbestos do not meet the requirements for recognition of the provision and are recognised as contingent liabilities. The related disclosures are presented in Note 35 to the financial statements. Cash outflows are not sufficiently probable, as historically all payments under settlements were made directly by insurers.

Long-term contracts

In the case of contracts accounted for over time, revenue is recognised by measuring progress towards complete satisfaction of a performance obligation, and in other cases revenue is recognised when control of the product is transferred to the customer.

The progress towards satisfaction of a performance obligation is measured by reference to incurred costs in comparison with the planned total contract costs estimated based on the Group's best knowledge (input method).

At the end of each reporting period, the Group estimates the result on each contract. When a loss on a contract is expected, it is immediately recognised in the statement of profit or loss as a provision for future costs of contract performance. The provision for loss on a contract is recognised at the end of the period if the expected margin on the contract is lower than the margin recognised at that time. It is recognised as the difference between the forecast contract margin and the margin recognised on the contract as at the end of the reporting period.

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.
Revenue recognised over time is revenue guaranteed under the original contract, adjusted to account for any subsequent amendments (annexes). Changes in contract revenue are recognised when it is certain or at least when it is highly probable 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.

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.

IX. Changes in accounting policies

Save for the changes described below and resulting from the introduction of new standards effective for reporting periods beginning on or after January 1st 2018, the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2017 were applied by the Group in the preparation of these financial statements.

- IFRS 15 *Revenue from Contracts with Customers.* The standard was endorsed by the European Union on November 22nd 2016 and is effective for annual reporting periods beginning on or after January 1st 2018,
- IFRS 9 *Financial Instruments*. The standard was endorsed by the European Union on November 22nd 2016 and is effective for annual periods beginning on or after January 1st 2018.

The other amendments to the IAS and the IFRS have had no material effect on the Group's financial statements.

Furthermore, in 2018, following a review of incurred development costs, the Group changed the presentation of amortisation expense for completed development work by moving it from distribution costs to costs of sales. Therefore, in order to ensure comparability, the Group reclassified the amortisation expense for completed development work in 2017 at PLN 1,160 thousand. The Group also reclassified a portion of trade receivables in 2017 of PLN 1,288 thousand as long-term receivables.

IFRS 15 *Revenue from Contracts with Customers*

The standard applies to sales contracts with customers and replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* as well as numerous interpretations related to revenue recognition.

In line with IFRS 15, revenue from sales of finished goods, merchandise, materials and services, net of VAT, discounts and rebates, is recognised when the entity has transferred to the buyer the control and rewards incidental to their ownership.

Any goods or services that are sold in bundles that are separately identifiable as part of a contract concluded with a customer should be recognised separately, and any discounts and rebates on the transaction price should be allocated to the specific bundle items.

IFRS 15 introduces a new five-step model to determine the method of revenue measurement and recognition, whereby revenue should be recognised in an amount which reflects consideration to which the entity expects to be entitled, when (or as) the Group satisfies a performance obligation and transfers the goods or services. Depending on the fulfilment of the criteria specified in the standard, revenue may be recognised either on a one-off basis, at the point in time when control of goods or services is transferred to the customer, or over time, reflecting the performance of the obligation.

The Group analysed individual categories of revenue and contracts in terms of the effect of applying IFRS 15 on the revenue recognition method, including in particular in terms of the timing of recognition and the recognised amount of revenue; the Group also verified the correctness of presentation of individual revenue categories.

Following the application of IFRS 15, retained earnings of PLN 1.7m (net effect) were recognised as a result of separation of costs of potential warranty repairs from contract settlement and their recognition under provisions for warranty repairs and a change in the timing of revenue recognition for some contracts.

The Group applied the standard using the modified retrospective method of adoption in which the cumulative effect of first-time adoption of the standard is recognised as an asset while contractual obligations, work in progress, provisions for warranty repairs and liabilities arising from advances received – in correspondence with retained earnings as at the first day of application of the standard, i.e. January 1st 2018.

IFRS 9 *Financial Instruments*

IFRS 9 defines three categories of financial assets based on the entity's business model for managing a given asset and the asset's contractual cash flow characteristics:
- assets measured at amortised cost after initial recognition – if financial assets are held under a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of those financial assets give rise to cash flows that are solely payments of principal and interest;
- assets measured at fair value through other comprehensive income after initial recognition – if financial assets are held under a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling the assets, and the contractual terms of those financial assets give rise to cash flows that are solely payments of principal and interest;
- assets measured at fair value through profit or loss – all other financial assets.

IFRS 9 does not require any changes in the classification of the Group's financial liabilities.

IFRS 9 replaces the incurred credit losses model with the expected credit losses model. The Group establishes an allowance for expected credit losses in the amount equal to expected credit losses over the life of trade receivables, cash and cash equivalents and contract assets. The difference between the carrying amount of trade receivables and contract assets measured in accordance with IAS 39 and the new carrying amount measured in accordance with IFRS 9 as at January 1st 2018 was PLN -865 thousand.
IFRS 9 necessitated a consequential amendment to IAS 1 *Presentation of Financial Statements*, requiring the Group to present impairment of receivables and financial assets as a separate item of the statement of profit or loss. The comparative data in the statement of profit or loss for the year ended December 31st 2018 has been adjusted accordingly, without an effect on operating profit. Previously, the Group presented such costs as other expenses.

The effect of application of IFRS 9 and IFRS 15 on the Group's financial statements as at January 1st 2018 is presented in the table below.

	Dec 31 2017	Effect of IFRS 15	Effect of IFRS 9	Jan 1 2018
ASSETS				
Non-current assets				
Property, plant and equipment	78,184			78,184
Investment property	371			371
Goodwill	36,019			36,019
Intangible assets	36,755			36,755
Long-term receivables	4,532			4,532
Other financial assets	2,000			2,000
Deferred tax assets	180	-28		152
	158,040	**-28**		**158,012**
Current assets				
Inventories	41,357	10,289		51,647
Trade receivables	69,071		-288	68,783
Income tax assets	232			232
Other short-term receivables	17,008			17,008
Cash and cash equivalents	52,077			52,077
Other financial assets	5,328			5,328
Other non-financial assets	3,949			3,949
Contract assets	103,780	7,481	-577	110,684
	292,803	**17,770**	**-865**	

				309,708
Assets held for sale	**33,154**			**33,154**
TOTAL ASSETS	**483,997**	**17,743**	**-865**	**500,875**

	Dec 31 2017	Effect of IFRS 15	Effect of IFRS 9	Jan 1 2018
EQUITY AND LIABILITIES				
Equity				
Share capital	3,616			3,616
Statutory reserve funds	176,142			176,142
Other components of equity	10,088			10,088
Hedging reserve	2,106	-35		2,071
Translation differences	17,439			17,439
Retained earnings / accumulated losses	-58,144	1,712	-865	-57,297
Equity attributable to owners of the parent	**151,248**	**1,677**	**-865**	**152,060**
Non-controlling interests	**-58**			**-58**
	151,190	**1,677**	**-865**	**152,002**
Non-current liabilities				
Borrowings	8,055			8,055
Other financial liabilities	3,296			3,296
Deferred tax liabilities	7,814	209		8,023
Provision for retirement and similar benefits	2,820			2,820
Deferred income	12,793			12,793
	34,778	**209**		**34,987**
Current liabilities				
Borrowings	70,184			70,184
Other financial liabilities	1,560			1,560
Trade payables	59,981	-11,033		48,949
Income tax payable	188			188
Taxes, customs duties and social security payable	6,048			6,048
Other current liabilities	9,879			9,879
Provision for retirement and similar benefits	10,330			10,330
Other provisions	5,420	13,302		18,721
Deferred income	1,015			1,015
Contract liabilities	100,271	13,587		113,859
	264,875	**15,857**		**280,731**
Liabilities directly related to discontinued operations	**33,154**			**33,154**
TOTAL EQUITY AND LIABILITIES	**483,997**	**17,743**	**-865**	**500,875**

