POLIMEX MOSTOSTAL S.A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED ON 31 DECEMBER 2019
WITH THE OPINION BY A STATUTORY AUDITOR

TABLE OF CONTENTS

(in thousands of PLN)

Profit and loss account

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018
Sales revenues	7.1	524 858	515 205
Cost of goods sold	7.5	(476 656)	(472 153)
Gross profit / (loss) on sales		**48 202**	**43 052**
General administration expenses	7.5	(33 495)	(32 955)
Profit / (loss) on impairment of financial assets	7.8	19 975	9 913
Other operating revenues	7.9	25 718	39 027
Other operating costs	7.10	(2 288)	(4 055)
Profit / (loss) on operating activities		**58 112**	**54 982**
Financial income	7.11	72 086	35 772
Financial costs	7.12	(40 779)	(66 828)
Gross profit / (loss)		**89 419**	**23 926**
Income tax	8	4 244	(1 824)
Net profit / (loss)		**93 663**	**22 102**
Profit / loss per share (in PLN per share)			
– basic and diluted profit per share	10	0.396	0.093

Interim comprehensive income statement

	Year ended on 31 December 2019	Year ended on 31 December 2018
Net profit / (loss)	**93 663**	**22 102**
Items that will not be allocated in the later periods to the profit and loss account:		
Change from the valuation of tangible fixed assets	80	–
Actuarial profit / (loss)	(77)	(11)
Other net comprehensive income	**3**	**(11)**
Total comprehensive income	**93 666**	**22 091**

(in thousands of PLN)

Balance sheet

	Note	As at 31 December 2019	As at 31 December 2018*
Assets			
Fixed assets			
Tangible fixed assets	11.1	20 332	27 420
Investment property	11.3	37 994	37 825
Intangible assets		345	560
Financial assets	12.1	495 537	457 935
Long-term receivables		9	19 632
Deposits due to the construction contracts	14	99 849	91 836
Deferred tax assets	8.3	140 406	135 129
Other long-term assets		2 420	–
Total fixed assets		**796 892**	**770 337**
Current assets			
Inventories		168	168
Trade receivables	13	52 115	136 795
Deposits due to the construction contracts	14	10 831	41 968
Construction contracts assets		11 553	10
Other receivables	13	71 680	148 197
Financial assets	12.2	30 642	6 033
Cash	16	133 397	183 623
Other assets		1 620	816
Total current assets		**312 006**	**517 610**
Assets held for sale	18	**42 185**	**36 267**
Total assets		**1 151 083**	**1 324 214**

** Restated data, changes outlined in note 3.4*

(in thousands of PLN)

Balance sheet (continued)

	Note	As at 31 December 2019	As at 31 December 2018*
Liabilities and equity			
Equity			
Share capital	19.1	473 238	473 238
Reserve capital	19.2	157 746	157 746
Other capitals	19.3	(132 204)	(149 732)
Reserve capital from surplus of bonds convertible into shares	19.4	31 552	31 552
Accumulated other comprehensive income	19.5	35 970	36 880
Retained earnings / Uncovered losses	19.6	94 575	17 527
Total equity		**660 877**	**567 211**
Long-term liabilities			
Bank loans, borrowings and other sources of financing	20	25 885	95 968
Long-term bonds	22	86 857	163 630
Provisions	24	16 986	37 335
Employee benefit liabilities	25.1	766	475
Other liabilities	23	4 675	14 260
Deposits due to the construction contracts		14 337	18 345
Total long-term liabilities		**149 506**	**330 013**
Short-term liabilities			
Bank loans, borrowings and other sources of financing	20	79 901	70 571
Short-term bonds	22	86 721	12 839
Trade liabilities	26	84 542	112 464
Deposits due to the construction contracts		14 422	16 001
Construction contracts liabilities		4 715	83 019
Other liabilities	26	10 315	29 163
Provisions	24	51 134	96 135
Employee benefit liabilities	25.1	7 458	5 290
Deferred income		1 492	1 508
Total short-term liabilities		**340 700**	**426 990**
Total liabilities		**490 206**	**757 003**
Total liabilities and equity		**1 151 083**	**1 324 214**

** Restated data, changes outlined in note 3.4*

(in thousands of PLN)

Cash flow statement

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018
Cash flows from operating activities			
Gross profit / (loss)		**89 419**	**23 926**
Adjustment items:		**(106 528)**	**4 354**
Depreciation	7.6	7 768	3 178
Net interest and dividends		18 008	16 530
Profit / (loss) on investing activities		(39 552)	(2 262)
Change in receivables	17	115 973	379 402
Change in inventories		–	153
Change in liabilities, excluding bank loans and borrowings	17	(139 800)	(269 429)
Change in other assets and deferred income		(3 240)	275
Change in provisions		(65 350)	(105 317)
Other	17	(335)	(18 176)
Net cash from operating activities		**(17 109)**	**28 280**
Cash flows from investing activities			
Disposal of tangible and intangible fixed assets		8 862	10 891
Purchase of tangible and intangible fixed assets		(310)	(895)
Sales of financial assets		–	1 040
Purchase of financial assets		(8 919)	(64)
Interest and dividends received		77 981	2 926
Repayment of borrowings		50 858	53 526
Granting borrowings		(64 712)	(64 015)
Other		89	–
Net cash from investing activities		**63 849**	**3 409**
Cash flows from financing activities			
Lease payments		(5 586)	–
Interests paid		(38 205)	(10 829)
Repayment of borrowings and bank loans		(41 965)	–
Redemption of bonds		(11 210)	–
Net cash from financing activities		**(96 966)**	**(10 829)**
Increase / (decrease) in net cash and cash equivalents		(50 226)	20 860
Cash at the beginning of the period	16	**183 623**	**162 763**
Cash at the end of the period	16	**133 397**	**183 623**
Restricted cash		–	*2 416*

(in thousands of PLN)

Statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income		Retained earnings / Uncovered losses	Total equity
					Revaluation reserve	Actuarial profit / (loss)		
As at 1 January 2019	**473 238**	**157 746**	**(149 732)**	**31 552**	**35 933**	**947**	**17 527**	**567 211**
Profit / (loss) for the period	–	–	–	–	–	–	93 663	93 663
Other net comprehensive income	–	–	–	–	80	(77)	–	3
Total comprehensive income	**–**	**–**	**–**	**–**	**80**	**(77)**	**93 663**	**93 666**
Distribution of net profit / (loss)	–	–	17 528	–	–	–	(17 528)	–
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(913)	–	913	–
As at 31 December 2019	**473 238**	**157 746**	**(132 204)**	**31 552**	**35 100**	**870**	**94 575**	**660 877**

(in thousands of PLN)

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income		Retained earnings / Uncovered losses	Total equity
					Revaluation reserve	Actuarial profit / (loss)		
As at 1 January 2018	**473 238**	**157 746**	**(232 302)**	**31 552**	**35 933**	**958**	**82 570**	**549 695**
Implementation of new accounting standards	–	–	–	–	–	–	(4 575)	(4 575)
As at 1 January 2018 after change	**473 238**	**157 746**	**(232 302)**	**31 552**	**35 933**	**958**	**77 995**	**545 120**
Profit / (loss) for the period	–	–	–	–	–	–	22 102	22 102
Other net comprehensive income	–	–	–	–	–	(11)	–	(11)
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(11)**	**22 102**	**22 091**
Distribution of net profit / (loss)	–	–	82 558	–	–	–	(82 558)	–
Transfer to other capitals	–	–	12	–	–	–	(12)	–
As at 31 December 2018	**473 238**	**157 746**	**(149 732)**	**31 552**	**35 933**	**947**	**17 527**	**567 211**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

1. General information

Polimex Mostostal S.A. (the "Company", "Polimex Mostostal S.A.") operates under the statute established by the notarial deed of 18 May 1993 (Rep. A No 4056/93), as amended. The registered office of the Company is located in Warsaw on Jana Pawła II 12, 00-124 Warsaw. The Company is registered by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register under the company registration number (KRS) 0000022460. The Company is assigned the statistical identification number (REGON) 710252031.

The Company has been established for an indefinite period. The financial year of the Company is the same as the calendar year.

The primary business activity of the Company involves a wide range of construction and assembly services, such as the assembly of industrial devices and installations, provided in the formula of a general contractor, both in Poland and abroad, as well as administrative support for the companies within Polimex Mostostal Capital Group (the "Capital Group", the "Group"). The Company operates in the following segments: the Power Sector, Oil, Gas and Chemicals (Petrochemicals) and Other Activity. A detailed description of business activities within a given segment is provided in note 6. The shares of the Company are listed on the Warsaw Stock Exchange. The Company is the Parent Company within the Capital Group.

2. Approval of the financial statements

On 16 April 2020 the financial statements of the Company for the year ended on 31 December 2019 were approved for publication by the Management Board of the Parent Company.

The Company as the Parent Company of the Capital Group has also prepared the consolidated financial statements for the year ended on 31 December 2019 which were approved for publication on 16 April 2020.

The consolidated financial statements of the Company are under review by a statutory auditor – Ernst & Young Audyt Polska Sp. z o.o. Sp. k.

3. Platform of the applied International Financial Reporting Standards

3.1. Statement on compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (the "IFRS") and the related interpretations published in the form of European Commission regulations.

The annual financial statements of the Company have been prepared in accordance with the requirements of EU IFRS. In order to fully understand the Company's financial standing and the results as the Parent Company in the Capital Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended on 31 December 2019. The consolidated financial statements will be available on the Company's website at www.polimex-mostostal.pl by the date consistent with the current report regarding the date of publication of the consolidated financial statements of the Capital Group for 2019.

3.2. Going concern

These financial statements have been prepared with the assumption that the Company in the foreseeable future will continue as a going concern. As at the day of the approval of these financial statements for publication there were no circumstances which would indicate a threat to the going concern of the Company.

Due to the rapid global spread of the SARS-CoV-2 virus and in light of the declaration of COVID-19 as a pandemic by the World Health Organization, the governments of the affected countries, including the government of Poland, are taking administrative measures to stop the spread of the virus. The implemented restrictions have an adverse impact on numerous industries and sectors and they significantly impede economic activity. The administrative constraints result in a limited economic activity which may lead to large fluctuations in demand and in the long term also in supply in individual markets.

The Management Board of Polimex Mostostal S.A. conducted an analysis on the impact of the SARS-CoV-2 epidemic on the financial statements of the Company for the year 2019.

