SEPARATE FINANCIAL STATEMENTS

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

CONTENTS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

CONTINUING OPERATIONS	Note	Year ended Dec 31 2018	Year ended Dec 31 2017
Revenue from sale of finished goods and services		278,538	264,230
Revenue from sale of merchandise and materials		138	33
Revenue	*1*	**278,676**	**264,263**
Cost of finished goods sold and services rendered	*3*	-219,711	-215,210
Cost of merchandise and materials sold		-136	-29
Cost of sales		**-219,847**	**-215,239**
Gross profit/(loss)		**58,829**	**49,024**
Other income	*4*	7,086	7,834
Distribution costs	*3*	-12,649	-12,486
Administrative expenses	*3*	-21,747	-21,428
Impairment of receivables and contract assets	*4*	-2,371	-3,199
Other expenses	*4*	-1,992	-6,257
Operating profit/(loss)		**27,156**	**13,488**
Finance income	*5*	1,867	15,831
Finance costs	*5*	-10,703	-8,563
Profit/(loss) before tax		**18,320**	**20,757**
Income tax	*6*	-3,889	-4,258
Net profit/(loss) from continuing operations		**14,431**	**16,499**
DISCONTINUED OPERATIONS			
Net profit/(loss) from discontinued operations		-	-
Net profit/(loss) for the year		**14,431**	**16,499**
OTHER COMPREHENSIVE INCOME:			
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Cash flow hedges		-3,323	5,455
Income tax on other comprehensive income		631	-1,037
Other comprehensive income, net		**-2,692**	**4,419**
Total comprehensive income		**11,739**	**20,918**
Earnings/(loss) per share (PLN):	*7*		
- basic and diluted, from net profit/(loss)		1.40	1.60

SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2018	Dec 31 2017
Non-current assets			
Property, plant and equipment	*9*	61,186	58,566
Investment property		358	371
Intangible assets	*10*	49,192	36,268
Long-term receivables	*15*	5,263	5,137
Investments in related parties	*11*	57,593	61,158
Other financial assets	*16*	30	1,986
Deferred tax assets	*6*	-	28
		173,622	**163,513**
Current assets			
Inventories	*13*	29,207	22,242
Trade receivables	*15*	43,646	44,775
Income tax assets	*15*	16	16
Other short-term receivables	*15*	8,906	9,671
Cash and cash equivalents	*18*	39,770	30,913
Other financial assets	*16*	1,354	6,329
Other non-financial assets	*17*	2,070	2,669
Contract assets	*14*	73,835	73,131
		198,804	**189,744**
TOTAL ASSETS		**372,426**	**353,257**

SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

	Note	Dec 31 2018	Dec 31 2017
Equity			
Share capital	*19*	3,616	3,616
Statutory reserve funds	*19*	130,960	114,460
Hedging reserve	*19*	-586	2,106
Other components of equity	*19*	12,067	10,088
Retained earnings / accumulated losses	*19*	36,046	37,359
		182,103	**167,629**
Non-current liabilities			
Borrowings	*20*	1,565	7,885
Other financial liabilities	*16*	4,809	3,030
Deferred tax liabilities	*6*	3,556	-
Provision for retirement and similar benefits	*23*	838	838
Deferred income	*24*	14,932	12,793
Contract liabilities	*14*	1,537	-
		27,237	**24,546**
Current liabilities			
Borrowings	*20*	62,047	62,953
Other financial liabilities	*16*	2,404	1,058
Trade payables	*22*	37,985	28,518
Other current liabilities	*22*	7,306	9,853
Provision for retirement and similar benefits	*23*	6,068	6,346
Other provisions	*23*	7,106	2,738
Deferred income	*24*	1,037	1,015
Contract liabilities	*14*	39,133	48,603
		163,086	**161,082**
TOTAL EQUITY AND LIABILITIES		**372,426**	**353,257**

SEPARATE STATEMENT OF CASH FLOWS

(PLN '000)

	Note	Year ended Dec 31 2018	Year ended Dec 31 2017
OPERATING ACTIVITIES			
Profit/(loss) before tax		**18,320**	**20,757**
Total adjustments:	*25*	**20,515**	**-5,434**
Depreciation and amortisation		7,854	6,436
Foreign exchange gains/(losses)		-264	-98
Interest and profit distributions (dividends)		2,092	1,838
Gain/(loss) on investing activities		5,252	-1,281
Change in provisions		-2,630	-535
Change in inventories		-7,460	-419
Change in receivables		1,688	16,965
Change in current liabilities (other than financial liabilities)		9,328	-7,064
Net change in accruals and deferred income		-1,141	-13,971
Change in currency of forward transactions		3,817	-8,108
Other adjustments (management stock options)		1,979	804
Income tax (paid)/refunded		**-75**	**1,585**
Net cash from operating activities		**38,760**	**16,909**
INVESTING ACTIVITIES			
Cash provided by investing activities		**2,387**	**4,010**
Proceeds from disposal of intangible assets and property, plant and equipment		1,329	250
Decrease in loans advanced		1,058	3,760
Cash used in investing activities		**24,168**	**33,374**
Investments in intangible assets, property, plant and equipment, and investment property		22,117	14,327
Share capital increase at subsidiaries		2,051	18,046
Loans granted		-	1,000
Net cash from investing activities		**-21,781**	**-29,363**
FINANCING ACTIVITIES			
Cash provided by financing activities		**9,689**	**46,100**
Borrowings		6,535	45,879
Grants		3,154	221
Cash used in financing activities		**18,068**	**21,653**
Repayment of borrowings		13,756	13,725
Dividends and other distributions to owners		-	4,947
Payment of finance lease liabilities		2,197	1,042
Interest paid		2,115	1,939
Net cash from financing activities		**-8,379**	**24,447**
Total net cash flows		**8,600**	**11,992**
Net change in cash, including:		**8,858**	**29,545**
- effect of exchange rate fluctuations on cash held		258	-136
Cash acquired from merger with SECO/WARWICK Europe		-	**17,688**
Cash at beginning of period		**30,913**	**1,368**
Cash at end of period		**39,770**	**30,913**

SEPARATE STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Revaluation capital reserve	Other components of equity	Retained earnings / accumulated losses	Total equity
Note	*19*	*19*	*19*	*19*	*19*	
As at Jan 1 2018	**3,616**	**114,460**	**2,106**	**10,088**	**37,359**	**167,630**
Effect of IFRS 15	-	-	-	-	1,044	1,044
Effect of IFRS 9	-	-	-	-	-288	-288
Equity as at Jan 1 2018 following adoption of IFRS 15 and IFRS 9	**3,616**	**114,460**	**2,106**	**10,088**	**38,115**	**168,386**
Profit/(loss) for the year	-	-	-	-	14,431	14,431
Other comprehensive income	-	-	-2,692	-	-	-2,692
Total comprehensive income for the year	-	-	-2,692	-	14,431	11,739
Transfer of retained earnings to statutory reserve funds	-	16,499	-	-	-16,499	-
Management stock options	-	-	-	1,979	-	1,979
As at Dec 31 2018	**3,616**	**130,960**	**-586**	**12,067**	**36,046**	**182,103**
As at Jan 1 2017	**3,616**	**97,674**	**-**	**9,284**	**-1,999**	**108,576**
Profit/(loss) for the year	-	-	-	-	16,499	16,499
Other comprehensive income	-	-	4,419	-	-	4,419
Total comprehensive income for the year	-	-	4,419	-	16,499	20,918
Dividend	-	-	-	-	-4,947	-4,947
Transfer from statutory reserve funds to profit/(loss) brought forward	-	-6,946	-	-	6,946	-
Business combinations	-	23,732	-2,313	-	20,859	42,278
Management stock options	-	-	-	804	-	804
As at Dec 31 2017	**3,616**	**114,460**	**2,106**	**10,088**	**37,359**	**167,630**

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

DECEMBER 31ST 2018

I. General information

1. Company data

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		
	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

The company is the parent of the SECO/WARWICK Group.

2. Duration

The company has been established for an indefinite period.