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 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not yet endorsed by the EU as at the date of authorisation of these financial statements;

- 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) − work on endorsing the amendments has been deferred indefinitely by the EU − 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;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – effective for annual periods beginning on or after January 1st 2021 − not endorsed by the EU by the date of authorisation of these financial statements for issue;
- 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) - 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;
- *Annual Improvements to IFRS Standards 2015-2017* (issued on December 12th 2017) – effective for annual periods beginning on or after January 1st 2019;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − effective for annual periods beginning on or after January 1st 2020 – not endorsed by the EU as at the date of authorisation of these financial statements for issue;
- Amendment to IFRS 3 *Business Combinations* (issued on October 22nd 2018) – effective for annual periods beginning on or after January 1st 2020 – not endorsed by the EU as at the date of authorisation of these financial statements for issue;
- Amendments to IAS 1 and IAS 8: Definition of 'Material' (issued on October 31st 2018) – effective for annual periods beginning on or after January 1st 2020 – not endorsed by the EU as at the date of authorisation of these financial statements for issue;

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. Except for IFRS 16 *Leases*, which is described below, the application of new standards or changes to the existing standards as referred to above are not expected to have any material effect.

XI. Evaluation of the effect of IFRS 16

IFRS 16 *Leases* was published on January 13th 2016 and was endorsed by the European Union on October 31st 2017. As a result of the analyses carried out by the Group, three main categories of lease contracts have been identified:

- perpetual usufruct of land;
- property: office and warehouse buildings;
- other leases: vehicles and technical equipment.

As of January 1st 2019, the Group, as a lessee, recognises all identified lease contracts under a single model in which the lease asset (the right-of-use asset) is recognised in the statement of financial position in correspondence with the liability under lease contracts. Lease liabilities comprise future discounted lease payments for identified contracts.

The accounting treatment of those items in the statement of financial position depends on:

- Duration of lease contracts adopted for each contract type: the period includes the non-cancellable lease term, periods covered by an option to extend the lease – if the lessee (customer) is reasonably certain to exercise that option, and periods covered by an option to terminate the lease – if the lessee (customer) is reasonably certain not to exercise that option. The lease term is also determined based on the legal and customary regulations effective in Poland, as well as the nature of the Group's contracts;

- The structure of fixed and variable payments in the contract;
- The determined incremental borrowing rate where the interest rate on the lease cannot be easily determined. The discount rates adopted by the Group for the purpose of measurement in accordance with IFRS 16 were based on the interest rate on Polish treasury bonds, adjusted for a margin applied to borrowings incurred by companies with a similar credit rating. The discount rates take into account the maturity of contracts and are not differentiated by asset type.

The Group decided to apply two exemptions provided for in the standard on leases and to recognise the following types of contracts under costs:

- All contracts except car leases where the lease term is less than 12 months;
- Contracts for which the underlying asset is worth less than PLN 18 thousand.

In addition to the changes in the statement of financial position, the adoption of IFRS 16 has an effect on:

a) the statement of profit or loss, in the following way:
- depreciation of the right-of-use asset and interest expense on the lease liability will be recognised instead of operating expenses;

b) the statement of cash flows, in the following way:
- net cash from investing activities will not change;
- payment of lease liabilities will be recognised under financing activities.

As at January 1st 2019, the Group applied the “modified retrospective method” without restating the comparative data. The estimated effect of application of the standard on total assets and liabilities as at January 1st 2019 is approximately PLN 3,442 thousand (of which PLN 712 thousand are current liabilities and PLN 2,730 thousand are non-current liabilities), and results from the recognition of lease liabilities in correspondence with the right-of-use asset. Implementation of the standard will have no effect on equity at January 1st 2019, as the Group decided to measure the right-of-use asset in the amount equal to the lease liability (the effect of prepaid lease payments was negligible). Therefore, no deferred tax will be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2018

Note 1. REVENUE

Revenue from sales and total income of the Group:

Item	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Revenue from sale of finished goods and services	511,580	469,059
including revenue recognised over time	*457,608*	*400,167*
Sales of merchandise and materials	11,926	14,844
TOTAL sales revenue	**523,506**	**483,903**
Other income	6,622	5,880
Finance income	1,930	12,169
TOTAL revenue and income	**532,058**	**501,952**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
European Union	170,070	176,747
Commonwealth of Independent States	20,725	27,724
USA	199,192	155,003
Asia	98,929	93,191
Other	34,590	31,239
TOTAL revenue	**523,506**	**483,903**

All revenue is recognised by the Group in accordance with IFRS 15.

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 are 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).

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 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.

In the case of the business lines (vacuum furnaces, melting furnaces, atmosphere furnaces, aluminium heat treatment lines), contracts with customers provide for the design, manufacture and installation of metal heat treatment equipment, as well as sale of spare parts and maintenance services.

Equipment of this type is often dependent on the customer's infrastructure, such as existing units and foundations. Furthermore, the design process of a unit is highly complex given the need to set up the equipment parameters in line with the customer’s expectations.

Therefore, the vast majority of the segments' revenue is recognised throughout contract performance. In the case of aftersales, revenue is recognised upon service completion or product transfer.

OPERATING SEGMENTS – 2018

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Total		
Total segment revenue	**138,131**	**153,320**	**53,417**	**90,041**	**88,428**	**523,338**	**169**	**523,506**
Sales to customers accounting for 10% or more of revenue	-	-	-	-	-	-	-	-
Segment's cost of sales	**-106,506**	**-125,758**	**-46,441**	**-64,402**	**-59,928**	**-403,035**	**-3,485**	**-406,520**
Gross profit/(loss)	**31,625**	**27,562**	**6,976**	**25,639**	**28,500**	**120,303**	**-3,317**	**116,986**

OPERATING SEGMENTS – 2017

Item	Continuing operations						Unallocated items	Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	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	-	-	-	-	-	-	-	-
Segment's cost of sales	**-106,103**	**-105,553**	**-43,610**	**-106,412**	**-56,489**	**-418,166**	**-5,313**	**-423,478**
Gross profit/(loss)	**30,494**	**-10,387**	**4,196**	**12,182**	**28,962**	**65,448**	**-5,023**	**60,425**

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Depreciation and amortisation	10,744	10,236
Raw materials and consumables used	232,842	254,981
Services	105,083	83,443
Taxes and charges	2,949	2,440
Salaries and wages	101,438	105,609
Social security and other benefits	22,141	24,639
Other expenses	27,067	37,136
Total operating expenses, including:	**502,264**	**519,288**
Distribution costs	-30,727	-37,223
Administrative expenses	-51,998	-48,497
Change in products	-10,961	-11,484
Work performed by entity and capitalised	-14,164	-10,303
Cost of products sold and services rendered	**394,413**	**411,782**

DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Items recognised as cost of sales	**6,816**	**7,266**
Depreciation of property, plant and equipment	5,034	5,825
Amortisation of intangible assets	1,782	1,441
Items recognised as distribution costs	**1,711**	**1,684**
Depreciation of property, plant and equipment	1,363	1,332
Amortisation of intangible assets	348	352
Items recognised as administrative expenses	**2,205**	**1,236**
Depreciation of property, plant and equipment	1,052	854
Amortisation of intangible assets	1,153	382
Items recognised as other expenses	**12**	**51**
Depreciation of investment property	12	51