- The ongoing strategic construction projects (the Puławy Contract, the Żerań Contract, the Dolna Odra Contract, the Opole Contract) are currently not experiencing any additional delays related to the pandemic. The execution of the Żerań contract is on track with the established deadlines. The project has entered into the final stage of the implementation. In the first quarter of 2020 the following tasks were performed in line with the adopted schedule: the assembly of a boiler and a gas turbine, the assembly works on the pipelines (pressure, cooling water etc.) and the works on the start-up boiler room. The periodic limited activity/availability of subcontractors as a result of the epidemic has been mitigated by the allocation of human resources from the companies within the Capital Group (for instance, the assembly teams from Polimex Energetyka Sp. z o.o.). In February 2020 the construction site was taken over on the Puławy project and the earthworks phase was launched (in particular the excavations for the construction of the boiler room). In the first quarter of 2020 there were two milestones implemented with regards to the drafting and submission to the ordering party of the Plan for the Execution of Works, a detailed Program for Control and Quality Assurance, as well as a substitute plan for the construction of a unit along with the submission of an application to the relevant authority of the first substitute construction permit. Due to the early stage of the project and its implementation period (36 months from the order to start work), any delays resulting from the pandemic will be mitigated in the future. There is currently an ongoing effort on the further implementation of the design works, as well as earthworks including land strengthening. There have been no delays identified in the currently implemented scopes. Regarding the Dolna Odra project, as per the adopted schedule the design works are currently in progress. The takeover of the construction site and the launch of initial construction works are planned at the turn of the third and fourth quarters of 2020. In March 2020 the Group received an advance payment from the ordering party for the implementation of the contract in the amount of PLN 47.4 million gross. The project is in a preparatory phase and at this stage, apart from the design office and the company in charge of geotechnical research, it does not require the involvement of subcontractors. Both the design and research works have proceeded without major disruptions. On the Opole project there are ongoing works related to the servicing of the warranty period. With regards to other key projects currently implemented by the Group, there have been no major delays reported. In several cases the Group has been notified about the suspension of the planned works by the ordering party, but these instances have only been limited to the lower priority projects. Despite the fact that in the opinion of the Group at present there is no risk of delays related to the pandemic, the ordering parties have nevertheless been informed about the occurrence of force majeure.

  It is currently difficult to precisely estimate the impact of the pandemic on the production segment and on the financial goals adopted by the Group in this segment. In terms of the production activity, the Group has reported a decrease in demand for the offered products, especially regarding corrosion protection and the manufacturing of platform gratings. These segments, however, are driven by short-term orders and they have a potential for a quick recovery once the economic situation is stable. In the segment of steel structures there is a noticeable trend for the transfer of orders by international entities from Asia to the European market, which may create a business opportunity for the Group's production segment.
- The Company's liquidity is fully secured. At the moment there are no premises to adjust the expected cash flows. The Company is continuously working towards best solutions for the debt refinancing on favourable terms and on applying further tools supporting liquidity. These steps have been initiated before the pandemic and they are currently being continued. In addition, the Company is presently looking into new financing options that have become available after the Polish government adopted a package of laws to support business activity during the epidemic.
- The Capital Group operates on numerous markets and it is active on diverse segments of the market. This reduces the risk of over-concentration in areas that may be particularly affected by the epidemic. The Group has a secure order portfolio that is diversified in terms of geographies and industries.

In the opinion of the Management Board of Company, the SARS-CoV-2 epidemic has not prompted the necessity to make adjustments in the financial statements for the year 2019. Any potential consequences of the epidemic will follow as a result of events taking place after the balance sheet date and they therefore do not require adjustments in the financial statements. Other significant assessments adopted for the purposes of the 2019 statements remain in force. Any potential consequences of the epidemic in 2020 will be reflected in a relevant manner in the financial statements for the year 2020.

3.3. Effect of new and amended standards and interpretations

IFRS as approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the interpretations and standards listed below, which as at 16 April 2020 still awaited implementation:

- IFRS 14 "Regulatory interim accruals" (published on 30 January 2014) – compliant with the decision of the European Commission, the process for approving a draft standard will not be initiated before the final version is published – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IFRS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture" (published on 11 September 2014) – discussions leading to the approval of these amendments have been postponed by the EU for an indefinite period – the date of entry into force has been postponed by the IASB for an indefinite period;
- IFRS 17 "Insurance Contracts" (published on 18 May 2017) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2021;
- Amendments to Conceptual Framework for Financial Reporting included in the International Accounting Standards (published on 29 March 2019) – effective for annual reporting periods beginning on or after 1 January 2020;
- Amendments to IFRS 3 "Business Combinations" (published on 22 October 2018) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2020;
- Amendments to IFRS 1 and IFRS 8: "Definition of Material" (published on 31 October 2018) – effective for annual reporting periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IFRS 39 and IFRS 7: "Reform of interest rate benchmarks" (published on 26 September 2019) – effective for annual reporting periods beginning on or after 1 January 2020.
- Amendments to IFRS 1 Presentation of Financial Statements: "Classification of liabilities as short-term and long-term" (published on 23 January 2020) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 01 January 2022;

According to the Company's estimates, the above-mentioned new standards and amendments to existing standards would not have had a material impact on the financial statements, if applied by the Company as at the balance sheet date.

While preparing these consolidated financial statements the Company adopted the following standards for the first time:

- IFRS 16 "Leasing"
- Amendments to IFRS 9 "Financial Instruments" – "Prepayment Features with Negative Compensation",
- IFRS Amendments – "Annual Improvements to IFRS Standards (2015–2017 Cycle)",
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement,
- Amendments to IAS 28 "Investments in Associates and Joint Venture" – "Long-term Interests in Associates and Joint Ventures",
- Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"

(in thousands of PLN)

For details regarding the implementation of IFRS 16, see note 3.4. Other standards mentioned above have not had a significant impact on these consolidated financial statements.

3.4. Changes in accounting policies and in the process of the preparation of financial statements

In the period covered by these financial statements, the Company applied the following new standards for the first time and it applied the following changes in the presentation of the financial statements:

- **IFRS 16 "Leasing"**

The Company applied the new standard in compliance with the modified retrospective method, with the combined initial application effect from the day the standard was adopted, that is from 1 January 2019. The below table presents the impact of the adoption of the standard as at 1 January 2019:

	Carrying amounts as at 01.01.2019
Right-of-use assets	10 991
Lease liabilities	10 991

The main types of contracts, on the basis of which the Company identified leasing, relate primarily to the contracts for the rental of the fleet of company cars, office property rental, perpetual usufruct right of land, rental of machinery and equipment, rental of office containers and IT devices.

The main assumptions of the accounting policy adopted by the Company with the first application of IFRS 16 are as follows:

<u>Exemptions and practical solutions</u>

The Company will apply exemptions in compliance with the standard for the recognition of low-value asset leases (not exceeding PLN 15 000) and short-term leases (not exceeding 12 months). These transactions are presented within the cost of goods sold as costs of external services. The selection of short-term lease exemptions has been made for all types of right-of-use assets, except for car lease agreements. In cases where it will not be possible to determine the interest rate of the lease, the Company will apply the marginal interest rate of the lessee.

<u>Initial implementation</u>

In relation to the leases previously classified as operating leases as at the date of the first application (except for the contracts with low-value items and the remaining payment period of less than 12 months), the Company has recognized the liability measured as the current value of the lease payments discounted at the marginal rate of interest on the date of first application. Appropriately measured right-of-use assets in the amount equal to the recognized liabilities.

<u>Identification of the lease</u>

At the onset of the contract the Company determines whether a given contract contains a lease. A contract constitutes a lease if it conveys the right to control the use of an underlying asset for a given period in exchange for remuneration.

<u>The books of accounts of the lessee</u>

At the onset of the lease the Company recognizes an underlying right-of-use asset and a lease liability. At the onset date the Company measures the lease liability as the present value of the lease payments that have not been paid at that date. The lease payments are discounted using the marginal interest rate of the lessee, which on average amounts to 4.1%.

The cost of the underlying right-of-use asset includes the amount of the initial assessment of the lease liability and

i. any lease payments made on or before the onset date, less all incentives received from the lease, and
ii. any initial direct costs, and
iii. an estimate of the costs to be incurred in relation to the dismantling and removal of the underlying asset, restoring the site on which it was located or the renovation of the underlying asset to restore it to the condition required by the terms of the lease.

(in thousands of PLN)

After the onset date of the lease the Company measures the lease liability through:

i. an increase in the carrying amount to reflect interest on the lease liability,
ii. a decrease in the carrying amount to include the lease payments paid in,
iii. an update to the balance sheet valuation to include any re-assessment or change of lease to account for substantially updated fixed lease payments.

At the onset of the lease the Company recognizes an underlying right-of-use asset and a lease liability:

i. less accumulated amortization (depreciation) write-offs and total impairment losses and
ii. adjusted for any revaluation of the lease liability.

The Company depreciates the right-of-use assets from the date of the beginning of leasing until the end of the duration of use or until the end of the lease, whichever occurs first. If depreciation is recognized by the end of the duration of use, the Company applies depreciation rates appropriate for the given group of assets, convergent with the rates applicable for tangible fixed assets described in note 4.8.

The Company as a lessor

The lease agreements, under which the lessor substantially retains all the risks and benefits of the ownership of the leased asset, are classified as operating lease agreements. The lease instalments are recognised as operating revenues in the income statement on a straight-line basis over the lease term.

Presentation of the financial statements

The Company has decided to include the right-of-use assets as part of the same balance sheet positions they would be presented in if the Company owned these assets. The right-of-use assets have been presented in the line item “Tangible fixed assets”. Lease liabilities have been presented in the line item “Bank loans, borrowings and other sources of financing” in the long-term or short-term part of the balance sheet – depending on the settlement date. In the statement of cash flows the Company presents outflows related to leases recognized in the balance sheet. Cash flows related to short-term or low-value leases are presented under “Operating cash flows”. Additional disclosures regarding leasing have been presented in notes 7.5, 7.6, 7.12, 11 and 20.

- **Change in comparative data**

The Company has changed the presentation of assets held for sale. In these financial statements the assets held for sale have been presented under a separate line item outside of revolving assets. In previous financial periods assets held for sale were presented as a component of revolving assets.

The Company has changed the presentation in the balance sheet under line item “Trade and other receivables” and “Trade and other liabilities”. In these financial statements trade receivables were presented under the revolving assets line item 'Trade receivables’ and other receivables were presented under line item “Other receivables”. Trade liabilities were presented under line item “Trade liabilities” and other liabilities were presented under line item “Other liabilities”.

In the opinion of the Company, the above-mentioned presentation changes render the information included in the financial statements more credible and useful in terms of the impact of these transactions on the financial situation. The changes in the presentation of data has had no impact on the position of equities or on the financial results.

The table below outlines the impact of the changes in the presentation on the comparative data for 2018.

	As at 31 December 2018 (before change)	Change in the presentation of the financial statements	As at 31 December 2018 (after change)
Current assets			
Inventories	168	–	168
Trade and other receivables	284 992	(284 992)	–
Trade receivables	–	136 795	136 795
Deposits due to the construction contracts	41 968	–	41 968
Construction contracts assets	10	–	10

Other receivables	–	148 197	148 197
Financial assets	6 033	–	6 033
Cash	183 623	–	183 623
Other assets	816	–	816
Assets held for sale	36 267	(36 267)	–
Total current assets	**553 877**	**(36 267)**	**517 610**
Assets held for sale	**–**	**36 267**	**36 267**

	As at 31 December 2018 (before change)	**Change in the presentation of the financial statements**	**As at 31 December 2018 (after change)**
Short-term liabilities			
Bank loans, borrowings and other external sources of financing	70 571	–	70 571
Short-term bonds	12 839	–	12 839
Trade and other liabilities	141 627	(141 627)	–
Trade liabilities	–	112 464	112 464
Deposits due to the construction contracts	16 001	–	16 001
Construction contracts liabilities	83 019	–	83 019
Other liabilities	–	29 163	29 163
Provisions	96 135	–	96 135
Employee benefit liabilities	5 290	–	5 290
Deferred income	1 508	–	1 508
Total short-term liabilities	**426 990**	**–**	**426 990**

4. Adopted accounting principles (policy)

4.1. The grounds for preparing the financial statements

These financial statements have been prepared in accordance with the historical cost concept, with the exception of certain tangible fixed assets which are recognized at the re-evaluated in amounts or at fair values and financial instruments recognized at fair value at the end of each period in accordance with the accounting policy specified below.