3. Presented periods

These separate 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. Management and Supervisory Boards of SECO/WARWICK S.A.

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 shareholders

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 and affiliates

As at December 31st 2018, SECO/WARWICK S.A. was the parent of the following subsidiaries:

- 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.

As at December 31st 2018, the Group had an associate:

- 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.

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 was signed for the sale of all shares held by SECO/WARWICK S.A. in SECO/WARWICK Allied Pvt. Ltd.

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 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 statement of comprehensive income and statement of cash flows have been translated using the exchange rates calculated as the arithmetic means of the EUR/PLN mid market 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 separate statement of financial position, statement of comprehensive income and statement of cash flows disclosed in the separate financial statements and the comparative data, translated into the euro:

Financial highlights	2018	2017	2018	2017
	(PLN '000)		(EUR '000)	
Revenue	278,676	264,263	65,311	62,257
Cost of sales	-219,847	-215,239	-51,524	-50,708
Operating profit/(loss)	27,156	13,488	6,364	3,178
Profit/(loss) before tax	18,320	20,757	4,293	4,890
Net profit/(loss)	14,431	16,499	3,382	3,887
Net cash flows from operating activities	38,760	16,909	9,084	3,983
Net cash flows from investing activities	-21,781	-29,363	-5,105	-6,918
Net cash flows from financing activities	-8,379	24,447	-1,964	5,759
	Dec 31 2018	**Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**
Total assets	372,426	353,257	86,611	84,696
Total liabilities	190,323	185,628	44,261	44,506
Including current liabilities	163,086	161,082	37,927	38,621
Equity	182,103	167,629	42,350	40,190
Share capital	3,616	3,616	841	867

III. Authorisation of the financial statements

The Management Board authorised the final version of these financial statements for issue on April 24th 2019.

IV. Compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 Company's business, within the scope of accounting policies applied by the Company 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").

These separate financial statements of the Company should be read in conjunction with the consolidated financial statements authorised for issue by the Management Board and published on the same day as the separate financial statements to obtain full information on the assets and financial position of the Group as at December 31st 2018 and the financial result for the period from 1 January to 31 December 2018 in accordance with the International Financial Reporting Standards approved by the European Union.

V. Going concern basis

These financial statements have been prepared on the assumption that the Company would continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. December 31st 2018. As at the date of authorisation of these financial statements, the Management Board was aware of no facts or circumstances that would involve a threat to the Group's continuing as a going concern in the 12 months after the end of the reporting period, as a result of an intended or forced discontinuation or material limitation of the existing business.

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

These 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 Company 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

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

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

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

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

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 Company 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 Company 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 Company 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 Company's accounting policies with respect to intangible assets:

Item	Capitalised development costs	Patents and licences	Software
Useful life	5–15 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.

Shares in related parties

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

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 Company 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 Company 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
- transfer of contractual rights to cash flows from the asset following a transaction whereby the Company 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 Company 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 on incurred costs), the Company 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 separate 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 Company 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 Company offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

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

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

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

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

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

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

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

Provisions

Provisions are recognised when the Company 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 Company 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 Company 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;

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

Employee benefits

The Company 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

Company'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 Company'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 Company'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 Company 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 Company's obligations to transfer services or equipment to a customer for which the Company 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

Functional currency and presentation currency

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

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.

VII. Material judgements and estimates

When preparing the financial statements of the Company, the Management Board 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 Company 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 Company assumes that leased assets will be purchased upon expiry of the lease.

Impairment of development costs

The Company 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.

Impairment losses on investments in subsidiaries

The Company carried out impairment tests with respect to investments in subsidiaries for which indications of impairment were identified. This required an estimation of the value in use of the individual subsidiaries tested for impairment. Estimating the value in use requires making an estimate of the expected future cash flows from the subsidiary and determining a suitable discount rate in order to calculate the present value of those cash flows. The underlying assumptions are presented in Note [???-na zielono].

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 warranty repairs

The Company 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 Company 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.

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 Company's best knowledge (input method).

At the end of each reporting period, the Company 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.

VIII. 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, in the preparation of these financial statements the Company applied the same accounting policies as described in the financial statements prepared as at and for the year ended December 31st 2017.

- IFRS 15 *Revenue from Contracts with Customers.* 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.
- 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 Company's financial statements.

Furthermore, in 2018, following a review of incurred development costs, the Company 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 Company reclassified the amortisation expense for completed development work in 2017 at PLN 1,160 thousand.

The Company also reclassified a portion of trade receivables in 2017, amounting to PLN 605 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 Company 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 Company analysed individual categories of revenue and contracts in terms of the effect of applying IFRS 15 on the revenue recognition method, in particular in terms of the timing of recognition and the recognised amount of revenue; the Company also verified the correctness of presentation of individual revenue categories.

Following the application of IFRS 15, retained earnings of PLN 1m (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 Company applied the standard using the modified retrospective method 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 advance payments 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 Company'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 lifetime of trade receivables, cash and cash equivalents and contract assets. The difference between the carrying amount of trade receivables measured in accordance with IAS 39 and the new carrying amount measured in accordance with IFRS 9 as at January 1st 2018 was PLN 288 thousand.

IFRS 9 necessitated an amendment to IAS 1 *Presentation of Financial Statements*, requiring the Company to present impairment of 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 2017 has been adjusted accordingly, without an effect on operating profit. Previously, the Company presented such costs as other expenses.

The effect of application of IFRS 9 and IFRS 15 on the Company'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	58,566			58,566
Investment property	371			371
Intangible assets	36,268			36,268

Long-term receivables	4,532			4,532
Investments in related parties	61,161			61,161
Other financial assets	1,983			1,983
Deferred tax assets	28	-28		-
	162,908	**-28**	**-**	**162,880**
Current assets				
Inventories	22,242	85		22,327
Trade receivables	45,380		-78	45,302
Income tax assets	16			16
Other short-term receivables	9,671			9,671
Cash and cash equivalents	30,913			30,913
Other financial assets	6,329			6,329
Current prepayments and accrued income	2,669			2,669
Contract assets	73,131	2,940	-210	75,861
	190,349	**3,025**	**-288**	**193,087**
Assets held for sale	**-**			**-**
TOTAL ASSETS	**353,257**	**2,998**	**-288**	**355,967**

	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	114,460			114,460
Hedging reserve	2,106	-35		2,071
Other components of equity	10,088			10,088
Retained earnings / accumulated losses	37,359	1,044	-288	38,115
	167,629	**1,009**	**-288**	**168,350**
Non-current liabilities				
Borrowings	7,885			7,885
Other financial liabilities	3,030			3,030
Deferred tax liabilities	-	209		209
Provision for retirement and similar benefits	838			838
Deferred income	12,793			12,793
	24,546	**209**	**-**	**24,755**
Current liabilities				
Borrowings	62,953			62,953
Other financial liabilities	1,058			1,058
Trade payables	28,518	-158		28,360
Other current liabilities	9,853			9,853
Provision for retirement and similar benefits	6,346			6,346
Other provisions	2,738	7,332		10,070
Deferred income	1,015			1,015
Contract liabilities	48,603	-5,395		43,208
	161,082	**1,779**	**-**	**162,862**
TOTAL EQUITY AND LIABILITIES	**353,257**	**2,998**	**-288**	**355,967**

IX. 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.

X. 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 Company, 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 Company, 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 Company'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 Company for the purpose of measurement in accordance with IFRS 16 were based on the interest rate on Polish treasury bonds, adjusted by 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 Company 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 Company 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 1,917 thousand (of which PLN 283 thousand are current liabilities and PLN 1,634 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 Company 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 SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2018

Note 1. REVENUE

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.