EMPLOYEE BENEFITS EXPENSE

PERSONNEL COSTS	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Salaries and wages	101,438	106,413
Social security and other benefits	22,141	24,626
Retirement benefits	-	13
Other employee benefits	-	-
Total employee benefits expense, including:	**123,579**	**131,052**
Items recognised as cost of sales	73,866	79,061
Items recognised as distribution costs	13,273	15,630
Items recognised as administrative expenses	36,440	36,360

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Reversal of provision for liquidated damages under contracts	2,019	-
Gain on disposal of property, plant and equipment	770	20
Penalties and compensation/damages received	704	3,375
Income from lease of tangible assets and investment property	1,175	1,142
Grant for development work	1,116	1,001
Other	838	342
Total other income	**6,622**	**5,880**

OTHER EXPENSES	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Inventory write-downs	810	4,412
Loss on disposal of property, plant and equipment	23	7
Court expenses, compensation/damages, penalties	596	2
Revaluation of tangible asset	1,087	-
Cost of lease of tangible assets	168	219
Donations	9	50
Liquidation of tangible assets	614	257
Other	635	506
Total other expenses	**3,942**	**5,453**

Impairment of receivables and contract assets	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Impairment of receivables	7,437	447
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**7,437**	**447**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Interest income	116	43
Valuation of derivative instruments	-	7,532
Gain on derivative instruments at maturity	-	4,475
Net foreign exchange gains	1,768	-
Other	45	118
Total finance income	**1,930**	**12,169**

FINANCE COSTS	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Interest paid	2,920	2,937
Loss on derivative instruments at maturity	67	-
Valuation of derivative instruments	2,567	-
Net foreign exchange losses	-	4,302
Other	373	476
Total finance costs	**5,927**	**7,715**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2018 and December 31st 2017 were as follows: 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.

Item	Dec 31 2018 deferred income tax base	Dec 31 2018 amount recognised in equity (effect of IFRS 15)	Dec 31 2018 other comprehensive income	Dec 31 2018 amount recognised in the statement of comprehensive income	Dec 31 2017 deferred income tax base	Dec 31 2017 other comprehensive income	Dec 31 2017 amount recognised in the statement of comprehensive income
Deferred tax liabilities							
Property, plant and equipment and intangible assets	8,104	-	-	1,392	6,713	-	312
Contract assets	8,717	567	-	2,235	5,915	-	18
Foreign exchange gains	56	-	-	431	-375	-	-98
Measurement of forward contracts	381	8	-344	-523	1,240	563	732
Tax goodwill on acquisition of RETECH	7,794	-	-	-	7,794	-	-
Other	73	-	-	-24	97	-	-567
Deferred tax liabilities	**25,126**	**575**	**-344**	**3,511**	**21,384**	**563**	**397**
Deferred tax assets							
Provision for disability severance payments and retirement bonuses	164	-	-	-	164	-	47
Provision for length-of-service awards and bonuses	1,141	-	-	253	887	-	74
Provision for accrued holiday entitlements	380	-	-	-23	404	-	47
Provision for losses on contracts	195	-23	-	-424	642	-	44
Provision for warranty repairs	1,042	1,296	-	-254	-	-	-
Other provisions	231	25	-	-46	252	-	-843
Tax losses to be settled	5,670	-	-	-515	6,185	-	-275
Contract liabilities	1,529	-967	-	-616	3,111	-	-3,258
Foreign exchange losses	-5	-	-	-17	12	-	-
Salaries, wages and social security contributions payable in subsequent periods	309	-	-	12	296	-	144
Lease liabilities	1,154	-	-	450	704	-	248
Impairment losses on receivables	1,155	-	-	51	1,104	-	1,060
R&D relief	579	-	-	579	-	-	-
Measurement of forward contracts	227	-8	138	93	4	-602	-699
Other	33	-	-	49	-16	-	24
Deferred tax assets	**13,804**	**323**	**138**	**-408**	**13,749**	**-602**	**-3,387**

Note 7. ASSETS HELD FOR SALE

Held-for-sale assets are presented as a separate item of assets. As at December 31st 2018, the Group had no assets held for sale. As at December 31st 2017, the Group had assets held for sale (the subsidiary SECO/WARWICK Allied of Mumbai, India), with a value of PLN 33,154 thousand, which were sold in late 2018.

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 2018	Dec 31 2017
Net profit/(loss) from continuing operations attributable to owners of the parent	20,960	-25,135
Loss from discontinued operations attributable to owners of the parent	-1,906	-16,725
Net profit/(loss) attributable to owners of the parent	19,054	-41,860
Net profit attributable to holders of ordinary shares used to calculate diluted earnings per share	**19,054**	**-41,860**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	10,298,554	10,298,554
Earnings per share	**1.85**	**-4.06**
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	10,298,554	10,298,554
Diluted earnings per share	**1.85**	**-4.06**

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

No dividends were proposed or approved by the date of authorisation of these financial statements.

Note 10. PROPERTY, PLANT AND EQUIPMENT

Error! Incorrect connection.

Item	Dec 31 2018	Dec 31 2017
Tangible assets	75,428	72,487
Tangible assets under construction	4,909	5,697
Property, plant and equipment	**80,338**	**78,184**

OWNERSHIP STRUCTURE – net amount	Dec 31 2018	Dec 31 2017
Owned	73,285	71,131

Used under lease, tenancy or similar contract	7,053	7,053
Total	**80,338**	**78,184**

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2018

Item	Land	Buildings and structures	Machinery and equipment	Vehicles	Other tangible assets	Total
Gross carrying amount as at Jan 1 2018	**883**	**42,038**	**62,040**	**11,354**	**6,228**	**122,543**
Increase, including:	**-**	**3,152**	**5,639**	**1,478**	**1,013**	**11,282**
acquisitions	-	3,152	1,572	195	1,013	5,933
tangible assets generated internally	-	-	933	-	-	933
concluded lease contracts	-	-	3,133	1,214	-	4,347
Other		-	-	68	-	68
Decrease, including:	**-**	**-**	**2,452**	**2,077**	**-1,313**	**3,216**
sale	-	-	787	1,687	22	2,495
liquidation	-	-	288	390	38	716
change in presentation	-	-	1,377	-	-1,372	5
Gross carrying amount as at Dec 31 2018	**883**	**45,190**	**65,227**	**10,755**	**8,553**	**130,609**
Cumulative amortisation as at Jan 1 2018	**-**	**10,673**	**33,867**	**6,215**	**3,721**	**54,476**
Increase, including:	**-**	**983**	**4,051**	**1,368**	**900**	**7,303**
amortisation	-	983	4,051	1,368	900	7,303
Decrease, including:	**-**	**-**	**1,328**	**1,496**	**-681**	**2,144**
sale	-	-	371	1,357	19	1,747
liquidation	-	-	227	139	22	389
change in presentation	-	-	730	-	-722	8
Cumulative amortisation as at Dec 31 2018	**-**	**11,656**	**36,590**	**6,087**	**5,302**	**59,636**
Impairment losses as at Jan 1 2018	**-**	**-**	**1,005**	**3**	**-**	**1,007**
Increase, including:	**-**	**1,087**	**-**	**-**	**-**	**1,087**
impairment	-	1,087	-	-	-	1,087
Decrease, including:	**-**	**-**	**-**	**-**	**-**	**-**
- write-downs/impairment losses reversed	-	-	-	-	-	-
Impairment losses as at Dec 31 2018	**-**	**1,087**	**1,005**	**3**	**-**	**2,095**
Net exchange differences on translating financial statements into presentation currency	874	2,896	2,056	308	417	6,550
Net carrying amount as at Dec 31 2018	**1,757**	**35,344**	**29,687**	**4,973**	**3,668**	**75,428**

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 2017	**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
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**	**-**	**2,429**
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	**-**	**-**	**1,005**	**3**	**-**	**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**

Tangible assets under construction: Error! Incorrect connection.