The historical cost is determined in principle on the basis of the fair value of the payment made for goods or services.

The financial statements have been presented in the Polish zloty (‘PLN”) (the currency of the presentation) and all values, unless indicated otherwise, are presented in thousands of PLN (“PLN thousand”).

4.2. Conversion of amounts expressed in foreign currencies

The functional currency of the Company is the Polish zloty.

Transactions expressed in currencies other than the Polish zloty are converted into PLN using the exchange rate in force on the date of the transaction.

As at the balance sheet date, the monetary assets and liabilities expressed in currencies other than the Polish zloty are converted into PLN using the average exchange rate specified for a given currency by the National Bank of Poland at the end of the reporting period. The exchange differences resulting from the translation and settlement of these items are recognised in the financial revenues/expenses or capitalised in the value of assets. Non-monetary assets and liabilities measured at a historical cost in a foreign currency are recognized using the exchange rate on the date of the transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rate on the date when the fair value was determined.

4.3. Tangible fixed assets

Tangible fixed assets are shown at the purchase price/production cost less the depreciation and impairment losses, except for the asset class defined as real estate and structures permanently connected with land, i.e. land, production plants and property developed with a warehouse, industrial and office building facilities. The above asset class is presented under the "Land, buildings and structures" category and is valued according to the revaluation model.

The initial value of tangible fixed assets includes their acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to the condition for its intended use. The cost also includes the replacement of the individual components of machinery and equipment when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, are charged against the profit or loss when incurred.

Increases in the carrying amount due to revaluation of assets recognised according to the revaluation method are referred to under other comprehensive income and they are recognised as accumulated other comprehensive income in the shareholders' equity. Reductions offsetting earlier increases that relate to the same fixed asset are charged against other comprehensive income and reduce the capital arising from the revaluation. All other reductions are recognised in the profit and loss account. The resulting component of equity is transferred to the position of retained earnings when the asset is removed from the balance sheet.

Tangible fixed assets, at the time of their acquisition, are divided into components with a significant value to which a separate period of the economic usability can be attributed.

The depreciation is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	Period
Buildings and structures	10-60 years
Machines and technical equipment	2-40 years
Office equipment	3-10 years
Means of transportation	2-30 years
Computers	2-8 years
Investments in external tangible fixed assets	10-25 years

The final value, the period of use and the method of amortization of asset components are verified annually at the end of December and, if necessary, corrected effective from the beginning of the next financial year.

Investments in progress relate to tangible fixed assets under construction or assembly and they are recognised at the acquisition or production cost less any impairment losses. The tangible fixed assets under construction are not subject to depreciation until their completion and transfer into operation.

4.4. Investment property

The initial recognition of the investment property occurs according to the acquisition or production cost, including transaction costs.

After initial recognition, investment properties are recognized at fair value. Profits or losses arising from changes in the fair value of the investment property are recognised in profit or loss under other operating revenues or other operating costs in the period in which they arose.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement. If the asset used by the owner, the Company, becomes an investment property, the Company applies the principles outlined in the section "Tangible fixed assets" until the day of changing the use of this property. The difference between the carrying amount determined in accordance with the principles presented in part as determined on the day of the transfer presented under "Tangible fixed assets" and its fair value is treated analogically to the approach corresponding to the revalued amount. In the case of disposal of investment property, the difference between the selling price and the book value is recognised in the profit and loss account.

4.5. Intangible assets

Intangible assets are measured at the initial recognition at the purchase price or production cost, as appropriate. Following the initial recognition, intangible assets are stated at their acquisition or production cost reduced by depreciation and impairment write-offs for the loss in value.

Intangible assets with a definite useful life are depreciated during the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The following periods of use have been applied:

Type	Period
Patents and licences	For patents and licenses used on the basis of a contract concluded for a definite period, this period is assumed, taking into account the period for which the use may be extended
Development cost	5 years
Computer software	2-15 years

4.6. Impairment of non-financial fixed assets

As at each balance sheet date, the Company evaluates whether there are any prerequisites indicating that a loss in value of components of non-financial fixed assets may have occurred. In the event when there are such prerequisites or in case of the necessity to conduct an annual impairment test, the Company estimates the recoverable value of a given component of assets or a cash generating unit the component of assets belongs to if the element of assets concerned does not individually generate cash inflows.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced by the cost of sale of this component or respectively the cash generating unit, or its value in use, depending on which one is higher. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs and a write-off to the determined recoverable value is made.

At each balance sheet date, the Company assesses whether there are any prerequisites indicating that the impairment write-off for the loss in value, which was recognised in previous periods, in relation to a given component of assets is unnecessary or if it should be reduced.

4.7. Borrowing costs

Borrowing costs are capitalised as part of the cost of producing tangible fixed assets. The borrowing costs are composed of interest calculated using the effective interest rate method, financial charges due to finance lease agreements financial and exchange differences occurring in connection with borrowing up to the amount corresponding to the adjustment of the interest cost.

4.8. Share in profits of limited partnerships

The Company is a partner (a limited partner) in subsidiaries that are limited partnerships. For each reporting period, the Company recognises financial revenues due to the share in profits of these subsidiaries. Receivables under this title are presented in long-term receivables - if their maturity date exceeds 12 months from the balance sheet date - or in the position of trade receivables and other receivables - if their maturity date does not exceed 12 months.

Financial revenues under the above title are recognized in the value of results obtained by subsidiaries in compliance with the Company’s percentage share resulting from the contractual settlements between the shareholders. Financial revenues/costs under this title are recognized in the financial year in which a subsidiary achieves profits/losses regardless of the period during which the division of this result or the coverage of the loss takes place. Receivables are assessed with the application of the depreciated cost method. Shares in profits of limited partnerships are subject to revaluation in terms of impairment on principles applicable for financial assets. The revaluation is presented as financial costs.

4.9. Inventories

Inventories are measured at the lower of the two values: the acquisition price/production cost and the maximum achievable net sale price.

The costs are recognised as follows:

Materials	at the purchase price determined using the "first in-first out" method;
Finished products and products in progress	the cost of direct materials and labour, as well as an appropriate mark-up of indirect production costs determined assuming the normal use of production capacity, excluding borrowing costs;
Goods	at the purchase price determined using the "first in-first out" method.

When the inventory is released from the warehouse, the Company recognises the cost of sales - in the case of sales or consumption of materials - in case of delivery of the inventory for further production or provision of services.

When the inventory is sold the carrying amount of these inventories is recognised as the cost of the period in which the relevant revenues are recognised.

The maximum achievable net sale price, is an estimated sale price in the ordinary course of business decreased by the costs of finalization, as well as the estimated costs of sale.

4.10. Trade receivables

Trade receivables are recognised and stated according to the initially invoiced amounts, including the write-off against doubtful receivables.

If the effect of the value of money is material, the value of the receivables is determined by discounting the projected future cash flows to the present value using a discount rate that reflects the current market assessments of the value of money and the contractor's credit risk. If a method involving discounting was applied, then the increase in liabilities due to the passing time is recognised as financial revenues.

4.11. Other receivables

Other receivables include, in particular, advance payments forwarded for future purchases of tangible fixed assets, intangible assets and inventories. The advance payments are presented according to the nature of the assets to which they relate, respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount. Other receivables also include VAT and other public law receivables.

4.12. Deposits transferred under construction contracts

The deposits under construction contracts are amounts due to the Company resulting from the amounts paid within the construction contracts. In particular, the deposits constitute collateral provided by the Company. Deposits are retained from sale invoices issued by the Company as the implementation of services progresses or they are provided a singular payment by the Company. The deposits are settled collectively with the finalization of the contract or after the warranty period.

The deposits under construction contracts are recognised and disclosed according to the amounts originally invoiced or paid to the recipient, including the write-off.

If the effect of the value of money is material, the value of the deposit is determined by discounting the projected future cash flows to the present value using a discount rate that reflects the current market assessments of the value of money and the contractor's credit risk. The write-off for deposits transferred under construction contracts is estimated when the collection of the full amount of the deposit is no longer probable.

If a method involving discounting was applied, then the increase in value due to the passing time is recognised as financial revenues.

4.13. Cash and cash equivalents

The cash values shown in the balance sheet include cash at the bank and on hand, as well as bank deposits payable on request.

Cash equivalents include investments that meet all of the following criteria: they are short-term, i.e., generally with a maturity of less than 3 months from the date of the acquisition, highly liquid, easily convertible into specified amounts of cash and exposed to a slight risk of change in value.

Cash and cash equivalents are measured at their nominal value.

The balance of cash and cash equivalents shown in the cash flow statement consists of the cash and cash equivalents specified above.

4.14. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to a binding contract. Upon initial recognition the Company measures a financial asset or financial liability at its fair value, except for trade receivables which are measured at the transaction price - if they do not contain a significant element of financing.

Financial assets are classified into the following valuation categories:

- assets measured at amortized cost,
- assets measured at fair value through the financial result,
- assets measured at fair value through other comprehensive income.

The Company classifies a financial asset based on the Company's business model in terms of managing financial assets and the characteristics of contractual cash flows for the financial asset (the so-called “capital and interest only” criterion).

A financial asset is measured at amortized cost if both of the following conditions are met:

- the financial asset is held in accordance with a business model whose purpose is to maintain financial assets for obtaining contractual cash flows, and
- the terms of the contract concerning a component of a financial asset create cash flows during certain period which only constitute a repayment of the main amount and the interest from the main amount remaining to be repaid.

All financial assets held by the Company are measured at amortized cost. Interest income is calculated using the effective interest method and it is recognized in the profit and loss account under financial income.

Dividends are recognized in the profit and loss account when the Company is entitled to receive dividends.

The Company assesses the expected credit losses related to debt instruments measured at amortized cost and fair value through profit or loss, regardless of whether there is any evidence of impairment.

In the case of trade receivables, deposits and assets due to the valuation of contracts the Company applies a simplified approach and measures the write-off on expected credit losses in the amount equal to the expected credit losses in the entire lifetime using the reserve matrix. The Company uses its historical data on credit losses, as well as information on individual assessment of impairment risk and takes into account the information regarding the future. Write-offs for expected credit losses recognized in the reporting period are presented in note 14.

In the case of other financial assets including cash, the Company measures the write-off on expected loan losses in the amount equal to a 12-month period of expected loan losses. If the credit risk related to a given financial instrument has increased significantly since the initial recognition, the Company measures the write-off on expected credit losses on the financial instrument in the amount equal to the expected credit loss over the entire lifetime.

The Company estimates that the credit risk associated with a given financial instrument has increased significantly since its initial recognition if the contractor's financial position deteriorated or he entered into the process of restructuring / bankruptcy / liquidation.

Assets are excluded from the accounting books when the rights to obtain income from them have expired or have been transferred and the majority of risks and all benefits of ownership have been transferred.

The Company classifies all financial liabilities as measured after initial recognition at amortized cost.

The Company does not use hedge accounting.

4.15. Credits, borrowings and debt securities (bonds)

At the time of the initial recognition, all bank credits, borrowings and debt securities are recognised at fair value, decreased by the costs associated with obtaining a credit or loan.