Revenue from sales and total income of the Company:

Item	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Revenue from sale of finished goods and services	278,538	264,230
- including revenue recognised over time	*264,801*	*250,710*
Sales of merchandise and materials	138	33
TOTAL sales revenue	**278,676**	**264,263**
Other income	7,086	7,834
Finance income	1,867	15,831
TOTAL revenue and income	**287,629**	**287,928**

Revenue by geographical markets:

Item	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
European Union	144,634	147,915
Commonwealth of Independent States	17,595	24,334
USA	45,943	25,637
Asia	61,037	54,528
Other	9,466	11,849
TOTAL revenue	**278,676**	**264,263**

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

Note 2. OPERATING SEGMENTS

Information on particular operating segments is presented in the consolidated financial statements of the SECO/WARWICK Group (Note 2 to the consolidated financial statements for the 12 months ended December 31st 2018).

Note 3. OPERATING EXPENSES

OPERATING EXPENSES, BY NATURE OF EXPENSE	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Depreciation and amortisation	7,854	6,436
Raw materials and consumables used	125,424	123,968
Services	66,872	60,377
Taxes and charges	945	939
Salaries and wages	55,770	54,144
Social security and other benefits	11,347	11,260
Other expenses	11,499	13,959

Total operating expenses, including:	**279,712**	**271,083**
Distribution costs	-12,649	-12,486
Administrative expenses	-21,747	-21,428
Change in products	-11,441	-11,656
Cost of work performed by entity and capitalised	-14,164	-10,303
Cost of products sold and services rendered	**219,711**	**215,210**

DEPRECIATION/AMORTISATION CHARGES RECOGNISED IN THE STATEMENT OF COMPREHENSICE INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Items recognised as cost of sales	**4,363**	**4,059**
Depreciation of property, plant and equipment	2,696	2,649
Amortisation of intangible assets	1,667	1410
Items recognised as distribution costs	**1,614**	**1,570**
Depreciation of property, plant and equipment	1,266	1,218
Amortisation of intangible assets	348	352
Items recognised as administrative expenses	**1,865**	**756**
Depreciation of property, plant and equipment	728	518
Amortisation of intangible assets	1,137	238
Items recognised as other expenses	**12**	**51**
Depreciation of investment property	12	51

PERSONNEL COSTS	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Salaries and wages	55,770	54,144
Social security	11,347	11,260
Total employee benefits expense, including:	**67,117**	**65,405**
Items recognised as cost of sales	45,689	42,978
Items recognised as distribution costs	4,341	4,375
Items recognised as administrative expenses	17,086	18,051

Note 4. OTHER INCOME AND EXPENSES

OTHER INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Gain on disposal of non-financial non-current assets	669	7
Reversal of provision for liquidated damages under contracts	2,024	600
Settlement of grant	1,116	1,001
Penalties and compensation/damages received	702	3,367
Income from lease of tangible assets and investment property	1,046	1,013
Revenue from sale of scrap	41	179
Receivables transfer agreement	-	245
Services provided to subsidiaries	347	369
Other	1,141	1,053
Total other income	**7,086**	**7,834**

OTHER EXPENSES	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Inventory write-downs	-	5,101
Court expenses, compensation/damages, penalties	588	-
Donations	9	5
Cost related to income from lease of tangible assets	156	204
Receivables transfer agreement	-	257
Retirement of an item of property, plant and equipment	322	-
Other	917	689
Total other expenses	**1,992**	**6,257**

Impairment of receivables and contract assets	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Impairment of receivables	2,371	3,199
- including impairment losses on receivables from SECO/WARWICK Germany GmbH	1,427	-
- including impairment losses on receivables from SECO/WARWICK Allied	-	2,881
Impairment of contract assets	-	-
Impairment of receivables and contract assets	**2,371**	**3,199**

Note 5. FINANCE INCOME AND COSTS

FINANCE INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Interest income	145	149
Net gain/(loss) on derivative instruments	-	12,007
Reversal of impairment loss on shares (1)	-	3,675
Net foreign exchange gains	1,713	-
Other	9	-
Total finance income	**1,867**	**15,831**

FINANCE COSTS	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Interest on bank borrowings	2,136	2,063
Net foreign exchange losses	-	3,217
Net gain/(loss) on derivative instruments	2,567	-
Impairment loss on loans (2)	76	3,282
Impairment loss on shares (3)	5,617	-
Other	307	-
Total finance costs	**10,703**	**8,563**

(1) The reversal of an impairment loss recognised in 2017 is related to the subsidiary SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.

(2) The impairment losses recognised in 2017, of PLN 1,244 thousand and PLN 2,038 thousand, are related to, respectively, SECO/WARWICK RUS and SECO/WARWICK Germany GmbH.

(3) The impairment losses recognised in 2018, of PLN 886 thousand, PLN 2,679 thousand and PLN 2,051 thousand are related to SECO/WARWICK France, SECO/WARWICK Germany GmbH, and SECO/WARWICK Allied Pvt. Ltd., respectively.

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:

INCOME TAX DISCLOSED IN THE STATEMENT OF COMPREHENSIVE INCOME	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Current income tax	**75**	**158**
Current income tax expense	-	-
Withholding tax	75	-
Adjustments to current income tax for previous years	-	158
Deferred income tax	**3,814**	**4,100**
Income tax disclosed in profit or loss	**-3,889**	**-4,258**
Income tax on other comprehensive income	**-631**	**1,037**

CURRENT INCOME TAX	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Net profit/(loss) before tax	**18,320**	**20,757**
Income excluded from taxation and previous years' income increasing tax base	-68,624	-66,397
Non-tax deductible costs and costs of previous years reducing tax base	53,412	47,600
Tax profit/(loss)	**3,107**	**1,960**
Deductions from income – loss	-2,711	-1,446
Donations	-	3
R&D relief	-	-511
Tax base	**396**	**-**
Income tax at 19%	75	-
Tax deduction	75	-
Income tax payable	-	-
Effective tax rate (share of income tax in profit before tax)	**-**	**-**

The table below presents a reconciliation of corporate income tax on profit/loss before tax computed at the statutory tax rate with corporate income tax computed at the Company's effective tax rate for the years ended December 31st 2018 and December 31st 2017.

	Jan 1–Dec 31 2018	**Jan 1–Dec 31 2017**
Profit/(loss) before tax from continuing operations	18,320	20,757
Profit/(loss) before tax from discontinued operations		
Profit/(loss) before tax	18,320	20,757
Corporate income tax at Poland's statutory rate of 19% (2017: 19%)	3,481	3,944
Corporate income tax at the effective tax rate of 21% (2017: 20%)	3,889	4,100
Tax differences	**408**	**156**
Explanation of differences between the effective and theoretical tax rates:		
Investment tax credit	-3,046	-
Permanently non-deductible expenses	476	453
Temporary differences with respect to which no deferred tax was recognised	4,024	2,542
Permanently non-taxable income	-41	-40
Other	736	-2,134
Total differences between the effective and theoretical tax rates	2,149	821
Tax on the difference between the effective and theoretical tax rates	**408**	**156**

Item	Dec 31 2018				Dec 31 2017		
	deferred income tax base	*amount recognised in equity (effect of IFRS 15)*	*other comprehensive income*	*amount recognised in the statement of comprehensive income*	*deferred income tax base*	*other comprehensive income*	*amount recognised in the statement of comprehensive income*
		Deferred tax liabilities					
Property, plant and equipment and intangible assets	6,745	-	-	1,219	5,526	-	312
Contract assets	10,018	567	-	2,369	7,082	-	18
Foreign exchange gains	56	-	-	431	-375	-	-98
Measurement of forward contracts	381	8	-344	-523	1,240	563	732
Other	73	-	-	-24	97	-	-567
Deferred tax liabilities	**17,273**	**575**	**-344**	**3,472**	**13,570**	**563**	**397**
		Deferred tax assets					
Provision for disability severance payments and retirement bonuses	164	-	-	-	164	-	47
Provision for length-of-service awards and bonuses	1,077	-	-	244	833	-	74
Provision for accrued holiday entitlements	335	-	-	-33	368	-	47
Provision for losses on contracts	195	-23	-	-424	642	-	44
Provision for warranty repairs	1,042	1,296	-	-254	-	-	-
Other provisions	168	25	-	-53	196	-	-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	-	-	-	-	-	-	-
Salaries, wages and social security contributions payable in subsequent periods	285	-	-	8	277	-	144
Grant for development work	-	-	-	-	-	-	-
Lease liabilities	1,070	-	-	431	639	-	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	221	-	-	147	74	-	-293
Deferred tax assets	**13,717**	**323**	**138**	**-342**	**13,597**	**-602**	**-3,704**

The amount of unrecognised deferred tax assets is related to temporary differences which, in the opinion of the Company's Management Board, may not be used for tax purposes.