Tangible assets under construction as at Jan 1 2018	*Expenditure incurred in the financial year*	*Accounting for the expenditure*				*As at Dec 31 2018*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*	
5,697	**9,398**	3,132	5,281	1,079	692	**4,909**

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*	
2,738	**8,604**	1,328	2,866	139	1312	**5,697**

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 Group shares under the share buyback programme established pursuant to Resolution No. 5 of the Group's Extraordinary General Meeting of October 30th 2014. As at December 31st 2018, the total amount drawn under the facility was PLN 7,885 thousand.

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. Świerczewskiego 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. Świerczewskiego 76, Świebodzin
- No. 94/14, situated at ul. Sobieskiego 8, Świebodzin.

Leased tangible assets

Note 11. INTANGIBLE ASSETS

Changes in intangible assets (by type) in the period January 1st–December 31st 2018

Item	*Development costs*	*Patents and licences, software*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2018	**37,325**	**7,849**	**5,093**	**50,267**
Increase, including:	**14,938**	**2,925**	-	**17,863**
acquisitions	12,377	1,850	-	14,227
Other	2,561	1,075	-	3,636
Decrease, including:	**1,075**	**-**	**-**	**1,075**
liquidation	-	-	-	-
Other	1,075	-	-	1,075

Gross carrying amount as at Dec 31 2018	**51,188**	**10,774**	**5,093**	**67,055**
Cumulative amortisation as at Jan 1 2018	**5,561**	**4,897**	**3,083**	**13,541**
Increase, including:	**1,463**	**1,509**	**421**	**3,393**
amortisation	1,463	1,476	421	3,359
Other	-	34	-	34
Decrease, including:	**-**	**-**	**-**	**-**
Other	-	-	-	-
Cumulative amortisation as at Dec 31 2018	**7,025**	**6,406**	**3,503**	**16,934**
Impairment losses as at Jan 1 2018	-	-	-	-
Increase:	-	-	-	-
Decrease:	-	-	-	-
Impairment losses as at Dec 31 2018	-	-	-	-
Net exchange differences on translating financial statements into presentation currency	8	72	-	80
Net carrying amount as at Dec 31 2018	**44,172**	**4,440**	**1,589**	**50,202**

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

Item	*Development costs*	*Patents and licences, software*	*Other intangible assets*	*Total*
Gross carrying amount as at Jan 1 2017	**27,955**	**7,646**	**5,093**	**40,693**
Increase, including:	**9,370**	**203**	-	**9,574**
acquisitions	9,370	203	-	9,574
Other	-	-	-	-
Decrease, including:	**-**	**-**	**-**	**-**
liquidation	-	-	-	-
Gross carrying amount as at Dec 31 2017	**37,325**	**7,849**	**5,093**	**50,267**
Cumulative amortisation as at Jan 1 2017	**4,233**	**4,387**	**2,540**	**11,159**
Increase, including:	**1,353**	**510**	**543**	**2,406**
amortisation	1,353	484	543	2,380
Other	-	26	-	26
Decrease, including:	**25**	**-**	**-**	**25**
Other	25	-	-	25
Cumulative amortisation as at Dec 31 2017	**5,561**	**4,897**	**3,083**	**13,541**
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	7	22	-	29
Net carrying amount as at Dec 31 2017	**31,771**	**2,974**	**2,010**	**36,755**

Intangible assets are not pledged as security for liabilities.

As at December 31st 2018 and December 31st 2017, the Group had no intangible assets held for sale.

As at December 31st 2018, PLN 16,349 thousand of costs of completed development work and PLN 27,822 thousand of costs of development work in progress were recognised. Those costs include the development of innovative equipment for metal heat treatment and vacuum metallurgy.

Costs of completed development work include:
- PLN 10,211 thousand allocated to the vacuum furnace segments;
- PLN 2,949 thousand allocated to the atmosphere furnace segments;
- PLN 2,284 thousand allocated to the aluminium furnace segments;
- PLN 396 thousand allocated to the melting furnace segments;
- PLN 509 thousand in other costs.

Costs of development work in progress include:
- PLN 18,307 thousand allocated to the vacuum furnace segments;
- PLN 4,049 thousand allocated to the atmosphere furnace segments;
- PLN 312 thousand allocated to the aluminium furnace segments;
- PLN 1,284 thousand allocated to the melting furnace segments;
- PLN 3,870 thousand in other costs.

Impairment tests were performed for costs of development work in progress. No impairment losses were recognised.

The tests were based on forecast future economic benefits, such as lower operating expenses and revenue from sale of new equipment.

In 2018, the research costs recognised in the statement of comprehensive income were PLN 3,613 thousand (2017: PLN 3,231 thousand).

Note 12. GOODWILL

Item	Dec 31 2018	Dec 31 2017
Consolidation goodwill at beginning of period	36,019	43,004
Exchange differences on translation of goodwill	2,797	-6,985
Total goodwill at end of period	**38,816**	**36,019**

In 2018, 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.

The recoverable amount was determined based on future cash flow projections according to the 2019 budget and projections covering the next four years. The projections reflect the management's business experience to date and 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)	11.05%	13.02%
Average revenue growth rate	-0.96%	21.56%
Growth rate after the forecast period	2.00%	1.00%
Goodwill	37,070	1,746
Net assets	25,050	-10,119
Recoverable amount	63,787	3,181
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, replacement 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 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 2019-2023 for each company for which an impairment test was performed:

Item	*Recoverable amount SWG (Germany)*	
Discount rates assumed in the test	3,181	
+1/-1% change in discount rate	-742	+891
change in average revenue growth rate: +10/-10%	+1,260	-1,166

change in growth rate after forecast period +1/-1%	+598	-499

As at December 31st 2018, the value-in-use of the investment in Retech Systems LLC exceeded its carrying amount by PLN 1,667 thousand.

The following changes in any of the key assumptions:

- a 0.3% growth in the average pre-tax discount rate, or
- a 1.5% decline in the average revenue growth rate, or
- a 0.45% decline in growth rate after the forecast period

will bring the value-in-use of the investment to Retech to the level equal to its carrying amount.

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. 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 **CHANGE IN WRITE-DOWNS**

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	**Total**
Jan 1 2017	**2,208**	**1,382**	**214**	**5**	**3,806**
Increase, including:	**64**	**5,360**	**-**	**-**	**5,424**
- change in presentation from contract assets to inventories	-	323	-	-	323
- write-downs recognised in correspondence with other expenses	64	5,037	-	-	5,101
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**	**6,742**	**178**	**5**	**6,817**
Increase, including:	**386**	**424**	-	-	**810**
- write-downs recognised in correspondence with other expenses	386	424	-	-	810
Decrease, including:	**-**	**1,176**	**178**	**-**	**1,354**
- use	-	1,070	178	-	1,248

Net exchange differences on translating financial statements into presentation currency	-	105	-	-	105
Dec 31 2018	**279**	**5,990**	**-**	**5**	**6,273**

Note 15. CONTRACT ASSETS/LIABILITIES

The Group recognised the following assets and liabilities under contracts with customers:

	Dec 31 2018	Dec 31 2017
Contract assets	102,523	103,780
Contract liabilities	-111,480	-100,271
	-8,957	3,509

Contract assets

Contract assets were recognised by the Company as at January 1st 2018, following the application of IFRS 15, using the modified retrospective method. Contract assets reflect the amounts payable by customers in connection with provision of services or delivery of equipment.