After initial recognition, interest-bearing credits, borrowings and debt securities are measured at amortized cost using the effective interest rate method.

4.16. Asset (or disposal groups) held for sale

Tangible fixed assets (or disposal groups) are classified as held for sale if their carrying amounts are recovered through a sale transaction and the sale is considered to be highly probable. They are recognised at the lower of the following two amounts: their carrying amount and fair value less costs of sales.

4.17. Other assets

Prepayments are recognised in the amount of expenses already incurred which relate to the next reporting periods after the balance sheet date. These costs are presented at face value after ensuring that these costs will benefit the Company in the future. Interim prepayments include mainly:

- insurance,
- subscriptions,
- rents paid in advance that do not quality as lease.

4.18. Shares in subsidiaries

Shares in subsidiaries are valued at cost. Impairment write-offs for shares held in subsidiaries are reversed when there are no premises for the depreciation up to the amount of the estimated recoverable amount not higher than the value which would have been recognised if there had not been any depreciation recognised.

4.19. Deferred income

Deferred income is recognised while taking into account the principle of a prudent valuation. These include primarily the equivalent of received or due funds for benefits that will be performed in the next reporting periods.

4.20. Trade receivables

Short-term trade liabilities are presented under amortized cost. Other financial liabilities, which are not financial instruments measured at fair value by the financial result, are measured in accordance with the depreciated cost using the effective interest rate method.

4.21. Other liabilities

Other liabilities include, in particular, liabilities arising from the purchase of tangible fixed assets, liabilities under VAT and other liabilities under taxes, customs and social security, as well as liabilities under financial guarantees. Other liabilities are recognized under amortized cost.

4.22. Deposits received under construction contracts

Deposits under construction contracts result from the amounts received within the construction contracts. The Company retains the deposits from sale invoices issued by the subcontractors as the implementation of services progresses or they are provided in a singular payment by the subcontractors. The deposits are settled collectively with the finalization of the contract or after the warranty period.

The deposits under construction contracts are recognised and disclosed according to the amounts originally invoiced or paid by the suppliers. In the subsequent periods deposits are recognised in the amortized cost. The influence of the measurement in the depreciated cost is recognised as financial revenues/expenses.

4.23. Employee benefit liabilities

Short-term employee benefits paid by the Company include:

- wages, salaries and social security contributions,
- short-term compensated absences, if absences are expected to occur within 12 months of the end of the period in which employees performed their related work,
- profit-sharing and bonuses payable within 12 months after the end of the period in which the employees were performing work related to them,
- non-cash benefits for currently employed employees.

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period in which the entity received the benefit from the employee, and in the case of distributions from profit and bonus, if the following conditions are met:

- the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

The Company recognises the expected costs of short-term employee benefits in the form of paid absences in the case of accumulated paid absences (i.e. those for which allowances are transferred for future periods and can be used in the future if they have not been fully utilised in the current period) and in the case of non-accumulated paid absences (which give rise to obligations on the part of the Company as of their occurrence).

Pursuant to the Collective Bargaining Agreement the employees of the Company are entitled to retirement and disability severance payments. Retirement benefits are paid once at the time of retirement. The amount of benefit depends on the period of employment in the Company and its legal predecessors (provided that the Company generates a net profit 2 years in a row, otherwise the amount of the benefit is a one-month salary). The benefit is affected by the above-mentioned seniority within the Company, as well as the average salary in the Company from December of the previous year. The Company has a provision for future liabilities related to retirement benefits in order to allocate costs to the periods to which they relate. According to IAS 19, retirement benefits belong to the specified post-employment benefits programs. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data.

Liabilities under retirement are presented under liabilities due to employee benefits.

Post-employment benefits in the form of defined benefit plans (retirement benefits and severance payments) and other long-term employee benefits (including long-term invalidity pensions) are determined using the projected unit credit method from the actuarial valuation carried out at the end of the reporting period.

Actuarial gains and losses related to defined post-employment benefit plans are presented in other comprehensive income. However, profits and losses related to other long-term employee benefits are recognised in the current income statement of the reporting period.

4.24. Provisions

Provisions are created when the Company is burdened with the existing liability (legal or customary anticipated) resulting from past events and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated. If the Company expects that the costs covered by the provision will be reimbursed, for example under the insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is certain that the reimbursement will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any reimbursement.

When the impact of the value of money is significant, the value of the provision is determined by discounting the forecast future cash flows to the current value, using the discount rate reflecting the current market estimates of the value of money, as well as the possible risk related to a given liability. If a method of discounting was applied, the increase in liabilities due to the passage of time is recognised as financial costs.

4.25. Reserve capital from surplus of bonds convertible into shares

The Company recognises separate components of financial instruments which establish its financial liability and provide their holders with an option to convert into Parent Company's equity instrument. The Company is an issuer of bonds convertible into shares of the Company. As at the date of issuing bonds, the Company measured the equity component and the liability component of the bonds issued. The liability component was measured at fair value. The equity component was determined as the final (residual) value of the amount remaining after deducting separately determined value of liability component from the fair value of the entire instrument. The Company does not change the qualification of the liability and equity component depending on the change of probability of executing the conversion option.

4.26. Revenues from contracts with Customers

The Company recognizes a contract with the customer upon the fulfilment of all of the following conditions:

- the parties to the contract have concluded the contract (in writing, orally or in accordance with other customary commercial practices) and are required to perform their obligations;
- the Company is able to identify the rights of each party to the contract regarding goods or services to be delivered;
- the Company is able to identify the terms of reimbursement regarding goods or services to be delivered;
- the contract has commercial substance (that is, it is expected that as a result of the agreement the risk involved, the schedule or the amount of future cash flows of an entity may change); and
- it is probable that the Company will receive remuneration to which the Group will be entitled to in exchange for goods or services that will be provided to the customer.

The Company combines two or more contracts that were concluded simultaneously or almost simultaneously with the same client (or entities related to the client) and recognizes them as one contract if at least one of the following criteria is met:

- the contracts are negotiated as a package and concern the same commercial purpose;
- the amount of remuneration due under one contract depends on the price or performance of another contract; or
- goods or services promised under the contracts (or some goods or services promised in each contract) constitute a single performance obligation.

The Company recognizes the amendment to the contract as a separate contract, if simultaneously: the scope of the contract increases due to the addition of promised goods or services that are considered separate, and the price specified in the contract increases by the amount of remuneration reflecting the individual promised sale prices of additional promised goods or services, and any appropriate adjustments to that price are made in order to account for the circumstances of the specific contract.

At the time of conclusion of the contract, the Company assesses the promised goods or services in the contract with the client and identifies as an obligation to perform the service any promise made to the client to provide the following:

- goods or services (or package of goods or services) that can be separated; or
- separate groups or goods or services which are essentially the same and for which the transfer to the client is the same.

The goods or service promised to a customer is separate if both of the following conditions are met:

- the customer may benefit from goods or services either directly or by connection to other resources that are readily available (i.e. the goods or services may be separate); and
- an entity's obligation to provide goods or services to a customer can be identified as separate from other obligations specified in the contract (i.e. the goods or service is separate within the contract).

The Company recognizes the revenue when an obligation to perform the service is fulfilled (or when the performance of service is in progress) by transferring the promised goods or services (i.e. a component of an asset) to the customer. An asset is transferred when the customer obtains control of that asset.

For each obligation to perform the service, the Company determines at the time of the conclusion of the contract whether it will meet the obligation to perform the service over time or whether it will meet it at a specific moment. If the Company does not meet the obligation to perform the service over time, the obligation to perform the service is fulfilled at a certain time.

The Company uses one method to measure the degree of fulfilment of the obligation for each performance obligation fulfilled over time and applies this method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, the Company re-assesses the degree of total fulfilment of the obligation to perform the service performed over time.

The Company uses input-based methods to measure the degree of compliance. Revenues are recognized based on activities or expenditure incurred in fulfilling the performance obligation in relation to the total expected expenditure necessary to fulfil the performance obligation. The stage of completion is measured as the share of costs incurred from the date of the contract to the date of determining the revenue in the estimated total costs of providing the service or the share of the work performed in relation to the total work.

After fulfilling (or in the course of fulfilling) the obligation to perform the service, the Company recognizes as income the amount equal to the transaction price (excluding estimated values of variable remuneration, which are limited), which was assigned to this obligation to perform the service.

In order to determine the transaction price, the Company takes into account the terms of the contract. The transaction price is the amount of remuneration which, as expected by the Company, it will be entitled to in exchange for the transfer of promised goods or services to the customer, excluding amounts collected on behalf of third parties. The remuneration specified in the contract with the client may include fixed amounts, variable amounts or both.

When setting the transaction price, the Company adjusts the promised amount of remuneration by changing the value of money over time, if the payment schedule agreed by the parties to the contract (explicitly or implicitly) gives the Company significant benefits or generates significant financial costs from financing the transfer of goods or services. In such circumstances, the Company recognizes that the contract contains a significant financing component. An important element of financing may occur irrespective of whether the financing promise is clearly stated in the contract or results from payment terms agreed by the parties to the contract.

The Company attributes to the obligations to perform the services specified in the contract any subsequent changes in the transaction price on the same terms as when the contract was concluded. The amounts assigned to the obligations to perform the service are recognized as revenue or as a decrease in revenue in the period in which the transaction price has changed.

If the Company, as one of the parties to the contract, fulfilled the obligation, the Company presents the contract as an asset under the contract (under “Receivables under valuation of contracts”) or a contract liability (under “Liabilities under valuation of contracts”) - depending on the ratio between the entity's status of performance of the obligation and the invoices issued. The Company presents all unconditional rights to receive remuneration separately as trade receivables.

The Company presents received advance payments under the item regarding the valuation of contracts.

If another entity is involved in the delivery of goods or services to the client, the Company determines whether the nature of the promise constitutes an obligation to perform a service that entails the provision of specific goods or services (in this case the Company is the principal) or on behalf of another entity to provide these goods or services (in this case the Group is an intermediary).

The Company is the principal if it exercises control over the promised goods or services before passing it on to the customer. The Company, however, does not have to act as the principal if it obtains the legal title to the product only temporarily before it is transferred to the customer. The Company appearing in the contract as the principal may fulfil the obligation to perform the service or may entrust the fulfilment of this obligation or part thereof to another entity (e.g. subcontractor) on its behalf. If the Company acting as the principal fulfils the obligation to perform the service, it recognizes the revenue in the amount of the remuneration to which - as anticipated by the entity - it will be entitled to in exchange for the transferred goods or services.

The Company acts as an intermediary if its obligation to perform the service entails ensuring the delivery of goods or services by another entity. If the Company acting as the principal fulfils the obligation to perform the service, it recognizes the revenue in the amount of any fee or commission to which - as anticipated by the entity - it will be entitled to in exchange for ensuring the delivery of goods or services by another entity. The fee or commission due to the entity may be the amount of remuneration that the Company retains after paying remuneration to another entity in exchange for goods or services provided by that entity.

4.27. Taxes

Current tax

The liabilities and receivables for the current tax for the current period and previous periods are evaluated in the amount of expected payment for tax authorities (subject to reimbursement from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.

Assets/provisions for deferred tax are recognised in relation to all negative / positive temporary differences:

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.

The balance sheet value of the assets' component due to the deferred income tax is verified on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component due to the deferred income tax will be achieved. An unrecognised deferred tax asset is re-assessed as at each balance sheet date and is recognised at the amount reflecting the likelihood of achieving the future taxable income allowing to recover this component of assets.