As at December 31st 2018, temporary differences for which no deferred tax assets were recognised amounted to PLN 81,824 thousand, of which PLN 34,246 thousand were unused tax losses on equity-related activities, incurred in 2018, PLN 44,642 thousand were impairment losses on shares in subsidiaries, and PLN 2,936 thousand were impairment losses on receivables.

As at December 31st 2017, temporary differences for which no deferred tax assets were recognised amounted to PLN 81,352 thousand, of which PLN 73,271 thousand were impairment losses on shares in subsidiaries, and PLN 8,081 thousand were impairment losses on receivables.

Note 7. EARNINGS PER SHARE

Item	Dec 31 2018	Dec 31 2017
Net profit/(loss) from continuing operations	14,431	16,499
Net profit/(loss) from discontinued operations	-	-
Net profit/(loss) for the year	**14,431**	**16,499**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share	10,298,554	10,298,554
Earnings per share	**1.40**	**1.60**
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	10,298,554	10,298,554
Diluted earnings per share	**1.40**	**1.60**

Note 8. 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 9. PROPERTY, PLANT AND EQUIPMENT

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	**1,054**	**32,870**	**29,637**	**7,636**	**3,909**	**75,105**
Increase, including:	**-**	**3,054**	**4,347**	**1,079**	**404**	**8,884**
acquisitions	-	3,054	1,214	-	404	4,671
finance leases	-	-	3,133	1,011	-	4,144
Other	-	-	-	68	-	68
Decrease, including:	**-**	**-**	**1,012**	**1,537**	**38**	**2,586**
disposal	-	-	735	1,147	-	1,882
liquidation	-	-	277	379	38	694
Other	-	-	-	11	-	11
Gross carrying amount as at Dec 31 2018	**1,054**	**35,924**	**32,973**	**7,179**	**4,274**	**81,403**

Cumulative depreciation as at Jan 1 2018	**-**	**5,480**	**9,286**	**3,092**	**1,487**	**19,345**
Increase, including:	**-**	**723**	**2,436**	**1,157**	**374**	**4,690**
amortisation	-	723	2,436	1,157	374	4,690
Decrease, including:	**-**	**-**	**544**	**1,044**	**22**	**1,611**
disposal	-	-	318	905	-	1,222
liquidation	-	-	227	139	22	388
Other	-	-	-	-	-	-
Cumulative depreciation as at Dec 31 2018	**-**	**6,203**	**11,178**	**3,205**	**1,838**	**22,424**
Impairment losses as at Jan 1 2018	-	-	-	-	-	-
Impairment losses as at Dec 31 2018	-	-	-	-	-	-
Net carrying amount as at Dec 31 2018	**1,054**	**29,721**	**21,795**	**3,973**	**2,436**	**58,980**

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	**50**	**1,264**	**739**	**1,438**	**104**	**3,594**
Increase, including:	**1,004**	**32,014**	**29,541**	**7,514**	**3,805**	**73,878**
acquisitions	**-**	**1,407**	**2,312**	**139**	**1,312**	**5,170**
finance leases	**-**	**-**	**-**	**2,214**	**-**	**2,214**
business combinations	788	30,833	26,910	5,161	2,493	66,185
adjustments of prior years	216	- 225	319	-	-	310
Decrease, including:	**-**	**408**	**642**	**1,316**	**1**	**2,367**
disposal	**-**	**-**	**40**	**1,227**	**-**	**1,267**
liquidation	-	138	602	89	1	830
Other	-	270	-	-	-	270
Gross carrying amount as at Dec 31 2017	**1,054**	**32,870**	**29,637**	**7,636**	**3,909**	**75,105**
Cumulative depreciation as at Dec 31 2017	**-**	**778**	**425**	**1,010**	**81**	**2,294**
Increase, including:	**-**	**4,812**	**8,970**	**3,141**	**1,407**	**18,330**
amortisation	**-**	**826**	**2,251**	**1,111**	**238**	**4,425**
business combinations	**-**	**3,986**	**6,717**	**2,030**	**1,169**	**13,903**
adjustments of prior years	-	-	2	-	-	2
Decrease, including:	**-**	**109**	**110**	**1,059**	**1**	**1,279**
disposal	**-**	**-**	**38**	**-**	**1**	**39**
liquidation	**-**	**30**	**72**	**986**	**-**	**1,088**
Other	-	-	-	72	-	72
adjustments of prior years	-	79	-	-	-	79
Cumulative depreciation as at Dec 31 2017	**-**	**5,480**	**9,286**	**3,092**	**1,487**	**19,345**

Impairment losses as at Jan 1 2017	-	-	-	-	-	-
Impairment losses as at Dec 31 2017	-	-	-	-	-	-
Net carrying amount as at Dec 31 2017	**1,054**	**27,390**	**20,352**	**4,544**	**2,422**	**55,760**

OWNERSHIP STRUCTURE – net amount	**Dec 31 2018**	**Dec 31 2017**
Owned	52,230	51,688
Used under lease, tenancy or similar contract	6,750	4,072
Total	**58,980**	**55,760**

As at December 31st 2018, the Company analysed information from external and internal sources for any indication of the need to test assets for impairment. As no indication of impairment of the Company's tangible assets was found, no impairment testing was performed.

Tangible assets under construction

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*	
2,805	**8,285**	3,054	4,347	1,079	404	**2,206**

Tangible assets under construction as at Jan 1 2017	*Expenditure incurred in the financial year*	*Accounting for the expenditure*				*Transferred with organised part of business*	*As at Dec 31 2017*
		Buildings, premises and civil engineering structures	*Machinery and equipment*	*Vehicles*	*Other*		
203	**8,158**	1,407	2,312	139	1,312	385	**2,805**

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

Note 10. INTANGIBLE ASSETS

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

Item	Development expense	Patents and licences, software	Other intangible assets	Total
Gross carrying amount as at Jan 1 2018	**37,331**	**4,662**	**4,955**	**46,948**
Increase, including:	**14,938**	**2,212**	**-**	**17,151**
acquisitions	12,377	1,137	-	13,515
Other	2,561	1,075	-	3,636
Decrease, including:	**1,075**	**-**	**-**	**1,075**
Other	1,075	-	-	1,075
Gross carrying amount as at Dec 31 2018	**51,194**	**6,874**	**4,955**	**63,024**
Cumulative depreciation as at Jan 1 2018	**5,560**	**2,321**	**2,799**	**10,680**
Increase, including:	**1,463**	**1,360**	**330**	**3,152**
amortisation	1,463	1,360	330	3,152
Decrease, including:	**-**	**-**	**-**	**-**
Other	-	-	-	-
Cumulative depreciation as at Dec 31 2018	**7,023**	**3,680**	**3,129**	**13,832**
Impairment losses as at Jan 1 2018	-	-	-	-
Impairment losses as at Dec 31 2018	-	-	-	-
Net carrying amount as at Dec 31 2018	**44,171**	**3,194**	**1,826**	**49,192**

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

Item	Development expense	Patents and licences, software	Other intangible assets	Total
Gross carrying amount as at Jan 1 2017	**12,467**	**16**	**1,950**	**14,434**
Increase, including:	**25,163**	**4,645**	**4,241**	**34,050**
business combinations	15,793	4,468	4,035	24,296
acquisitions	9,370	177	-	9,547
Other	-	-	206	206
Decrease, including:	**300**	**-**	**1,236**	**1,536**
Other	300	-	1,236	1,536
Gross carrying amount as at Jan 1 2017	**37,331**	**4,662**	**4,955**	**46,948**

Cumulative depreciation as at Dec 31 2017	**3,453**	**6**	**1,215**	**4,675**
Increase, including:	**2,132**	**2,314**	**1,849**	**6,295**
amortisation	1,353	314	334	2,001
revaluation	-	5	885	890
Other	778	1,996	630	3,404
Decrease, including:	**25**	**-**	**265**	**-**
Other	25	-	265	-
Cumulative depreciation as at Dec 31 2017	**5,560**	**2,321**	**2,799**	**10,680**
Impairment losses as at Jan 1 2017	-	-	-	-
Impairment losses as at Dec 31 2017	-	-	-	-
Net carrying amount as at Dec 31 2017	**31,771**	**2,341**	**2,156**	**36,268**

Intangible assets are not pledged as security for liabilities.