In the Company's opinion, there is no concentration of credit risk related to contract assets due to a large and diversified asset base. The Company's maximum exposure to credit risk at the end of the reporting period corresponds to the carrying amount of these assets.

Changes in contract assets in the twelve months ended December 31st 2018 were as follows:

	2018
Opening balance	**103,780**
Effect of IFRS 15	6,977
Effect of IFRS 9	-577
Increase	356,795
Invoiced amounts transferred to trade receivables	-364,450
Closing balance	**102,523**

As at December 31st 2018, expected credit losses for contract assets were at 0.56%. As the amount of expected credit losses did not change materially, no change in allowance as at December 31st 2018 was made.

Contract liabilities

Contract liabilities are presented as of January 1st 2018 following the application of IFRS 15, using the modified retrospective method.
The balance of contract liabilities of approximately PLN 90,089 thousand as at January 1st 2018 was recognised as revenue generated in the 12 months ended December 31st 2018.

Performance obligations

As at December 31st 2018, the transaction price allocated to unsatisfied performance obligations under contracts with customers was PLN 111,481 thousand. The following table shows the time periods during which the Company expects to satisfy those performance obligations and recognise related revenue.

	Dec 31 2018
Up to 1 year	109,944
1–2 years	1,536
Over 2 years	-
Total unsatisfied performance obligations	**111,480**

Note 16. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2018	Dec 31 2017
Trade receivables (net)	**57,098**	**69,071**
non-current	**2,104**	**1,288**
- from related entities	-	-
- from other entities	2,104	1,288
current	**54,994**	**67,783**
- from related entities	-	-
- from other entities	54,994	67,783
Impairment losses (positive value)	**12,376**	**4,502**
Trade receivables (gross)	**69,474**	**73,573**
Other receivables:		
non-current	**3,209**	**4,532**
current	**15,250**	**17,240**
taxes, customs duties and social security receivable	7,500	5,885
sale of S/W Brasil shares	1,518	-
prepayments	5,545	9,745
other receivables:	687	1,610
Other receivables (gross)	**18,458**	**21,772**

As at December 31st 2018, trade receivables of PLN 12,376 thousand (2017: PLN 4,502 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 2018	Dec 31 2017
As at beginning of period	**4,502**	**18,508**
Increase	7,610	447
Effect of IFRS 9	288	-
Reversal (-)	-173	-
Use (-)	-	-64
Assets designated as assets for sale	-	-13,916
Net exchange differences on translating financial statements into presentation currency	149	-474
As at end of period	**12,376**	**4,502**

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

Item	Dec 31 2018	Dec 31 2017
Up to 1 month	31,441	33,137
More than 1 month, up to 6 months	14,819	19,079
more than 6 months, up to 1 year	3,171	5,412
more than 1 year	2,104	1,288
past due	5,564	10,155
Total trade receivables (net)	**57,098**	**69,071**
Long-term receivables	2,104	1,288
Short-term receivables	54,994	67,783
Impairment losses on trade receivables	12,376	4,502
Total trade receivables (gross)	**69,474**	**73,573**

Note 17. OTHER FINANCIAL ASSETS AND LIABILITIES

Financial assets

Item	Dec 31 2018	Dec 31 2017
Loans	41	74
Other	3	17
Derivative financial instruments	1,340	7,237
Total financial assets, including:	**1,384**	**7,328**
- non-current	30	2,000
- current	1,354	5,328

Financial liabilities

Item	Dec 31 2018	Dec 31 2017
Bank loans	69,513	78,239
Other financial liabilities	8,081	4,856
- derivative financial instruments	1,197	19
- lease liabilities	6,395	4,412
- other	488	425
Total financial liabilities, including:	**77,594**	**83,095**
- non-current	6,852	11,351
- current	70,742	71,744

	Dec 31 2018		Dec 31 2017	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments	1,340	1,197	7,237	19

Total financial assets and liabilities at fair

value through profit or loss				
- non-current	-	-	-	-
- current	-	-	-	-
Total hedging instruments				
- non-current	27	-	1,983	-
- current	1,313	1,197	5,254	19

Disclosures of derivative financial instruments which qualify for hedge accounting

In 2018, SECO/WARWICK S.A. used currency forwards to hedge on average 61% of its export cash flows denominated in EUR and 72% of its cash flows denominated in USD. The purpose was to hedge the budgeted exchange rates for contracts. Any changes in the value of EUR- or USD-denominated cash flows are offset by changes in the fair value of the hedging instrument. Hedge accounting is applied by the Company if the criteria provided for in IAS 9 are met.

The table below presents total values of hedging relationships open as at December 31st 2018.

Dec 31 2018	Notional amount of contract (EUR '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 31 2018	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (cumulative) (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	49,781	29,282	20,612	439	364	75	from Jan 10 2019 to Mar 31 2020

Dec 31 2018	Notional amount of contract (USD '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 31 2018	Fair value of instrument (PLN '000)	Amount recognised in profit or loss (cumulative) (PLN '000)	Amount recognised in equity (PLN '000)	Date of final settlement of hedging instrument
TOTAL	46,109	28,309	6,582	-296	-323	27	from Jan 17 2019 to Feb 27 2020

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

Note 18. OTHER NON-FINANCIAL ASSETS

Item	Dec 31 2018	Dec 31 2017
VAT to be settled in future period	1,015	948
Prepayments and accrued income	2,301	3,001
Total other non-financial assets	**3,316**	**3,949**

Note 19. CASH AND CASH EQUIVALENTS

Item	Dec 31 2018	Dec 31 2017
Cash at banks and cash in hand	51,933	50,285
Short-term deposits	1,669	1,792
Total cash and cash equivalents	**53,602**	**52,077**

Note 20. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Item	Dec 31 2018	Dec 31 2017
Number of shares	10,298,554	10,298,554
Par value of shares	0.2	0.2
Share capital	2,059	2,059
Revaluation of property, plant and equipment	1,557	1,557
Share capital at end of period	**3,616**	**3,616**

Shareholding structure:

Shareholders as at Dec 31 2018	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 Santander	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**

Other components of equity:	Share-based payment reserve	Share buyback reserve	Treasury shares	Total other components of equity
Other components of equity as at January 1st 2018	**9,901**	**15,150**	**-14,963**	**10,088**
Valuation of management stock option plan	1,979	-	-1579	**1,979**
Award of management stock options	-2,554	-	2,554	**-**
Other components of equity as at December 31st 2018	**9,326**	**15,150**	**-12,409**	**12,067**
Other components of equity as at January 1st 2017	**9,096**	**15,063**	**-15,063**	**9,096**
Valuation of management stock option plan	804	-	-	**804**
Sale of treasury shares	-	88	100	**188**
Other components of equity as at December 31st 2017	**9,900**	**15,150**	**-14,963**	**10,088**

The share buyback reserve was transferred from statutory reserve funds by way of resolution of the EGM on October 30th 2014 to purchase own shares.