The deferred tax assets and provisions for the deferred tax are evaluated with the use of the tax rates that are expected to be applicable in the period, in which the assets' component is realised or the provision is released, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective as at the balance sheet date in the future.

The income tax on items recognised outside the profit or loss is recognised outside the profit or loss: in other in other comprehensive income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if they have an enforceable legal title to compensate for receivables with current tax liabilities and deferred income tax is connected with the same taxpayer and the same tax authority.

If in the opinion of the Company it is probable that the Company's approach to the tax issue or group of tax issues will be accepted by the tax authority, the Company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates taking into account the approach to taxation planned or applied in the tax return. While assessing this probability, the Company assumes that the tax authorities eligible to audit and challenge the tax approach will carry out such control and will have access to all information.

If the Company determines that it is not probable that the tax authority will accept the Company's approach to the tax issue or group of tax issues, then the Company reflects the effects of uncertainty in accounting terms of tax during the period in which this was determined. The Company recognizes an income tax liability using one of the following two methods, depending on which of them better reflects the way in which this uncertainty can materialize:

- the Company determines the most likely scenario - it is a single amount among the possible outcomes, or
- the Company recognizes the expected value - it is the sum of probability weighted amounts among the possible results.

4.28. The most significant accounting principles applied by the Company until 31 December 2018

Below there is a description of the most important accounting principles applied by the Company in the period before the implementation of the new IFRS 16 standard, that is until 31 December 2018. The policy regarding IFRS 16 is described under item 3.4.

The Company as a lessee

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset to the Company, are recognised in the financial statement at the lease commencement date at the lower of the following values: the fair value of the fixed asset constituting a subject of leasing, or the current value of minimal lease payments. Lease payments are allocated between the financial costs and the reduction of the balance of the lease liabilities in a way that allows to obtain a constant interest rate on the remaining unpaid liability. Financial costs are recognised under profit or loss, unless the capitalisation requirements are met.

Tangible fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of the fixed asset or the lease term.

The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs under profit or loss on a straight-line basis over the lease term.

Conditional lease payments are recognised as a cost in the period in which they become due.

The Company as a lessor

The lease agreements, under which the lessor substantially retains all the risks and benefits of the ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating revenues in the income statement on a straight-line basis over the lease term.

Conditional lease payments are recognised as a revenue in the period in which they become due.

5. Significant values based on professional judgement and estimates

Below there is a description of basic assumptions about the future and other key sources of uncertainty as at the balance sheet date which are associated with a high risk of a significant adjustment of the carrying amounts of assets and liabilities in the next financial year.

Periods of economic use of tangible fixed assets, note 4.3

The Company verifies the anticipated economic useful lives of items under tangible fixed assets at the end of each annual reporting period.

Fair value measurement and the valuation procedures

Investment property is measured by the Company at fair value for the purpose of financial reporting. The valuation has been carried out by external qualified property appraisers. The valuations are prepared with the application of income or comparative methods. The Company applies the revaluation model for the following class of assets: real estate and structures. In case the revaluation needs to be performed, the Company obtains a fair value measurement for particular locations of real estate and objects. The revaluation is performed for the entire class of assets when the fair value differs significantly from the carrying amount. The valuations are prepared with the application of income or comparative methods. Details on the performed valuations are described in note 11.3.

Impairment of assets

The Company performs the impairment testing of tangible fixed assets and shares under circumstances that indicate the possibility of the impairment of assets. The tests require an estimation of the value-in-use of a cash-generating unit to which these tangible fixed assets belong. The value-in-use estimation involves a calculation of future cash flows generated by the cash-generating unit and it requires to determine the discount rate to be used in order to calculate the current value of these cash flows.

Asset due to deferred tax, note 8.3

The Company recognizes a deferred tax asset based on the assumption that the future tax profit will be achieved to allow its use. The deterioration of the future tax results may render this assumption unjustified.

Revenue recognition, note 15

The gross margins of the contracts in progress are determined based on the formalized process called the Project Review as the difference between the cost of sales and the estimated total contract costs (the total amount of the costs incurred and the estimated costs until the completion of the contract). Verification of the estimated costs until the completion of the contract is performed during the Project Review on a monthly, quarterly or semi-annual basis, or with other frequency depending on the contract type. The costs until the completion of the contract are determined by competent teams who are substantively accountable for the implementation of a given area based on their best knowledge and experience.

The Company applies the percentage progress method for the settlement of long-term contracts. The application of this method requires of the Company to provide an estimation of the ratio of the works already performed to all services to be performed. The progress of works is measured based on the input-based method, i.e. as the share of costs incurred so far in the total expected cost budget of the contract. Based on the updated contract budgets and the status of construction contracts, the Company recognizes the effects of the changes in estimates in the financial results of the period.

Valuation of employee benefits liabilities – retirement and pension payments

Provisions for employee benefits have been measured with the application of actuarial methods. Assumptions adopted for this purpose are presented in note 25.

Provision for warranty repairs, note 24

Provisions for liabilities under warranty repairs are established during the project implementation in proportion to sales revenues. The amount of provisions depends on the type of construction services provided and it constitutes a specified percentage of the value of sales revenues from a given contract. However, the value of provisions for warranty repairs may be subject to individual analysis (including the opinion of the manager in charge of a given construction site) and it may be increased or decreased in duly justified cases. The provisions can be used within the first 3-5 years after the completion of the investment in proportions corresponding to the actually incurred costs of repairs.

Provisions for court cases, note 24

Provisions related to ongoing judicial proceedings are established when a lawsuit has been filed against a given entity and the probability of a judgement adverse for the entity is greater than the probability of a favourable judgement. The probability of either outcome is assessed in the course of the judicial proceedings and on the basis of legal opinions from attorneys. The established provisions are charged to other operating costs.

Provision for penalties, note 24

The estimates of contractual penalties are provided by technical services assigned to the implementation of the construction contract, in cooperation with the legal department that interprets the provisions of the contract. Provisions for penalties are established when there is a high risk of the imposition of a penalty by the ordering party due to improper performance of the contract.

Provision for the settlement price of contracts, note 24

Provisions for the settlement price of contracts relate to the final settlement of the road contracts.

Provisions for projected losses on construction contracts, note 24

As at each balance sheet date, the Company updates the estimates of the total revenues and total expenses related to projects in progress. The projected total loss on a contract is recognized as an expense in the period in which it has been recognized.

Provision for sureties, note 24

A surety is recognized in the accounting records as a provision when at the balance sheet date there is a high likelihood that the borrower will not be able to repay their debts.

Write-off of receivables (note 14) and materials

As at each balance sheet date, the Company analyses individual conditions for the impairment of trade receivables such as disputable receivables, receivables under court proceedings, receivables from companies in bankruptcy or liquidation and others. Based on this, the Company makes individual write-offs of receivables and the remaining receivables are included in the write-off of anticipated credit losses. The method for calculating write-offs is described in note 4.14.

At each balance sheet date, the Company updates the write-off of redundant materials, while taking into account the remaining time in the warehouse and the potential for future use.

6. Reporting segments

For the management purposes the Company has been divided into segments based on the manufactured products and the services rendered: Due to the failure to meet the quantitative thresholds set out in IFRS 8, the Company combined information on the following segments: Industrial Construction and Infrastructure Construction with the data presented in the segment Other Activity. There are therefore the following reporting segments:

Power sector	Services related to the power sector. General contractor in the construction of facilities in the power sector, design, production and sales of power boilers, maintenance services for the permanent and comprehensive operation of power plants, combined heat and power plants and industrial facilities.
Oil, gas and chemicals	General contractor in the construction of facilities in the chemical sector. Assembly of equipment for the chemical and petrochemical industries, prefabrication and assembly of steel structures, technological pipelines, storage tanks and pipelines, prefabrication and assembly of furnaces for the refinery industry. Implementation of environmental protection projects. Our customers are chemical plants, refineries, petrochemicals and companies from the gas industry.
Other activity	industrial and infrastructure construction, maintenance and transportation services, rental, lease, laboratory tests, equipment service, other services not included in other segments, share in profits/(losses) of limited partnerships in which the Company holds shares.

The Management Board monitors the operating results of individual segments in order to make decisions regarding the allocation of resources, to assess the effects of this allocation and operating results. In order to assess operating results of the segments, the Management Board uses the results on operating activity and the gross result of the segment. Income tax is monitored at the Company level and it is not allocated to individual segments.

Transaction prices used during transactions between operating segments are determined by the market terms for transactions with unrelated parties.

The below tables present data on revenues and profits of individual operating segments of the Company for the year ended on 31 December 2019 and the year ended on 31 December 2018. The Management Board of the Company regularly monitors the results of the segments, however since 1 January 2014 there has been no ongoing assessment of the assets and liabilities of the segments. Therefore, compliant with IFRS 8.23, the below tables do not include the division of assets and liabilities by segments.

(in thousands of PLN)

The data concerning individual segments are presented according to the same principles applied in the process of the preparation of the financial statements.

Year ended on 31 December 2019	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues				
Sales to external clients	470 125	220	54 513	**524 858**
Sales between the segments	–	–	–	**–**
Total segment sales revenues	470 125	220	54 513	**524 858**
Results				
Profit / (loss) on operating activities of the segment	26 771	5 213	26 128	**58 112**
Financial income and costs balance	(27)	–	31 334	**31 307**
Gross profit / (loss) from the segment	26 744	5 213	57 462	**89 419**

Year ended on 31 December 2018	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues				
Sales to external clients	462 108	823	52 274	**515 205**
Sales between the segments	–	–	–	**–**
Total segment sales revenues	**462 108**	**823**	**52 274**	515 205
Results				
Profit / (loss) on operating activities of the segment	24 710	4 376	25 896	**54 982**
Financial income and costs balance	(145)	–	(30 911)	**(31 056)**
Gross profit / (loss) from the segment	**24 565**	**4 376**	**(5 015)**	**23 926**

The income from transactions between the segments has been excluded.

7. Revenues and costs

7.1. Sales revenues by categories

Revenue by type of goods or services

Year ended on 31 December 2019	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues from the sales of services and products	470 124	186	34 754	505 064
Revenues from the sales of goods and materials	–	34	85	119
Revenues from rental	1	–	19 674	19 675
Total sales revenues	**470 125**	**220**	**54 513**	**524 858**

(in thousands of PLN)

Revenue by type of goods or services

Year ended on 31 December 2018	Power sector	Oil, gas and chemicals	Other activity	Total activity
Revenues from the sales of services and products	462 107	737	33 723	496 567
Revenues from the sales of goods and materials	–	86	98	184
Revenues from rental	1	–	18 453	18 454
Total sales revenues	**462 108**	**823**	**52 274**	**515 205**

The first two items in the table below include the revenues from the contracts with clients in line with IFRS 15.

The revenues from the sales of goods and materials are in large part generated at a point in time. On the other hand, the revenues from the sales of services are revenues generated over time.

7.2. Geographical information

The below data presents the revenues for specific geographical areas.

During 2019 the Company did not generate any revenues outside the country.

Year ended on 31 December 2018	Power sector	Oil, gas and chemicals	Other activity	Total activity
Country	462 108	331	47 305	509 744
Abroad	–	492	4 969	5 461
Total sales revenues	**462 108**	**823**	**52 274**	**515 205**

The company classifies the sales as domestic or foreign sales based on the location of the service or the delivery.