As at December 31st 2018 and December 31st 2017, the Company 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 1,118 thousand (2017: PLN 927 thousand).

Note 11. INVESTMENTS IN RELATED PARTIES

Investments in related parties

As at Dec 31 2018	Gross amount of equity interests	Impairment losses on equity interests	Carrying amount of equity interests	Ownership interest (%)	% of total voting rights
SECO/WARWICK Corporation	21,806	21,806	-	100%	100%
SECO/WARWICK Rus	172	-	172	100%	100%
Retech Systems LLC	50,863	12,399	38,464	100%	100%

SECO/WARWICK Retech	7,601		7,601	93%	93%
OOO SCT Russia	4,228	4,228	-	50%	50%
SECO/WARWICK Germany GmbH	5,297	5,297	-	100%	100%
SECO/WARWICK France	886	886	-	100%	100%
SECO/WARWICK Systems and Services India PVT.	1,268	-	1,268	100%	100%
SECO/WARWICK Service Sp. z o.o.	2,412	26	2,386	100%	100%
SECO WARWICK USA Holding	7,703	-	7,703	100%	100%
Total	**102,236**	**44,642**	**57,593**		

As at Dec 31 2017	Gross amount of equity interests	Impairment losses on equity interests	Carrying amount of equity interests	Ownership interest (%)	% of total voting rights
SECO/WARWICK Corporation	21,806	21,806	-	100%	100%
SECO/WARWICK Rus	172	-	172	100%	100%
Retech Systems LLC	50,863	12,399	38,464	100%	100%
SECO/WARWICK ALLIED	31,007	31,007	-	98%	98%
SECO/WARWICK Retech	7,601		7,601	93%	93%
OOO SCT Russia	4,228	4,228	-	50%	50%
SECO/WARWICK GmbH	1,187	1,187	-	100%	100%
SECO/WARWICK Germany GmbH	5,297	2,618	2,679	100%	100%
SECO/WARWICK France	886	-	886	100%	100%
SECO/WARWICK Systems and Services India PVT.	1,268	-	1,268	100%	100%
SECO/WARWICK Service Sp. z o.o.	2,412	26	2,386	100%	100%
SECO WARWICK USA Holding	7,703	-	7,703	100%	100%
Total	**134,431**	**73,271**	**61,158**		

Change in investments in related parties

Item	2018	2017
As at beginning of period	**61,158**	**109,017**
Increase during the period, including:		
- capital increase at SECO/WARWICK USA Holding	-	7,555
- capital increase of SECO/WARWICK Retech	-	3,926
- capital increase of SECO/WARWICK GmbH	-	5,297
- incorporation of SECO/WARWICK SYSTEMS AND SERVICES India PVT Ltd	-	1,268
- capital increase at SECO/WARWICK Allied	2,051	-
- reversal of impairment loss on investment in SECO/WARWICK Retech	-	3,675
Decrease during the period, including:		
- accounting for the merger of SECO/WARWICK S.A. and SECO/WARWICK Europe	-	66,962
- impairment loss on investment in SECO/WARWICK Allied	2,051	-
- impairment loss on investment in SECO/WARWICK Germany	2,679	-
- impairment loss on investment in SECO/WARWICK France	886	-
- impairment loss on investment in SECO/WARWICK GmbH	-	2,618
As at end of period	**57,593**	**61,158**

In 2018, the share capital of SECO/WARWICK Allied was increased by PLN 2,051 thousand. The share capital was written off and, subsequently, shares with a gross value of PLN 33,059 thousand (fully written off) were sold free of charge.

In 2018, SECO/WARWICK GmbHwas liquidated – shares with a value of PLN 1,187 thousand were fully written off.

Note 12. IMPAIRMENT TEST

As at December 31st 2018, the Company identified indications of impairment with respect to SECO/WARWICK Germany GmbH (SWG) and SECO/WARWICK Rus (SW RUS), and investments in those companies were tested for impairment.

To this end, the net investment, determined as the value of shares, loans advanced and receivables less impairment losses and liabilities towards the company, was compared with recoverable amounts of each of the companies.

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	*SWG (Germany)*	*SW RUS (Russia)*
Average discount rate (pre-tax)	13.02%	19.19%
Average revenue growth rate	21.56%	17.22%
Growth rate after the forecast period	1.00%	1.00%
Recoverable amount	3,181	2,379
Net investment	7,287	2,313
Impairment loss	4,106	NO

Based on the tests, the Company recognised a PLN 2,679 thousand impairment loss on shares in SECO/WARWICK Germany GmbH and a PLN 1,427 thousand impairment loss on receivables.

Additionally, in 2018 a PLN 886 thousand impairment loss was recognised on SECO/WARWICK France due to its planned liquidation and a PLN 2,051 thousand impairment loss on SECO/WARWICK Allied Pvt. Ltd. – due to the planned sale of shares in that company.

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 shares 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 SW RUS exceeded its carrying amount by PLN 65 thousand.

The following changes in any of the key assumptions:

- a 0.4% growth in the average pre-tax discount rate, or
- a 1% decline in the average revenue growth rate, or
- a 0.8% decline in growth rate after the forecast period

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

Note 13. INVENTORIES

Item	Dec 31 2018	Dec 31 2017
Materials	20,463	17,893
Semi-finished products and work in progress	8,743	4,349
Finished goods	-	-
Merchandise	-	-
Total inventories (carrying amount)	**29,207**	**22,242**
Impairment to recoverable amount	4,574	5,624
Gross inventories	**33,780**	**27,866**

CHANGE IN WRITE-DOWNS

WRITE-DOWNS	Materials	Semi-finished products and work in progress	Finished goods	Merchandise	Total
Jan 1 2017	-	-	-	-	-
Increase, including:	**264**	**5,360**	-	-	**5,624**
- business combinations	200	-	-	-	200
- change in presentation from contract assets to inventories	-	323	-	-	323
- write-downs recognised in correspondence with other expenses	64	5,037	-	-	5,101
Dec 31 2017	**264**	**5,360**	**-**	**-**	**5,624**

Decrease, including:	**-**	**-1,050**	**-**	**-**	**-1,050**
- use of impairment losses	-	-1,050	-	-	-1,050
Dec 31 2018	**264**	**4,310**	**-**	**-**	**4,574**

Note 14. CONTRACT ASSETS/LIABILITIES

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

	Dec 31 2018	**Dec 31 2017**
Contract assets	73,835	73,131
Contract liabilities	-40,670	-48,603
	33,165	24,528

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 customer 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	**73,131**
Effect of IFRS 15	2,436
Effect of IFRS 9	-210
Increase	198,273
Invoiced amounts transferred to trade receivables	-199,795
Change in impairment loss, net	-
Closing balance	**73,835**

As at December 31st 2018, expected credit losses for contract assets were at 0.28%. 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 40,764 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 40,670 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	39,133
1–2 years	1,537
Over 2 years	-
Total unsatisfied performance obligations	**40,670**

Note 15. TRADE AND OTHER RECEIVABLES

Long-term receivables

Item	Dec 31 2018	Dec 31 2017
Trade receivables	**2,082**	**605**
a) from related entities	1,219	-
b) from other entities	863	605
Other receivables	**3,182**	**4,532**
a) from related entities	0	-
b) from other entities	3,182	4,532
Total long-term receivables	**5,263**	**5,137**

Short-term receivables

Item	Dec 31 2018	Dec 31 2017
a) from related entities	**24,542**	**13,161**
- trade receivables, up to 12 months	22,462	11,303
- other	2,081	1,858
b) from other entities	**28,026**	**41,301**
- trade receivables, up to 12 months	21,185	33,471
- taxes, customs duties, social security and other benefits receivable	3,450	3,924
- other, including:	3,391	3,905
advance payments to suppliers	*1,532*	*3,367*
receivables from sale of S/W Brasil shares	*1,518*	-
Total net trade and other receivables	**52,569**	**54,462**
Impairment loss on receivables	5,103	8,856
Total gross trade and other receivables	**57,671**	**63,318**

As at December 31st 2018, trade receivables of PLN 5,103 thousand (2017: PLN 8,856 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised.