Non-controlling interests:

	Dec 31 2018	Dec 31 2017
Non-controlling interests at beginning of period	**-58**	**-544**
Recognition of share of S/W Retech's profit or loss for the period	172	171
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	-2	21
Opening balance adjustment in S/W Retech under IFRS 15	-59	-
Recognition of share of S/W Allied's profit or loss for the period	-	-155
Deconsolidation of S/W Allied	-108	-
Recognition of share of exchange differences on translation of S/W Allied's operations	-	14
Non-controlling interests at end of period	**-54**	**-58**

Note 21. Borrowings Short-term and long-term borrowings **Bank loans by maturity: Borrowings by currency:**

Item	Dec 31 2018		Dec 31 2017	
	amount in foreign currency	amount in PLN	amount in foreign currency	amount in PLN
PLN	-	63,961	-	71,555
EUR	743	3,197	370	1,541
USD	24	102	923	3,202
CNY	4,113	2,254	3,627	1,940
Total borrowings		**69,513**		**78,239**

Note 22. LEASES

Operating leases

Liabilities under operating leases – the Group as a lessee

Item	Dec 31 2018	Dec 31 2017
Outstanding balance:		
Up to 1 year	1,085	1,109
From 1 year to 5 years	1,038	2,052
Over 5 years	-	-
Total	**2,122**	**3,161**

Receivables under operating leases – the Group as a lessor

Item	Dec 31 2018	Dec 31 2017
Outstanding balance:		
Up to 1 year	700	700
From 1 year to 5 years	3,030	3,042
Over 5 years	906	1,510
Total	**4,636**	**5,252**

Finance leases

As at December 31st 2018 and December 31st 2017, liabilities under finance leases and lease contracts with a purchase option were as follows:

Error! Incorrect connection.

	Dec 31 2018		Dec 31 2017	
Item	**Minimum lease payments**	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Up to 1 year	1,754	1,481	1,307	1,116
From 1 year to 5 years	5,287	4,914	3,722	3,296
Over 5 years	-	-	-	-
Total minimum lease payments	**7,041**	**6,395**	**5,028**	**4,412**
Finance costs	646	-	616	-
Present value of minimum lease payments, including:	**6,395**	**6,395**	**4,412**	**4,412**
current	1,481	1,481	1,116	1,116
non-current	4,914	4,914	3,296	3,296

Note 23. TRADE AND OTHER PAYABLES

Item	Dec 31 2018	Dec 31 2017
current	57,054	76,096
non-current	-	-
Total	**57,054**	**76,096**

TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Item	Dec 31 2018	Dec 31 2017
Trade payables		
To related entities	-	-
To other entities	45,989	59,981
Total	**45,989**	**59,981**
Taxes, customs duties, social security and other charges payable	4,903	6,048
Salaries and wages payable	4,988	6,170
Income tax payable	49	188
Other liabilities	1,124	3,709
Total other liabilities	**11,065**	**16,114**
Total trade and other payables	**57,054**	**76,096**

Error! Incorrect connection.

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 51,508 thousand as at the end of 2018, and PLN 62,720 thousand as at the end of 2017. The guarantees were issued in respect of:

Item	Dec 31 2018	Dec 31 2017
Advance payment guarantee	42,588	43,435
Credit repayment guarantee	-	2,085
Performance bond guarantee	1,475	1,969
Stand-by letter of credit	-	11,140
Bid bond guarantee	4,679	4,091
Credit facility repayment	2,766	-
Total	**51,508**	**62,719**

As at December 31st 2018, there were no material expected credit losses under guarantees.

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 50 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 2018	Dec 31 2017
Loans advanced to employees	36	45
Cash	406	204
Liabilities to the fund	435	203
Net balance	7	47
Contributions to the fund during the year	655	626

Capital commitments

As at December 31st 2018, the Group had commitments of PLN 268 thousand to incur capital expenditure on property, plant and equipment.

Note 24. EMPLOYEE BENEFITS EXPENSE AND OTHER 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. The actuary made the following assumptions as at the end of the reporting period to calculate the amount of the obligations:

Item	Dec 31 2018	Dec 31 2017
Discount rate (%)	3.2	3.2
Expected inflation rate (%)	2.3	2.3
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 to Dec 31 2018	from Jan 1 to Dec 31 2017
1. Provision for accrued holiday entitlements		
as at beginning of period	**4,955**	**4,903**
- provision recognised	5,756	6,892
- use	5,948	6,581
- separation of discontinued operations	-	259
as at end of period	**4,763**	**4,955**
2. Provision for bonuses		
as at beginning of period	**5,347**	**6,651**
- provision recognised	5,262	5,085
- use	5,624	6,389
as at end of period	**4,985**	**5,347**
3. Provision for retirement bonuses		
as at beginning of period	**25**	**28**
- provision recognised	-	24

- use	-	-
- provision reversed	-	27
as at end of period	**25**	**25**

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 2018	Dec 31 2017
Discount rate (%)	3.97	3.31
Expected rate of return on assets (%)	6.00	7.00

RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)

Item	2018	2017
Change in plan's obligation		
Obligation at beginning of period	**15,102**	**18,352**
Interest expense	500	600
Actuarial gain/(loss)	-1,212	231
Contributions paid	-1,019	-1,031
Effect of currency translation on presentation currency	1,139	-3,049
Obligation at end of period	**14,510**	**15,103**
Change in plan's assets		
Fair value of plan's assets at beginning of period	**13,686**	**14,954**
Interest income/(loss) on plan's assets	451	-593
Additional gain/(loss) on plan's assets	-1,020	2,812
Benefits paid	-1,019	-1,031
Effect of currency translation on presentation currency	1,031	-2,459
Fair value of plan's assets at end of period	**13,129**	**13,683**

OTHER PROVISIONS

Item	*Provision for warranty repairs and returns*	*Provision for penalty*	*Provision for contracts delivered with a loss*	*Other provisions – contingent liability*	*Total*
As at Dec 31 2016	**123**	**4,080**	**2,011**	**-**	**6,214**
Provisions recognised during the financial year	263	-	989	-	1,252
Increase	**263**	**-**	**989**	**-**	**1,252**
Provisions used	-	-	-787	-	-787
Provisions reversed	-80	-1,135	-	-	-1,215
Assets held for sale	-45	-	-	-	-45
Decrease	**-125**	**-1,135**	**-787**	-	**-2,047**
As at Dec 31 2017	**261**	**2,945**	**2,213**	**-**	**5,420**
Opening balance adjustment under IFRS 15	16,822	-	504	-	17,326

Change in presentation of losses on contracts	-	636	-	-	636
Provisions recognised during the financial year	5,774	-	1,115	-	6,890
Increase	**22,596**	**636**	**1,619**	**-**	**24,851**
Provisions used	-11,804	-	-2,315	-	-14,119
Provisions reversed	-	-2,024	-1,180	-	-3,205
Decrease	**-11,804**	**-2,024**	**-3,495**	-	**-17,324**
As at Dec 31 2018	**11,053**	**1,557**	**337**	**-**	**12,947**

Note 25. DEFERRED INCOME

Item	**Dec 31 2018**	**Dec 31 2017**
- co-financing for development and research projects	16,038	13,809
- other deferred income	21	-
Deferred income, including:	**16,059**	**13,809**
- non-current	14,932	12,793
- current	1,127	1,015

Note 26. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	**Dec 31 2018**	**Dec 31 2017**
Depreciation and amortisation	**10,744**	**10,236**
Amortisation of intangible assets	3,283	2,254
Depreciation of property, plant and equipment	7,448	7,932
Depreciation of investment property	12	51
Change in provisions (excluding elimination of income tax liabilities) results from the following items:	**-6,569**	**1,956**
Net change in provisions	10,553	-7,361
Adjustment under IFRS 15	-13,511	-
Elimination of change in deferred tax liabilities	-3,595	-
Exchange differences	-208	2,873
Assets designated as held for sale	-	3,863
Provisions for employee benefits	192	2,581
Change in inventories results from the following items:	**-14,831**	**-4,604**
Net change in inventories	-25,902	-1,980
Adjustment under IFRS 15	10,289	-
Assets designated as held for sale	-	-575
Exchange differences	782	-2,050
Change in receivables (excluding elimination of income tax receivable) results from the following items:	**17,143**	**19,814**
Balance-sheet change in receivables	15,287	47,932
Adjustment under IFRS 9	-288	-
Elimination of income tax receivable	91	-6,657