7.3. Key recipients

In 2019 the Company had two recipients who generated over 10% of sales revenues. The sales to these recipients amounted to PLN 378.4 million and they are presented in the Power Sector segment.

7.4. Other significant events regarding ongoing contracts

In 2019 the Company implemented the following strategic the following contracts in the power sector:

- contract for the construction of two new power units at the Opole Power Plant,
- contract for the construction of a new power unit at the Żerań CHP Plant
- contract for the construction of a new power unit for Zakłady Azotowe Puławy

Opole Power Plant

Since January 2014 the Company within a consortium has been involved in the execution of the contract for the construction of two new power units at the Opole Power Plant. For the purpose of this project a special purpose vehicle has been established, namely Polimex Opole, a limited liability and limited partnership company. A substantial part of the project margins is generated by this company. It is a key contract for the Company in the strategically crucial power sector. Historically, this is the largest investment in the Polish power sector, of major importance to the Polish energy supply. The gross value of the investment amounts to PLN 11.6 billion, of which approximately 42% (PLN 4.8 billion) is the share of the Company.

On 31 May 2019 the consortium comprising the Company, Mostostal Warszawa S.A. and Rafako S.A. received a certificate of completion for power unit 5 at the Opole Power Plant from PGE Górnictwo i Energetyka Konwencjonalna S.A. The receipt of the certificate marks a successful finalization of the implementation of the mentioned unit and its final acceptance by the Ordering Party.

On 7 June 2019 Polimex Opole Sp. z o.o Sp.k. with the registered office in Warsaw concluded an Annex to the Agreement with PKO BP S.A. for the guarantee of the contract. Pursuant to the Annex, the validity period for the guarantee of proper performance was extended until 30 December 2019 and the amount of the guarantee was reduced from PLN 199 161 thousand to PLN 198 571 thousand.

On 30 September 2019 the consortium comprising the Company, Mostostal Warszawa S.A. and Rafako S.A. received a certificate of completion for power unit 6 at the Opole Power Plant from PGE Górnictwo i Energetyka Konwencjonalna S.A. The receipt of the certificate marks a successful finalization of the implementation of the mentioned unit and its final acceptance by the Ordering Party. This marked a completion of the entire project for the construction of the new power units at the Opole Power Plant. The project is currently under a 2-year warranty period. The Company is finalizing settlements with its subcontractors.

Żerań CHP Plant

Since June 2017 the Company (within a consortium with Mitsubishi Hitachi Power Systems Europe GmbH) has been involved in a project for the delivery and assembly of a gas and steam power unit at the Żerań CHP Plant in Warsaw with the electricity generation capacity of 497 MW and the thermal input at the level of 326 MW, together with the installations and auxiliary equipment. The total value of the contract on the day of its conclusion was approximately PLN 982.28 million and EUR 111.93 million, of which approximately 26% is the Company’s share. During the financial year 2018 it was necessary to create an additional provision for costs in the amount of approximately PLN 57.6 million, which reduced the company's EBITDA by the indicated amount. Percentage of completion (PoC) of the contract as at 31 December 2019 was 50.9%. The provision for losses has been gradually deployed along with the progress in the implementation of the contract. The total expected loss on the implementation of this contract decreased and as at 31 December 2019 it was PLN 54.1 million.

On 30 January 2019 there was a conclusion of an annex between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the scope of the contract was extended. The contract value in the scope of the Group increased by PLN 5 426 thousand. The annex also extended the deadline for the signature by the ordering party of the protocol for the handover of the unit for operation. This will take place within 37 months from the date of the signature of the contract.

On 17 July 2019 there was a conclusion of annex 2 between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the deadline for the signature of the handover protocol of the unit for operation that the contractor had committed to was extended to 40 months and 21 days from the date of the signature of the contract. This change was due to the occurrence of typhoon Jebi on 4 September 2018 in Japan. As a result of severe weather conditions, the storage site for the components of the gas turbine equipment was affected and the components were damaged, making it impossible for the contractor to fulfil the contractual obligations in terms of the guarantee of quality and warranty for physical defects. The ordering party and the contractor agreed that the event constituted force majeure and that an extension to the deadline for the contract finalization to allow for the removal of damage was duly justified.

On 20 November 2019 an annex was concluded between the ordering party and the consortium that resulted in an increase to the remuneration in the scope of the Group in the amount of PLN 2 492 thousand.

Puławy CHP Plant

On 25 September 2019 there was a conclusion of an agreement between Grupa Azoty Zakłady Azotowe Puławy S.A. and a consortium comprising Polimex Mostostal S.A. (as the consortium leader), Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. The subject of the Agreement is the construction of a complete coal-fired heat and condensing power unit with a closed cooling system and a wet fan cooling tower with the gross electricity generation capacity of 90-100 MWe, the thermal input provided by the fuel to the furnace of the boiler lower than 300 MWt and the thermal input in technological steam of at least 250 MWt working on steam parameters. The remuneration for the performance of the Assignment is flat rate and it amounts to PLN 1 159 900 thousand, of which approximately 99% is the share of the Group. Pursuant to the Agreement, the contractor is obliged to hand over the power unit for operation to the ordering party within 36 months from the date indicated by the ordering party as the date of commencement of the work. On 16 December 2019 there was a conclusion of an agreement with Fabryka Kotłów SEFAKO S.A., the subject of which is the preparation by SEFAKO of the basic design and the implementation documentation, prefabrication and delivery of a complete boiler together with the accessories and protections. The net value of this subcontracting order is PLN 179 900 thousand. On 20 December 2019 there was a conclusion of an agreement with Siemens AG, the subject of which is the production and delivery by Siemens of a steam turbine generator set, feed water heaters and spare parts. The remuneration was determined at the level of EUR 17 457 thousand. On 31 December 2019 there was a conclusion of the guarantee agreement between Polimex Mostostal S.A. and Bank Ochrony Środowiska S.A. ("BOŚ Bank"), the subject of which was the issuance of a guarantee for the proper performance of contract for the purpose of securing the performance of the contract in the amount of PLN 59 650 thousand with a validity period no longer than until 22 November 2022. Upon the fulfilment by the Company of conditions precedent, on 31 January 2020 BOŚ Bank issued at the request of the Company the guarantees for the proper performance.

(in thousands of PLN)

7.5. Costs classified by type

	Year ended on 31 December 2019	Year ended on 31 December 2018
Depreciation	7 768	3 178
Use of materials and energy	30 152	14 202
External services including construction	423 213	454 295
Taxes and payments	3 292	3 439
Costs of employee benefits	37 650	27 820
Other classified costs	8 006	2 060
Total costs classified by type	**510 081**	**504 994**
Items included in the general administration expenses	(33 495)	(32 955)
Value of goods and materials sold	53	106
Change in finished goods	17	8
Cost of goods sold	**476 656**	**472 153**

The costs of short-term leasing and leasing of low-value assets incurred in 2019 amounted to PLN 2 485 thousand. These costs are presented as a component of costs of external services.

The costs related to the real estate on which the Company generates rental income amounted in 2019 to: PLN 12 238 thousand, while in 2018 it was PLN 12 598 thousand.

7.6. Depreciation costs included in the profit and loss account

	Year ended on 31 December 2019	Year ended on 31 December 2018
Items presented as cost of goods sold	**7 032**	**3 010**
Depreciation of tangible fixed assets and right-of-use assets	6 778	2 564
Depreciation of intangible assets	254	446
Items included in the general administration expenses	**736**	**168**
Depreciation of tangible fixed assets and right-of-use assets	692	109
Depreciation of intangible assets	44	59
Total depreciation and write-offs	**7 768**	**3 178**
Total depreciation of tangible fixed assets and right-of-use assets	7 470	2 673
Total depreciation of intangible assets	298	505

(in thousands of PLN)

7.7. Costs of employee benefits

	Year ended on 31 December 2019	Year ended on 31 December 2018
Remuneration	32 032	23 434
Social insurance costs	4 598	3 574
Retirement benefit costs	348	281
Write-offs for the Company Social Benefits Fund	301	245
Other	371	286
Total costs of employee benefits	**37 650**	**27 820**

7.8. Profit / (loss) on impairment of assets

	Year ended on 31 December 2019	Year ended on 31 December 2018
Write-offs on receivables	20 736	10 791
Write-offs on borrowings	(761)	(878)
Profit / (loss) on impairment of financial assets	**19 975**	**9 913**

7.9. Other operating revenues

	Year ended on 31 December 2019	Year ended on 31 December 2018
Profit from the sale of tangible fixed assets	239	1 683
Dissolution of the provision for litigations	11 114	13 081
Dissolved provisions for the settlement price of contracts	2 363	–
Dissolved provisions for warranty repairs	1 392	–
Revaluation of non-financial fixed assets to fair value	1 428	–
Revaluation of investment property to fair value	995	8 464
Penalties and compensations received	2 208	2 322
Waiver on liabilities	4 825	8 909
Funding from the auction of assets of the liquidated company	–	3 013
Other	1 154	1 555
Total other operating revenues	**25 718**	**39 027**

7.10. Other operating costs

	Year ended on 31 December 2019	Year ended on 31 December 2018
Establishment of revaluation write-offs for non-financial fixed assets	415	532
Establishment of the provision for litigations	–	1 873
Penalties and compensations	940	548
Legal costs	629	987
Other	304	115
Total other operating costs	**2 288**	**4 055**

7.11. Financial income

	Year ended on 31 December 2019	Year ended on 31 December 2018
Revenues from bank interests and borrowings	4 790	6 213
Income due to the interest on late payment of receivables	50	1 202
Profit due to modification of financial instruments related to a successful lawsuit	14 774	–
Revenues from dividends	4 873	1 876
Revenues from the sales of financial assets	–	579

(in thousands of PLN)

Foreign exchange profits	330	–
Valuation of long-term settlements with amortized costs	2 436	2 827
Dissolution of provisions for the financial costs	297	1 000
Dissolution of write-offs of shares	36 838	9 318
Share in profits of limited partnerships	7 518	11 329
Profit from liquidation of companies	–	817
Other	180	611
Total financial income	**72 086**	**35 772**

In 2019 the Company reversed the write-offs on the shares in subsidiaries in the amount of PLN 36 838 thousand. The transactions have been outlined in note 12.1.

In 2019 the shares in the profits of limited partnerships consist of shares in the profits of the companies: Mostostal Siedlce Sp. z o.o. Sp. k., Polimex Budownictwo Sp. z o.o. Sp. k. and Polimex Operator Sp. z o.o. Sp. k. in the value of PLN 7 518 thousand.

7.12. Financial costs

	Year ended on 31 December 2019	Year ended on 31 December 2018
Interest on bank loans and borrowings	5 859	5 840
Interest and commissions on bonds	16 602	15 589
Interest on other liabilities	416	2 041
Bank charges on guarantees and loans	1 072	1 754
Foreign exchange losses	–	396
Financial costs due to lease agreements	355	–
Establishment of provisions for the financial costs	301	753
Share in losses of limited partnerships	16 174	40 454
Other	–	1
Total financial costs	**40 779**	**66 828**

In 2019 the participation in the loss of Polimex Opole Sp. z o.o. Sp. k. is presented under the item “Share in losses of limited partnerships”.