Changes in impairment losses on receivables were as follows:

CHANGE IN IMPAIRMENT LOSE ON TRADE AND OTHER RECEIVABLES	**Dec 31 2018**	**Dec 31 2017**
Change in impairment losses in related entities		
At beginning of period	**7,198**	**4,571**
a) increase:	**2,513**	**2,892**
- recognition of impairment loss on trade receivables	2,513	2,892
b) decrease:	**6,231**	**265**
- reversal of impairment loss on trade receivables	29	**-**
- cancellation of trade receivables, including:	6,202	265
cancellation of SECO/WARWICK Allied's receivables	*5,150*	-
cancellation of SECO/WARWICK France's receivables	*1,052*	-
Balance of impairment losses on trade receivables from related entities at end of period	**3,480**	**7,198**
Change in impairment losses at other entities		
At beginning of period	**1,658**	**686**
a) increase, including:	**807**	**1,030**
- business combinations	-	436
- effect of IFRS 9	78	-
- recognition of impairment loss on trade receivables	729	594
b) decrease, including:	**842**	**58**
- reversal of impairment loss on trade receivables	842	58
Balance of impairment losses on trade receivables from other entities at end of period	**1,623**	**1658**
Balance of impairment losses on trade receivables at end of period	**5,103**	**8,856**

Aging of gross trade receivables:

Item	**Dec 31 2018**	**Dec 31 2017**
current	25,412	19,529
past due more than 1 month, up to 6 months	8,657	21,268
past due more than 6 months, up to 12 months	4,021	763
Past due over 12 months	5,557	3,214
Net trade receivables	**43,647**	**44,775**
impairment losses on trade receivables	5,103	8,856
Gross trade receivables	**48,750**	**53,630**

In the years ended December 31st 2018 and December 31st 2017, the Company did not claim any trade receivables in court.

Contingent receivables

As at December 31st 2018, the Company held guarantees for a total amount of PLN 9,021 thousand. As at December 31st 2017, the Company held guarantees for a total amount of PLN 21,139 thousand.

Note 16. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets and liabilities

Item	Dec 31 2018	Dec 31 2017
Derivative financial instruments	1,340	7,237
Loans granted	40	1,075
Other	3	3
Total financial assets, including:	**1,384**	**8,315**
- non-current	30	1,986
- current	1,354	6,329

Item	Dec 31 2018	Dec 31 2017
Other financial liabilities:	**7,213**	**4,088**
- derivative financial instruments	1,197	19
- lease liabilities	6,016	4,069
Total financial liabilities, including:	**7,213**	**4,088**
- non-current	4,809	3,030
- current	2,404	1,058

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 IFRS 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 31st 2017.

Dec 31 2017	Notional amount of contract (EUR '000)	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 31 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	56,085	30,490	23,211	3,803	2,492	1,311	from Jan 15 to Sep 30 2018
Dec 31 2017	Notional amount of contract (USD	Original notional amount of hedging instrument	Remaining notional amount of hedging instrument as at Dec 31	Fair value of instrument (PLN '000)	Amount recognised in profit or	Amount recognised in equity (PLN	Date of final settlement of hedging instrument

	'000)		2017		loss (PLN '000)	'000)	
TOTAL	50,566	32,214	11,614	2,014	803	1,211	from Jan 31 2018 to Jan 31 2019
Dec 31 2017	**Notional amount of contract (CZK '000)**	**Original notional amount of hedging instrument**	**Remaining notional amount of hedging instrument as at Dec 31 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	31,000	31,000	27,900	68	1	67	from Jan 30 2018 to Apr 27 2019
Dec 31 2017	**Notional amount of contract (GBP '000)**	**Original notional amount of hedging instrument**	**Remaining notional amount of hedging instrument as at Dec 31 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 17. 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	1,055	1,720
Total other non-financial assets	**2,070**	**2,668**

Note 18. CASH AND CASH EQUIVALENTS

Item	Dec 31 2018	Dec 31 2017
Cash at banks and cash in hand	38,579	29,580
Short-term deposits	1,191	1,332
Total cash and cash equivalents	**39,770**	**30,913**

Note 19. 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	2,060	2,060
Revaluation of property, plant and equipment	1,557	1,557
Share capital at end of period	**3,616**	**3,616**

Components of equity from the restatement made in 2006 are disclosed as a part of the share capital.

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	-	496,334
Metlife OFE	None	-	577,470
Other	None	-	2,430,673
TOTAL			**10,298,554**

Other components of equity

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

Retained profit/(loss)

Item	Dec 31 2018	Dec 31 2017
Retained profit/(loss)	**36,046**	**37,359**
Current period's result	14,431	16,499
Retained earnings	21,615	20,859

Note 20. BORROWINGS

As at Dec 31 2018

Lender	Amount	Borrowing amount as per agreement	Interest	Repayment date	Security
mBANK S.A.	7,885	26,845	variable interest rate	Jan 31 2020	mortgage, hold on securities account
mBank – credit card limit	155		variable interest rate	None	None
BZ WBK – overdraft facility	15,076	19,000	variable interest rate	Jan 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
Raiffeisen – overdraft facility	18,468	20,000	variable interest rate	Aug 31 2019	Representation on voluntary submission to enforcement

					under Art. 777.1 of the Code of Civil Procedure
CITI – overdraft facility	1,373	10,000	variable interest rate	May 22 2019	trade credit secured with proceeds from the contract
PEKAO – overdraft facility	4,963	5,000	variable interest rate	Sep 11 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
PEKAO – overdraft facility	15,692	20,000	variable interest rate	Sep 08 2019	promissory note
Total	**63,612**				

As at Dec 31 2017

Lender	Amount	Borrowing amount as per agreement	Interest	Repayment date	Security
mBANK S.A.	14,205	26,845	variable interest rate	Jan 31 2020	mortgage, hold on securities account
BANK HANDLOWY	1,093	10,444	variable interest rate	Apr 27 2018	mortgage up to USD 3,750 thousand
mBank – credit card limit	233		variable interest rate	None	None
BZ WBK – overdraft facility	16,846	19,000	variable interest rate	Jun 30 2018	promissory note
Raiffeisen – overdraft facility	15,006	20,000	variable interest rate	Aug 31 2018	promissory note
CITI – overdraft facility	5,121	10,000	variable interest rate	May 4 2018	promissory note
PEKAO – overdraft facility	18,334	20,000	variable interest rate	Sep 8 2018	promissory note
Total	**70,837**				

Bank loans by maturity:

Item	Dec 31 2018	Dec 31 2017

Short-term borrowings	62,047	62,953
Long-term borrowings	1,565	7,885
- repayable in more than 1 year, up to 3 years	1,565	7,885
Total borrowings	**63,612**	**70,837**

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	-	62,138	-	69,567
EUR	340	1,463	37	153
USD	3	11	321	1,117
Total borrowings	**x**	**63,612**	**x**	**70,837**

Note 21. LEASES

Operating leases

Liabilities under operating leases – the Company as a lessee

Item	Dec 31 2018	Dec 31 2017
Outstanding balance:		
Up to 1 year	126	208
From 1 year to 5 years	8	95
Over 5 years	-	-
Total	**134**	**303**

Receivables under operating leases – the Company as a lessor

Item	Dec 31 2018	Dec 31 2017
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, the future minimum lease payments under these contracts and the present value of the minimum net lease payments were as follows:

Item	Dec 31 2018		Dec 31 2017	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Up to 1 year	1,634	1,385	1,208	1,039
From 1 year to 5 years	4,963	4,631	3,425	3,030
Total minimum lease payments	**6,598**	**6,016**	**4,632**	**4,069**

Future interest expense	582		563	
Present value of minimum lease payments, including:	**6,016**	**6,016**	**4,069**	**4,069**
Short-term	1,385	1,385	1,039	1,039
Long-term	4,631	4,631	3,030	3,030

Note 22. TRADE PAYABLES AND OTHER LIABILITIES

TRADE AND OTHER PAYABLES	Dec 31 2018	Dec 31 2017
a) for deliveries and services, payable up to 12 months	37,985	28,360
b) prepayments received for deliveries	-	158
c) taxes, duties, social security and other benefits (excluding income tax) payable	3,910	4,310
d) salaries and wages payable	2,804	2,768
e) other	592	2,775
TOTAL	**45,291**	**38,370**

Contingent liabilities

Contingent liabilities under guarantees and sureties issued were PLN 87,949 thousand as at the end of 2018, and PLN 106,357 thousand as at the end of 2017. The guarantees were issued in respect of:

Item	Dec 31 2018	Dec 31 2017
Advance payment guarantee	40,962	43,253
Credit repayment guarantee	2,150	2,085
Performance bond guarantee	1,054	1,755
stand-by letter of credit	12,031	11,140
Payment guarantee	2,766	-
Bid bond guarantee	-	4,091
warranty obligations guarantee	4,679	-
Total	**63,643**	**62,324**

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

For information on sureties granted, see section 17 of the Directors' Report on the operations of SECO/WARWICK S.A.

Social assets and liabilities of the Company Social Benefits Fund

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 Company 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
Contributions to the fund during the year	655	626

Note 23. EMPLOYEE BENEFITS EXPENSE AND OTHER PROVISIONS

EMPLOYEE BENEFITS

Retirement benefits and other post-employment benefits

Retiring employees of the Polish companies received retirement bonuses in amounts established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the Company 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 and similar benefits

LONG-TERM PROVISION FOR RETIREMENT BONUSES AND BENEFITS	Jan 1–Dec 31 2018	Jan 1– Dec 31 2017
as at beginning of period	838	-
increase	-	1,425
- business combinations	-	587
- provision recognised	-	838
provision used	-	-
provision reversed	-	587
as at end of period	**838**	**838**

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

SHORT-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY CATEGORY)	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
1. Provision for accrued holiday entitlements		
- at beginning of period	**1,936**	**344**
- business combinations	-	1,345
- provision recognised	4,152	3,872
- use	-4,327	-3,625
- at end of period	**1,761**	**1,936**
2. Provision for bonuses		
- at beginning of period	**4,386**	**1,001**

- business combinations	-	2,993
- provision recognised	4,543	4,096
- use	-4,646	-3,704
- at end of period	**4,283**	**4,386**
3. Provision for retirement bonuses		
- at beginning of period	**24**	**-**
- business combinations	-	27
- provision recognised	-	24
- use	-	-
- provision reversed	-	27
- at end of period	**24**	**24**

Other provisions

Item	*Provision for warranty repairs and returns*	*Provision for penalties*	*Provision for contracts delivered with a loss*	*Other provisions – contingent liability*	*Total*
As at Dec 31 2016	**-**	**-**	**-**	**-**	**-**
business combinations	80	4,080	-	-	4,160
provisions recognised during the financial year	-	-	-	-	-
Change in presentation of losses on contracts	-	-207	-	-	-207
provisions reversed	-80	-1,135	-	-	-1,215
As at Dec 31 2017	**-**	**2,738**	**-**	**-**	**2,738**
provisions recognised during the financial year	2,869	-	-	-	2,869
Adjustment under IFRS 15	6,820	-	504	-	7,324
provision used	-4,205	-	-	-	-4,205
Change in presentation of losses on contracts	-	636			636
provisions reversed	-	-2,024	-232	-	-2,256
As at Dec 31 2018	**5,484**	**1,350**	**272**	**-**	**7,106**

Note 24. DEFERRED INCOME

Item	Dec 31 2018	Dec 31 2017
- co-financing for development and research projects	15,948	13,809
- other deferred income	21	-
Total deferred income, including:	**15,969**	**13,809**
- non-current	14,932	12,793
- current	1,037	1,015

Note 25. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	Dec 31 2018	Dec 31 2017
Gain/(loss) on investing activities	**5,252**	**-1,281**
Disposal of property, plant and equipment	-669	652
Impairment loss on loans, including	-	664
Impairment loss on shares in OOO SCT	3,565	-1,057
Impairment loss on tangible assets	-	-1,540
Other	305	-
Cancellation of contribution to equity	2,051	-
Change in provisions results from the following items:	**-2,630**	**-535**
Net change in provisions	7,647	8,578
effect of merger between Seco/Warwick S.A. and Seco/Warwick Europe sp. z o.o.	-	-9,113
Adjustment under IFRS 15	-6,828	-
Elimination of change in deferred tax liabilities	-3,449	-
Change in receivables results from the following items:	**1,688**	**16,965**
Balance-sheet change in receivables	1,766	-48,067
Adjustment under IFRS 9	-78	-
effect of merger between Seco/Warwick S.A. and Seco/Warwick Europe sp. z o.o.	-	66,776
Elimination of change in deferred tax assets	-	-1,743
Change in liabilities (excluding financial liabilities) results from the following items:	**9,328**	**-7,064**
Balance-sheet change in liabilities	10,046	40,075
effect of merger between Seco/Warwick S.A. and Seco/Warwick Europe sp. z o.o.	-	-50,147
elimination of lease liabilities	-1,947	-1,307
elimination of liabilities under forward contracts	-1,179	6,675
elimination of capital commitments	2,408	-2,359
Change in accruals and deferred income results from the following items:	**-1,141**	**-13,971**
Net change in accruals and deferrals and long-term contracts	-5,851	-11,055
grants received	-3,154	-221
effect of merger between Seco/Warwick S.A. and Seco/Warwick Europe sp. z o.o.	-	2,577
Adjustment under IFRS 15	8,074	-
Adjustment under IFRS 9	-210	-
Elimination of change in deferred tax assets	-	-5,271
Other	**1,979**	**804**
management stock options	1,979	804

Note 26. RELATED PARTIES

Related party (subsidiaries)	Year	Sales to related parties	Purchase from related parties	Receivables from related parties	Liabilities due to related parties
SECO/WARWICK Corporation					
	2018	5,190	200	2,691	200
	2017	5,191	725	927	639
SECO/WARWICK Rus					
	2018	4,414	1,322	2406	1,581
	2017	9,196	523	3499	522
RETECH					
	2018	20,209	2,347	3,576	555
	2017	3,814	8,882	1,271	1,918
SECO/WARWICK RETECH					
	2018	1,984	1,835	1,940	4,775
	2017	2,228	5,444	717	4,366
SECO/WARWICK Germany GmbH					
	2018	4,717	1,831	4,766	1,571
	2017	2,618	1,024	3,704	33
SECO/WARWICK France					
	2018	6	10	-	-
	2017	64	842	57	44
SECO/WARWICK Services					
	2018	2,702	182	1,086	5
	2017	3,302	944	951	13
SECO VACUUM TECHNOLOGIES LLC					
	2018	16,271	406	7,098	413
	2017	143	-	136	-
SECO/WARWICK Systems and Services India					
	2018	99	761	116	301
	2017	42	47	41	46

Note 27. REMUNERATION OF KEY PERSONNEL

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

REMUNERATION OF THE MANAGEMENT BOARD

Name	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 30 "Management stock options."