Assets designated as held for sale	-	-11,867
Exchange differences	2,054	-9,594
Change in liabilities (excluding financial liabilities) results from the following items:	**-8,874**	**20,484**
Balance-sheet change in liabilities	-15,817	-9,639
Assets designated as held for sale	-	20,286
Change in investment commitments	2,408	-2,359
Exchange differences	-3,273	6,575
Adjustment under IFRS 15	11,033	-
Change in lease liabilities	-2,046	-1,054
Valuation of derivative instruments	-1,179	6,675
Change in accruals and deferrals and in contract assets and liabilities (excluding elimination of changes in income tax assets) results from the following items:	**4,891**	**-757**
Net change in accruals and deferrals and in contract assets and liabilities	15,443	2,051
grants received	-3,155	-221
Adjustment under IFRS 15	-6,106	-
Adjustment under IFRS 9	-577	-
Elimination of change in deferred tax assets	-94	-5,271
Exchange differences	-620	2,684
Change in other adjustments results from the following items:	**1,236**	**343**
Management stock options	1,979	804
Other	-743	-461

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 2018			
Paweł Wyrzykowski	784	1,059	1,843
Sławomir Woźniak	519	44	563
Bartosz Klinowski	387	628	1,015
Total	**1,689**	**1,732**	**3,421**
Dec 31 2017			
Paweł Wyrzykowski	1,589	198	1,787
Sławomir Woźniak	438	85	523
Bartosz Klinowski	460	15	475

Wojciech Peret (1)	400	12	412
Total	**2,887**	**309**	**3,197**

(1) Remuneration of Mr Wojciech Peret for the period January 1st–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 2018	**Dec 31 2017**
Andrzej Zawistowski, including:	220	205
- for his service as Chairman of the Supervisory Board	120	120
- under contract for advisory services(1)	100	85
Jeffrey Boswell, including:	147	151
- under employment contract(2)	147	151
James A. Goltz, including:	-	379
- under employment contract(3)	-	379
Henryk Pilarski	54	54
Marcin Murawski(4)	43	43
Paweł Tamborski(5)	11	42
Jacek Tucharz(6)	32	42
Total	**506**	**874**

(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 is 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. On April 11th 2018, Mr James A. Goltz was removed from the Supervisory Board by Resolution No. 10 of the Extraordinary General Meeting of SECO/WARWICK S.A.

(4) Mr Paweł Tamborski was appointed Member of the Supervisory Board by Resolution No. 29 of the General Meeting of June 24th 2016. Mr Paweł Tamborski tendered his resignation as member of the Supervisory Board, with effect as of February 16th 2018.

(5) On April 11th 2018, Mr Jacek Tucharz was appointed to the Supervisory Board by Resolution No. 18 of the Extraordinary General Meeting of SECO/WARWICK S.A.

Note 29. FINANCIAL INSTRUMENTS

Item	Category under IFRS 9	Carrying amount		Maximum credit risk exposure in 2018
		Dec 31 2018	Dec 31 2017	
Financial assets				
Loans advanced	At amortised cost	41	74	41
Trade and other receivables	At amortised cost	70,244	85,023	70,244
Long-term receivables	At amortised cost	5,313	5,820	5,313
Hedging instruments	At fair value through profit or loss	1,313	5,254	1,313
Cash and cash equivalents	At amortised cost	53,602	52,077	53,602
Financial liabilities				
current				
Short-term bank loans	At amortised cost	67,794	70,184	-
Finance lease liabilities	At amortised cost	1,481	1,116	-
Trade and other liabilities	At amortised cost	53,228	59,843	-
Hedging instruments	At fair value through profit or loss	1,197	19	-
non-current				
Long-term bank loans	At amortised cost	1,719	8,055	-
Hedging instruments	At fair value through profit or loss	178	-	-
Finance lease liabilities	At amortised cost	4,914	3,296	-

???At amortised cost - measurement at amortised cost

???At fair value – measurement at fair value through profit or loss.

* In the case of derivative instruments serving as hedging instruments, measurement is recognised in profit or loss through finance income or finance costs in proportion to the percentage of completion of the hedged contract.

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

Income, expenses, gains and losses accounted for in the statement of profit or loss/ statement of comprehensive income, by category of financial instrument

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	Gains/(losses) on derecognition of financial assets
Financial assets						
Loans advanced	-	-	-	-	-	-
Trade and other receivables	-	2,071	-7,437	1,617	-	-
Long-term receivables	-	-	-	292	-	-
Derivative financial instruments	-	-	-	-3,422	3,531	-
Cash and cash equivalents	49	9	-	-	-	-
TOTAL	**49**	**2,080**	**-7,437**	**-1,513**	**3,531**	**-**

	Other interest income/(expense)	Foreign exchange gains/(losses)	Impairment losses reversed/(recognised)	Valuation gains/(losses)	Gains/(losses) on settlement of financial instruments	
Financial liabilities						
current						
Short-term bank loans	-2,620	-55	-	328	-	-
Finance lease liabilities	-266	-	-	-	-	-
Trade and other payables	10	-257	-	-380	-	-
Hedging instruments	-	-	-	-314	-2,189	-
Contract liabilities	23	-	-	-	-	-
non-current						
Long-term bank loans	-	-	-	-	-	-
Finance lease liabilities	-	-	-	-	-	-
Hedging instruments	-	-	-	-173	-	-

TOTAL	**-2,853**	**-312**	**-**	**-867**	**-2,189**

Changes in liabilities related to financing activities

	Jan 1 2018	changes resulting from cash flows from financing activities	increase under lease	effect of changes in foreign exchange rates	effect of valuation of hedging instruments	Dec 31 2018
Interest-bearing borrowings (long-term)	8,055	**-6,678**	**-**	**342**	**-**	**1,719**
Finance lease liabilities (non-current)	3,296	**-1,459**	**3,077**	**-**	**-**	**4,914**
Interest-bearing borrowings (short-term)	70,184	**-3,217**	**-**	**828**	**-**	**67,794**
Finance lease liabilities (current)	1,116	**-799**	**1,164**	**-**	**-**	**1,481**
Derivative financial instruments	19	**-**	**-**	**-**	**1,179**	**1,197**
Other financial liabilities	425	**-3**	**-**	**66**	**-**	**488**
Total liabilities arising from financing activities	83,094	**-12,156**	**4,241**	**1,236**	**1,179**	**77,593**

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

	2018		
	Level 1	Level 2	Level 3
Financial assets			
Investments in related parties	-	-	-
Financial assets available for sale (non-current)	-	-	-
Loans advanced (short-term)	-	-	-
Loans advanced (long-term)	-	-	-
Trade and other receivables	-	-	-
Derivative financial instruments	-	1,313	-
- *Currency forwards*	-	1,313	-
Cash and cash equivalents	-	-	-
Granted sureties	-	-	-
Total	**-**	**1,313**	**-**
Current			
financial liabilities			
Interest-bearing borrowings, including:	-	-	-
- *Overdraft facility*	-	-	-
- *Short-term borrowings*	-	-	-
- *Finance lease liabilities (current)*	-	-	-
Trade and other payables	-	-	-
Currency forwards	-	1,197	-
non-current	-	-	-
Long-term borrowings bearing interest at variable rates	-	-	-
Other liabilities (non-current), including:	-	-	-
- *Finance lease liabilities*	-	-	-
Total	**-**	**1,197**	**-**

	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**	**-**

Note 30. EMPLOYMENT STRUCTURE

Item	Dec 31 2018	Dec 31 2017
Blue-collar employees	250	276
White-collar employees	599	667
Employees on parental leaves	2	3
Total	**851**	**946**

Note 31. DISCONTINUED OPERATIONS

On December 20th 2017, the Management Board of SECO/WARWICK S.A. passed a resolution to sell 98% of shares in SECO/WARWICK Allied Pvt. Ltd. ("SW Allied") of India. as announced to the public on the same day in Current Report No. 19/2017.