8. Income tax

8.1. Current income tax

The main components of the tax burden for the year ended on 31 December 2019 and 31 December 2018 are as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Profit and loss account		
Current income tax liabilities	(1)	–
Foreign income tax for the previous years	(1 033)	–
Deferred income tax	5 278	(1 824)
Tax burden due to continued business activity recognized in the profit and loss account	**4 244**	**(1 824)**
Interim comprehensive income statement		
Deferred income tax due to revaluation of land and buildings	(19)	–

(in thousands of PLN)

Deferred income tax from valuation of liabilities due to post-employment benefits	18	3
Tax burden due to continued business activity recognized in the statement of comprehensive income	**(1)**	**3**

Income tax on the pre-taxed profit differs in the following manner from the theoretical amount that would be obtained using a weighted average tax rate (applicable to the revenues of the Company):

	Year ended on 31 December 2019	**Year ended on 31 December 2018**
Profit / (loss) before tax	89 419	23 926
Tax at the statutory income tax rate applicable in Poland, which in 2019 was 19% (2008: 19%)	(16 990)	(4 546)
Tax effects from the following items:		
Foreign income tax for the previous years	(1 033)	–
– Non-taxable income	8 351	6 375
– Expenses not deductible for tax purposes	(5 224)	(1 686)
– Recognition of the settlement of temporary differences related to the results of limited partnerships	6 621	22 176
– Deferred tax assets recognized for temporary losses and differences due to which no assets were recognized in the previous periods	12 431	–
– Tax losses and negative temporary differences due to which the deferred tax assets were not recognized	–	(9 914)
– Adjustment of tax depreciation rates for previous years	–	(6 073)
– Other	88	(8,156)
Income tax expense	**4 244**	**(1 824)**

8.2. Deferred income tax

The table below presents the assets and provision for deferred income tax before offsetting.

	Year ended on 31 December 2019	**Year ended on 31 December 2018**
Deferred income tax assets		
before compensation		
– to be implemented after 12 months	60 160	74 975
– to be implemented within 12 months	94 529	64 759
	154 689	**139 734**
Deferred income tax liabilities		
before compensation		
– to be implemented after 12 months	3 438	3 532
– to be implemented within 12 months	10 845	1 073
	14 283	**4 605**

(in thousands of PLN)

8.3. Assets and provisions due to deferred income tax

Deferred tax assets	**Employee benefit liabilities**	**Other employee benefits**	**Write-offs on inventory**	**Write-offs on receivables**	**Valuation of long-term contracts**	**Provisions**	**Overdue liabilities**	**Tax losses**	**Accrued interest**	**Deferred tax related to temporary differences in a limited partnership**	**Debt financing limit**	**Other**	**Total**
Status as at 1 January 2018	**254**	**1 225**	**596**	**19 207**	**3 205**	**62 861**	**285**	**34 572**	**14 589**	**9 072**	–	**2 231**	**148 097**
Recognition / (charge) of the financial result	(133)	(649)	(17)	(4 607)	1 300	(32 446)	(81)	24 108	(4 181)	6 483	–	774	(9 449)
Recognition / (charge) of other comprehensive income	3	–	–	–	–	–	–	–	–	–	–	–	3
Recognition / (encumbrance) of retained earnings	–	–	–	1 073	–	–	–	–	–	–	–	–	1 073
Reclassification from provisions	–	–	–	–	–	–	–	–	–	–	–	10	10
Status as at 31 December 2018	**124**	**576**	**579**	**15 673**	**4 505**	**30 415**	**204**	**58 680**	**10 408**	**15 555**	–	**3 015**	**139 734**
Recognition / (charge) of the financial result	40	262	(13)	(6 571)	8 293	(16 143)	(88)	15 843	(997)	5 517	7 624	1 170	14 937
Recognition / (charge) of other comprehensive income	18	–	–	–	–	–	–	–	–	–	–	–	18
Status as at 31 December 2019	**182**	**838**	**566**	**9 102**	**12 798**	**14 272**	**116**	**74 523**	**9 411**	**21 072**	**7 624**	**4 185**	**154 689**
Presentation of net assets and liabilities due to deferred tax													(14 283)
Deferred tax assets in the balance sheet													**140 406**

(in thousands of PLN)

Deferred tax liabilities	Temporary differences regarding tangible fixed assets	Valuation of long-term contracts	Currency valuation	Other	Total
Status as at 1 January 2018	**9 477**	**1 152**	**86**	**1 505**	**12 220**
Charge / (recognition) of the financial result	(5 945)	(1 150)	(96)	(434)	(7 625)
Reclassification to assets		–	10	–	10
Status as at 31 December 2018	**3 532**	**2**	**–**	**1 071**	**4 605**
Charge / (recognition) of the financial result	(41)	7 335	–	2 365	9 659
Charging/ (recognition) of other comprehensive income	19	–	–		19
Status as at 31 December 2019	**3 510**	**7 337**	**–**	**3 436**	**14 283**
Presentation of net assets and liabilties due to deferred tax					(14 283)
Deferred tax liabilities in the balance sheet					–

(in thousands of PLN)

As at 31 December 2019 the Company had unsettled tax losses in the amount of PLN 392 223 thousand. The value of deferred tax assets due to unsettled tax losses amounted to PLN 74 523 thousand. As at 31 December 2019 there are no unrecognised assets due to tax loss. The Company carried out an analysis of the recoverability of assets due to tax loss based on the anticipated tax results and additional one-off events fostering the recovery of tax losses incurred in the previous reporting periods. The analysis was prepared using the best estimates and under the most probable scenario. A change in individual assumptions and elimination of one-off events fostering the recovery of tax losses from the analysis could lead to other conclusions regarding the amount of recoverable losses. The performed analysis is particularly sensitive to changes in the amount of expected tax revenues and costs obtained from operating activities. The main limitation in the possibility of settling tax losses is the 5-year period indicated in the regulations when tax losses can be settled. In accordance with the conducted analysis, the Company will use tax loss assets in the following periods: 2020 (in the amount of PLN 128 482 thousand), 2021 (in the amount of PLN 70 339 thousand), 2022 (in the amount of PLN 109 163 thousand), 2023 (in the amount of PLN 66 187 thousand) and 2024 (in the amount of PLN 18 052 thousand). One-off events supporting the recovery of tax losses in particular relate to the achievement of additional tax income due to: (i) the disposal of real estate held for sale (expected tax income of PLN 16 352 thousand in 2021), (ii) the sale of shares in a subsidiary (PLN 54 707 thousand in 2020), (iii) transforming a subsidiary into a limited partnership whose tax revenues will be settled by the Company (expected additional tax revenues at the level of PLN 128 359 thousand between 2021-2024). The Management Board of the Company estimates that the occurrence of the above one-off events is highly probable.

9. Dividends paid and proposed for payment

In 2019 the Company did not declare or pay dividends. The Company does not anticipate the payment of dividends in 2020 for the financial year ended on 31 December 2019.

10. Profit per share

Basic profit per share is calculated by dividing the net profit attributable to ordinary equity holders of the Company for a given period by the weighted average number of ordinary shares issued during the reporting period.

The Company has financial liabilities arising from convertible bonds. These bonds have an anti-dilutive effect when calculating earnings per share. Therefore, they are not included in the calculation of diluted profit. Basic earnings per share coincide with diluted earnings per share.

The data on profit and shares which were used to calculate the profit per share is presented below:

	Year ended on 31 December 2019	**Year ended on 31 December 2018**
Net profit / (loss)	**93 663**	**22 102**
Basic and diluted profit / loss per share		
Number of shares registered as at the balance sheet date	236 618 802	236 618 802
Weighted average number of ordinary shares used to calculate ordinary profit/(loss) per share	236 618 802	236 618 802
Profit / loss per share (in PLN)	**0.396**	**0.093**

(in thousands of PLN)

11. Tangible fixed assets

11.1. Tables of tangible fixed assets flows

The table below presents the net value of tangible fixed assets as at 31 December 2019

Net value	**Lands and buildings**	**Machines and equipment**	**Means of transportation**	**Other tangible fixed assets**	**Tangible fixed assets under construction**	**Total**
Own tangible fixed assets	10 610	3 682	115	276	–	**14 683**
Right-of-use assets	1 694	226	3 729	–	–	**5 649**
Total tangible fixed assets	**12 304**	**3 908**	**3 844**	**276**	**–**	**20 332**

The table below presents own tangible fixed assets

	Lands and buildings	**Machines and equipment**	**Means of transportation**	**Other tangible fixed assets**	**Tangible fixed assets under construction**	**Total**
Net value as at 1 January 2019	**22 451**	**3 585**	**190**	**530**	**664**	**27 420**
Purchase of tangible fixed assets	–	911	–	10	–	**921**
Disclosures	70	398	–	–	–	**468**
Sale and liquidation of tangible fixed assets	–	(57)	–	(17)	–	**(74)**
Reclassification to / from assets held for sale	(12 475)	(285)	–	1	(664)	**(13 423)**
Depreciation charge for the financial period	(922)	(871)	(75)	(248)	–	**(2 116)**
Revaluation	1 486	–	–	–	–	**1 486**
Net value as at 31 December 2019	**10 610**	**3 681**	**115**	**276**	**–**	**14 682**
As at 1 January 2019						
Gross value	35 212	43 405	4 534	15 510	2 054	**100 715**
Depreciation and impairment write-off	(12 761)	(39 820)	(4 344)	(14 980)	(1 390)	**(73 295)**
Net value as at 1 January 2019	**22 451**	**3 585**	**190**	**530**	**664**	**27 420**
As at 31 December 2019						
Gross value	11 724	40 601	2 609	13 763	1 390	**70 087**
Depreciation and impairment write-off	(1 114)	(36 919)	(2 494)	(13 487)	(1 390)	**(55 404)**

(in thousands of PLN)

Net value as at 31 December 2019	**10 610**	**3 682**	**115**	**276**	**–**	**14 683**

The table below presents the right-of-use assets recognized in accordance with the concluded lease agreements.

	Lands and buildings	**Machines and equipment**	**Means of transportation**	**Total**
Net value as at 1 January 2019	–	–	–	**–**
Recognized assets in accordance with IFRS 16 as at 1 January 2019	3 720	267	7 004	**10 991**
Conclusion of new lease agreements	–	151	164	**315**
Termination of lease agreements	(254)	(9)	(40)	**(303)**
Depreciation charge for the financial period	(1 772)	(183)	(3 399)	**(5 354)**
Net value as at 31 December 2019	**1 694**	**226**	**3 729**	**5 649**
As at 31 December 2019				
Gross value	3 465	406	7 064	**10 935**
Depreciation and impairment write-off	(1 771)	(180)	(3 335)	**(5 286)**
Net value as at 31 December 2019	**1 694**	**226**	**3 729**	**5 649**

(in thousands of PLN)

	Lands and buildings	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under	Total
Net value as at 1 January 2018	**13 017**	**4 994**	**327**	**1 167**	**664**	**20 169**
Purchase of tangible fixed assets	–	612	–	2	12	**626**
Sale and liquidation of tangible fixed assets	–	(120)	–	(8)	–	**(128)**
Reclassification from assets held for sale	–	40	–	11	–	**51**
Reclassification to assets held for sale	–	(806)	(48)	(149)	(12)	**(1 015)**
Reclassification from investment real estate	10 390	–	–	–	–	**10 390**
Depreciation charge for the financial period	(956)	(1 135)	(89)	(493)	–	**(2 673)**
Net value as at 31 December 2018	**22 451**	**3 585**	**190**	**530**	**664**	**27 420**
As at 1 January 2018						
Gross value	14 287	62 134	10 542	21 778	2 054	**110 795**
Depreciation and impairment write-off	(1 270)	(57 140)	(10 215)	(20 611)	(1 390)	**(90 626)**
Net value as at 1 January 2018	**13 017**	**4 994**	**327**	**1 167**	**664**	**20 169**
As at 31 December 2018						
Gross value	35 212	43 405	4 534	15 510	2 054	**100 715**
Depreciation and impairment write-off	(12 761)	(39 820)	(4 344)	(14 980)	(1 390)	**(73 295)**
Net value as at 31 December 2018	**22 451**	**3 585**	**190**	**530**	**664**	**27 420**

(in thousands of PLN)

11.2. Revaluation of tangible fixed assets valued in accordance with the revaluation model

Tangible fixed assets are shown at the purchase price/production cost less depreciation and impairment losses, except for the asset class defined as real estate and structures permanently connected with land, i.e. real estate developed with a complex of warehouse, industrial and office buildings ("Lands and buildings"). The above asset class has been measured at fair value starting from October 2013.