REMUNERATION OF THE SUPERVISORY BOARD:

Name and surname	Total remuneration Dec 31 2018	Total remuneration 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	43	43
Paweł Tamborski(4)	11	42
Jacek Tucharz(5)	32	-
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 28. 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	40	1,075	40
Trade and other receivables	At amortised cost	52,569	54,446	52,569
Long-term receivables	At amortised cost	5,263	5,137	5,263
Hedging instruments	At fair value through profit or loss	1,340	7,237	1,340
Cash and cash equivalents	At amortised cost	39,770	30,913	39,770
Granted sureties	-	-	-	24,306
Financial liabilities				
Current				
Short-term bank loans	At amortised cost	62,047	62,953	-
Finance lease liabilities	At amortised cost	1,385	1,039	-
Trade and other payables	At amortised cost	45,291	38,370	-
Hedging instruments	At fair value through profit or loss	1,019	19	-
Non-current				
Long-term bank loans	At amortised cost	1,565	7,885	-
Hedging instruments	At fair value through profit or loss	178	-	
Finance lease liabilities	At amortised cost	4,631	3,030	-

???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	99	-	-76	-	-	-
Trade and other receivables	-	-90	3,752	1,617	-	-
Long-term receivables	-	-	-	292	-	-
Derivative financial instruments	-	-	-	-3,422	3,531	-
Cash and cash equivalents	-4	-	-	-	-	-
TOTAL	**95**	**-90**	**3,677**	**-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	-1,853	-55	-	328	-
Finance lease liabilities	-266	-	-	-	-
Trade and other payables	10	-	-	-380	-
Hedging instruments	-	-	-	-314	-2,189
Contract liabilities	23	-	-	-	-
non-current					
Long-term bank loans	-	-	-	-	-
Finance lease liabilities	-	-	-	-	-
Hedging instruments	-	-	-	-173	-
TOTAL	**-2,086**	**-55**	**-**	**-539**	**-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)	7,885	**-6,320**	**-**	**-**	**-**	**1,565**
Finance lease liabilities (non-current)	3,030	**-1,465**	**3,066**	**-**	**-**	**4,631**
Interest-bearing borrowings (short-term)	62,953	**-906**	**-**	**-**	**-**	**62,047**
Finance lease liabilities (current)	1,039	**-732**	**1,078**	**-**	**-**	**1,385**
Derivative financial instruments	19	**-**	**-**	**-**	**1,179**	**1,197**
Total liabilities arising from financing activities	74,925	**-9,423**	**4,144**	**-**	**1,179**	**70,825**

Note 29. EMPLOYMENT STRUCTURE

Item	Dec 31 2018	Dec 31 2017
Blue-collar employees	162	147
White-collar employees	388	399
Employees on parental leaves	2	2
Total	**552**	**548**

Note 30. OBJECTIVES AND POLICY OF FINANCIAL RISK MANAGEMENT

As part of its operating and financial activities, the Company 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 Company 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.

30.1 Currency risk

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

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

Liabilities	**As at Dec 31 2018 in foreign currency**	**As at Dec 31 2018 in PLN**	**As at Dec 31 2017 in foreign currency**	**As at Dec 31 2017 in PLN**
EUR	3,584	15,410	2,716	11,328
USD	518	1,947	1,431	4,982

Assets	**As at Dec 31 2018 in foreign currency**	**As at Dec 31 2018 in PLN**	**As at Dec 31 2017 in foreign currency**	**As at Dec 31 2017 in PLN**
EUR	13,838	59,502	12,218	50,960
USD	5,980	22,483	2,522	8,781
Notional amount of hedging instrument				
EUR	20,612	88,632	23,211	96,811
USD	6,582	24,746	11,614	40,432

Sensitivity to currency risk

The Company 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 exchange rates on the Company's profit or loss and other comprehensive income.

Exchange rate at Dec 31 2018	Exchange rate	+ 10% increase in exchange rate	decrease in exchange rate -10%
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	decrease in exchange rate -10%
USD	3.4813	0.348	-0.348
EUR	4.1709	0.417	-0.417

Assumptions:
- exchange rate at reporting date Dec 31 2018
+ 10% increase in exchange rate
- 10% decrease in exchange rate

Effect on equity		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended Dec 31 2018	**Period ended Dec 31 2017**	**Period ended Dec 31 2018**	**Period ended Dec 31 2017**
ASSETS					
Increase in rate	10%	2,248	948	5,950	5,254
Decrease in rate	-10%	-2,248	-948	-5,950	-5,254
LIABILITIES AND BANK LOANS					
Increase in rate	10%	-195	-538	-1,541	-1,167.9
Decrease in rate	-10%	195	538	1,541	1,167.9
TOTAL					
Increase in rate	10%	2,054	410	4,409	4,086
Decrease in rate	-10%	-2,054	-410	-4,409	-4,086

Effect on profit/loss		**Effect of USD**	**Effect of USD**	**Effect of EUR**	**Effect of EUR**
		Period ended Dec 31 2018	**Period ended Dec 31 2017**	**Period ended Dec 31 2018**	**Period ended Dec 31 2017**
ASSETS					
Increase in rate	10%	2,248	948	5,950	5,254
Decrease in rate	-10%	-2,248	-948	-5,950	-5,254
LIABILITIES AND BANK LOANS					
Increase in rate	10%	-195	-538	-1,541	-1,167.9
Decrease in rate	-10%	195	538	1,541	1,167.9
TOTAL					
Increase in rate	10%	2,054	410	4,409	4,086
Decrease in rate	-10%	-2,054	-410	-4,409	-4,086

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

30.2 Interest rate risk

The Company holds interest-bearing liabilities. Therefore, it 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 equity	Effect on pre-tax profit/loss	Effect on equity
	+ 1%/- 1%		+ 1%/- 1%	
	Year ended Dec 31 2018		Year ended Dec 31 2017	
Lease liabilities	+/- 60	+/- 60	+/- 41	+/- 41
Other financial liabilities at amortised cost	+/- 636	+/- 636	+/- 708	+/- 708

30.3 Capital management

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

The Company 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 Company 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 and finance lease liabilities, 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 (PLN '000)	As at Dec 31 2017 (PLN '000)
Debt	69,627	74,906
Cash and cash equivalents	-39,770	-30,913
Net debt	29,857	43,994
Equity	182,103	167,629
Net debt to equity	**16.40%**	**26.24%**

30.4 Liquidity risk

Liquidity risk is the risk that the Group may face difficulties in meeting financial liabilities. The liquidity risk management process at the company 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.

The Company also manages liquidity risk by maintaining open and unused credit facilities which serve as a liquidity reserve and secure solvency and financial flexibility. The Company 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, short-term bank loans represented 38% of total current liabilities (December 31st 2017: 39%).

The table below presents the Company'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
Interest-bearing borrowings	-	62,047	1,565	-	**63,612**
Trade payables	-	37,985	-	-	**37,985**
Other liabilities	-	9,710	4,809	-	**14,519**
TOTAL	**-**	**109,742**	**6,374**	**-**	**116,116**

Dec 31 2017	Payable on demand	Up to 1 year	1–5 years	Over 5 years	Total as at Dec 31 2017
Interest-bearing borrowings	-	62,953	7,885	-	**70,837**
Trade payables	-	28,518	-	-	**28,518**
Other liabilities	-	10,910	3,030	-	**13,940**
TOTAL	**-**	**102,381**	**10,915**	**-**	**113,295**

30.5 Credit risk

The Company 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 Company's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Company'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 Company.

The Company 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 Company uses a provision matrix estimated based on historical data on payments of amounts due from customers. The Company 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 15.

Note 31. 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 32. CAPITALISED BORROWING COSTS

In the presented reporting periods, the Company did not capitalise any borrowing costs, as costs which would potentially qualify for capitalisation were immaterial.

Note 33. REVENUE GENERATED SEASONALLY, CYCLICALLY OR OCCASIONALLY

In the presented reporting periods, there were no material items of seasonal, cyclical or occasional revenue.

Note 34. LITIGATION

Currently, no proceedings are pending before central or local government authorities, or before arbitration courts that could have a significant impact on the financial position or profitability (over 10% of equity) of the Company.

Note 35. 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 Company'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 36. 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 Accountant

Krzysztof Opszalski