In the consolidated financial statements of the SECO/WARWICK Group for 2017, the SW Allied business is shown as discontinued operations in the statement of profit or loss and as assets held for sale and liabilities related to assets held for sale in the Group's statement of financial position.

On October 25th 2018, an agreement was signed for the sale of shares in ALLIED FURNACES PVT. LTD. and ACE THERMAL TECHNOLOGIES PRIVATE LIMITED of Mumbai (India). Subsequently, on December 28th 2018, an agreement was signed for the sale of all shares held by SECO/WARWICK S.A. in SECO/WARWICK Allied Pvt. Ltd. The loss on discontinued operations of PLN 1,906 thousand was attributable to S/W Allied's operations in 2018 until the transaction date and the transaction settlement.

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 2018, 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 2018	As at Dec 31 2017
Debt	75,909	82,651
Cash and cash equivalents	-53,602	-52,077
Net debt	22,306	30,574
Equity	177,509	151,190
Net debt to equity	**12.57%**	**20.22%**

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 comprise 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 enters into forward transactions, hedging its contract exchange rates in the budget. 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	As at	As at	As at
	Dec 31 2018	Dec 31 2018	Dec 31 2017	Dec 31 2017
	in foreign currency	in PLN	in foreign currency	in PLN
Liabilities				
EUR	3,400	14,621	2,794	11,655
USD	5,504	20,694	4,047	14,088
Assets				
EUR	26,438	113,682	11,955	49,864
USD	10,713	40,278	4,104	14,286
Notional amount of hedging instrument				
EUR	20,612	88,632	23,211	96,811
USD	6,582	24,746	11,614	40,432
Goodwill				
EUR	394	1,693	406	1,693
USD	9,130	34,325	9,860	34,325

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 2018

+ 10% increase in exchange rate

- 10% decrease in exchange rate

Exchange rate at Dec 31 2018	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.7597	0.376	-0.376
EUR	4.3000	0.430	-0.430

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

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 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017
ASSETS					
Increase in exchange rate	10%	7,460	4,861	11,538	5,156
Decrease in exchange rate	-10%	-7,460	-4,861	-11,538	-5,156
LIABILITIES AND BANK LOANS					
Increase in exchange rate	10%	-4,544	-5,452	-10,325	-10,847
Decrease in exchange rate	-10%	4,544	5,452	10,325	10,847
TOTAL					
Increase in exchange rate	10%	2,916	-591	1,212	-5,691
Decrease in exchange rate	-10%	-2,916	591	-1,212	5,691

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 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017
ASSETS					
Increase in exchange rate	10%	4,028	1,429	11,368	4,986
Decrease in exchange rate	-10%	-4,028	-1,429	-11,368	-4,986
LIABILITIES AND BANK LOANS					
Increase in exchange rate	10%	-4,544	-5,452	-10,325	-10,847
Decrease in exchange rate	-10%	4,544	5,452	10,325	10,847
TOTAL					
Increase in exchange rate	10%	-516	-4,023	1,043	-5,860
Decrease in exchange rate	-10%	516	4,023	-1,043	5,860

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 2018	**Year ended Dec 31 2017**
Lease liabilities	+/- 63	+/- 44
Other financial liabilities at amortised cost	+/- 695	+/- 782

In 2018, total bank loans were PLN 69,513 thousand (2017: PLN 78,239 thousand) and financial liabilities were PLN 6,395 thousand (2017: PLN 4,412 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 2018, bank loans represented 26% of total current liabilities (December 31st 2017: 26%).
The table below presents the Group's financial liabilities by maturity as at December 31st 2018 and December 31st 2017, based on contractual payments.

Dec 31 2018	Payable on demand	Up to 1 year	1–5 years	Over 5 years	Total as at Dec 31 2018
Trade payables	-	45,989	-	-	**45,989**
Leases	-	1,481	4,914	-	**6,395**
Derivative instruments	-	1,197	-	-	**1,197**
Interest-bearing borrowings	-	67,794	1,719	-	**69,513**
Other liabilities	-	11,553	-	-	**11,553**
TOTAL	**-**	**128,015**	**6,633**	**-**	**134,648**

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**

33.4 Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to use trade credit is subject to preliminary verification procedures. Moreover, thanks to ongoing monitoring of the balance of receivables, the Group's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Group's other financial assets, such as cash and cash equivalents, financial assets available for sale, and certain derivative instruments, credit risk is related to the counterparty's inability to pay, and the maximum exposure to this risk is equal to the carrying amount of such instruments.

There are no significant concentrations of credit risk within the Group.

The Group applies a simplified model for calculating impairment losses on trade receivables (regardless of maturity). The expected credit loss is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. To estimate expected credit losses on receivables from customers, the Group uses a provision matrix estimated based on historical data on payments of amounts due from customers. The Group takes into account forward-looking information in its expected loss estimation model by adjusting the underlying default probability ratios. The expected credit loss on receivables from customers is calculated on recognition of receivables in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable.

The age structure of receivables is presented in Note 16.

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 assumptions 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 respective subsidiaries, the organisational units related to particular technologies, or the entire Group, and depend on the position held by the Scheme Participant. For the entire Group, the Individual Objective defined for the President of the Management Board, the Chief Financial Officer and the Chief Operating Officer at SECO/WARWICK S.A. is the Group's consolidated net profit. For 2016 and 2017, the Objective was 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.

Based on the review findings, the Supervisory Board granted to the eligible Scheme participants 81,657 share options, conferring 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 relevant agreements ("Agreements") with nine beneficiaries of the terminated Incentive Scheme ("Beneficiaries"), under which a total of 102,166 Company shares will be delivered to the Beneficiaries for 2016 and 2017, free of charge, and compensation bonuses in a total amount of PLN 389.6 thousand will be paid to the Beneficiaries;
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 Incentive Scheme for members of the SECO/WARWICK Group's management staff for 2018-2020

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018−2020 Incentive Scheme and the Rules of the Incentive Scheme, and to 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 Incentive Scheme beneficiaries are the Group's senior management staff. The scheme covers a total of 494,000 shares. The annual equity volumes for the years 2018, 2019, 2020 and the assessment parameter, which is determined by the Company's Supervisory Board and approved by the General Meeting, have been established for each beneficiary of the scheme. The assessment parameter is closely linked to the Group's net profit, separate profit or operating profit of an operating segment. After the end of the financial year, the Company's Supervisory Board and General Meeting determine and approve the achievement of objectives by individual beneficiaries of the scheme.

Note 35. LITIGATION

Seco/Warwick Corporation (SWC), a subsidiary of the Company, with its registered office in Pennsylvania, USA, along with a third party which is not associated with SECO/WARWICK (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 SECO/WARWICK 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 Company's knowledge, by the date of these financial statements, 696 Asbestos Claims had been filed against SWC, of which 268 Claims were dismissed, 41 Claims ended in settlement with the insurers for a total amount of USD 3,530 thousand, and with respect to 360 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 Company'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 Company's Management Board is not in a position to make a reliable estimate of the total amount of the Company's contingent liability related to the claims described above. The Company 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 2018, 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

No such events occurred.

Date: April 24th 2019

President of the Management Board

Paweł Wyrzykowski

Vice President of the Management Board

Sławomir Woźniak

Member of the Management Board

Bartosz Klinowski

Member of the Management Board

Earl Good

Chief Financial Officer

Piotr Walasek