The valuation of tangible fixed assets was performed as at 31 December 2019. As a result of the revaluation, the Company recognized in the income statement other operating revenues in the amount of PLN 1 428 thousand and in the statement of other income, an income in the amount of PLN 98 thousand. The value of tangible fixed assets subject to valuation, if the Company did not carry out this valuation in accordance with the revaluation model, as at 31 December 2019 would amount to PLN 9 259 thousand.

The valuations were prepared by independent property appraisers. The methods applied were an income approach an investment method and a simple capitalization technique. The techniques used for the valuation were based on unobservable input data. In the case of land the valuation technique has changed moving from a comparative approach to an income approach. The property appraiser confirmed that after taking into account the purpose and scope of the valuation, the purpose of the property, its legal status and its development status, as well as the market information about similar properties, the proper procedure for determining the market value of the property will be an income approach, an investment method and a simple capitalization technique.

The individual levels of fair value measurement are defined as follows:

- Quoted prices (unadjusted) from active the markets for identical assets or liabilities (level 1).
- Input data other than quotations within the level 1 scope observable for the asset or liability, directly (i.e. in the form of prices) or indirectly (i.e. based on price-based calculations) (level 2).
- Input data for the valuation of an asset or liability that is not based on observable market data (i.e. unobservable data) (level 3).

The entire fair value measurement for tangible fixed assets has been categorized in the fair value hierarchy at level 3. The properties whose fair value deviated significantly from the book value were subject to revaluation.

	Fair value as at 31 December 2019
Land	70
Properties developed with a complex of production, warehouse, industrial and office buildings	10 371
Total	**10 441**

The net value of tangible fixed assets as at 31 December 2019 amounted to PLN 10 610 thousand. Tangible fixed assets that were not evaluated concerned mainly the assets that constituted improvements in foreign tangible fixed assets.

(in thousands of PLN)

	Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of undeveloped land				**70**
1	Comparative approach, average price correction method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 2.44 (the Łuków county), correction factor W = 0.925	An increase in the average price per square meter increases the value of real estate (and vice versa)
Fair value of real estate developed with a complex of warehouse, industrial and office buildings, including land				**10 371**
1	Comparative approach, pair comparison method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 96.68 (the Siedlce county).	An increase in the average price per square meter increases the value of real estate (and vice versa)
			- average price per square meter of comparable property PLN 91.36 (the Siedlce county).	
			- average price per square meter of comparable property PLN 86.00 (the Siedlce county).	
2	Income approach, investment method, simple capitalization technique	Capitalization rate	R=8.9%, R=13.5%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
		The rate of rent	- PLN 20-32 per square meter per month for industrial and warehouse facilities (the Siedlce county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).
			- PLN 150-190 per square meter per month for garage facilities (the Siedlce county)	

(in thousands of PLN)

11.3. Investment property

	Year ended on 31 December 2019	Year ended on 31 December 2018
The value at the beginning of the period	**37 825**	**50 637**
Increase in ownership:		
- reclassification from tangible fixed assets	169	–
Decrease in ownership:		
- reclassification to tangible fixed assets	–	(10 391)
Reclassification to assets held for sale	–	(2 421)
Value at the end of the period	**37 994**	**37 825**

The rental income generated by investment property amounted to PLN 5 861 thousand in 2019 and PLN 2 807 thousand in 2018. Direct operating costs related to investment property that generated the rent income amounted to PLN 2 766 thousand in 2019 and PLN 2 729 thousand in 2018.

Investment property is recognized at fair value. The estimation of fair value was conducted as at 31 December 2019.

The valuations were prepared by independent property appraisers. The methods applied were an income approach, an investment method and a simple capitalization technique. The techniques used for the valuation were based on unobservable input data. In the case of land the valuation technique has changed moving from a comparative approach to an income approach. The property appraiser confirmed that after taking into account the purpose and scope of the valuation, the purpose of the property, its legal status and its development status, as well as the market information about similar properties, the proper procedure for determining the market value of the property will be an income approach, an investment method and a simple capitalization technique.

The table below presents investment property that were measured at fair value as at 31 December 2019. The individual levels are defined as follows:

- Quoted prices (unadjusted) from active the markets for identical assets or liabilities (level 1).
- Input data other than quotations within the level 1 scope observable for the asset or liability, directly (i.e. in the form of prices) or indirectly (i.e. based on price-based calculations) (level 2).
- Input data for the valuation of an asset or liability that is not based on observable market data (i.e. unobservable data) (level 3).

The fair value measurements for investment properties have been fully classified at level 3 of the fair value hierarchy.

	Fair value as at 31 December 2019 Level 3	Fair value as at 31 December 2018 Level 3
Properties developed with a complex of warehouse, industrial and office buildings, including land	37 994	37 825
Total	**37 994**	**37 825**

(in thousands of PLN)

For investment properties included in level 3 of the fair value hierarchy, the following information is relevant:

Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of real estate developed with a complex of warehouse, industrial and office buildings, including land			**37 994**
Comparative approach, average price correction method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 42.24. (the Jasło county), correction factor W = 0.882 - average price per square meter of comparable property PLN 83.03. (the Płock county), correction factor W=0,735, K=0,92 - average price per square meter of comparable property PLN 89.03. (the Płock county), correction factor W=0,948, K=0,97 - average price per square meter of comparable property PLN 42.24. (the Krosno county), correction factor W=0,975, K=0,90	An increase in the average price per square meter increases the value of real estate (and vice versa)
Income approach, investment method, simple capitalization technique	Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 8.4%-10.5%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
	The rate of rent	The market-price monthly rent was used taking into account the purpose of the property (administrative and office purposes, warehouse), differences in location, as well as individual factors such as the size of the property, comparison to other properties - at an average value: - PLN 12-16 per square meter for production, office and warehouse facilities (the Jasło county) - PLN 15-23 per square meter per month for office buildings and warehouse and production facilities (the Płock county) - PLN 8.50-20.50 per square meter per month for office buildings and warehouse and production facilities (the Krosno county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).

(in thousands of PLN)

12. Financial assets

12.1. Long-term financial assets

	Status as at 31 December 2019	Status as at 31 December 2018
Shares in subsidiaries	473 067	386 824
Shares in associated entities	2 394	503
Bank guarantee deposits	2 000	2 000
Borrowings	18 076	68 608
Total	**495 537**	**457 935**

Change in long-term financial assets - bonds and shares

	Year ended on 31 December 2019	Year ended on 31 December 2018
Status as at 1 January	**387 327**	**378 405**
Increases	**88 134**	**9 383**
Purchase of shares	51 297	65
Revaluation - reversal of write-offs	36 837	9 318
Decreases	**–**	**(461)**
Sale of shares	–	(461)
Status as at 31 December	**475 461**	**387 327**

The value of shares held in subsidiaries increased compared to 31 December 2018 by PLN 88 134 thousand. The increase in value is primarily due to the following events:

- In the first half of 2019 the subsidiary of the Company Polimex Energetyka Sp. z o.o. increased the share capital by a total of PLN 39 983 thousand by raising the nominal value of shares. Polimex Mostostal S.A. supported the increase in the value of shares through a financial contribution. The value of shares in Polimex Energetyka Sp. z o.o. rose by the amount of the increase.
- As at 30 June 2019 the Company identified premises indicating that the impairment loss on shares that was recognized in the previous years in Naftoremont-Naftobudowa Sp. z o.o. ceased to exist or decreased. The major premises are as follows: good financial results of Naftoremont-Naftobudowa Sp. z o.o. in 2018, high expectations on the generated revenues in the upcoming reporting periods, dynamic growth and the anticipated increase in the volumes of revenues. The Company reassessed the recoverable amount of their shares. The estimated recoverable value was PLN 313 million. The value is equivalent to the value obtained on the basis of the cash flow model. The recoverable value was measured using a discount rate of 9.77%. The amount of reversed impairment losses amounted to PLN 34 587 thousand. This amount was presented in the profit and loss account in the line item "Financial income" and in the note regarding the segments it was presented in the segment "Other activity". After the reversal of impairment losses, as at 30 June 2019 the value of shares that the Company holds in Naftoremont-Naftobudowa Sp. z o.o. amounted to PLN 53 518 thousand.
- In the first half of 2019 the subsidiary of the Company Polimex Infrastruktura Sp. z o.o. increased the share capital by a total of PLN 2 000 thousand by establishing 40 000 new shares with a nominal value of PLN 50 each. Polimex Mostostal S.A. supported the increase in the value of shares through a financial contribution. The value of shares in Polimex Infrastruktura Sp. z o.o. rose by the amount of the increase. In the third quarter of 2019 the Company's equity increased by PLN 3 000 thousand and it was fully absorbed by Polimex Mostostal S.A.
- The Company also reversed the impairment loss on the shares held in Polimex Mostostal Ukraina Sp. z d.o. The new recoverable value was consistent with the fair value and it was estimated based on the appraisals of real estate owned by Polimex Mostostal Ukraina Sp. z d.o. The appraisals were obtained after the renovation of the real estate owned by the company. The amount of reversed

(in thousands of PLN)

impairment was PLN 2 251 thousand. This amount was presented in the profit and loss account in the line item “Financial income” and in the note regarding the segments it was presented in the segment “Other activity”.

- On 29 October 2019 the Company acquired additional packet of shares in the company Energomontaż-Północ Bełchatów Sp. z o.o. in the amount of PLN 3 695 thousand. As a result of this transaction, the Company is in possession of 54.95% of that company's share capital and it has consequently acquired control over it.
- In addition, during the year ended on 31 December 2019 the Company acquired shares in the following companies: Naftoremont - Naftobudowa Sp. z o.o., Polimex Mostostal GmbH and Finow Polska Sp. z o.o. The total value of these shares amounted to PLN 2 619 thousand.

The shares in related entities are presented in note 12.4.

12.2. Short-term financial assets

	Status as at 31 December 2019	Status as at 31 December 2018
Bank guarantee deposits related to contracts	26	115
Borrowings	30 616	5 918
Total	**30 642**	**6 033**

12.3. Financial instruments measured at fair value

The Company is a party in the Option Agreement for the Acquisition of the Investment Certificates concluded with PKO BP S.A. on 7 November 2013, as amended. The Agreement, depending on the property price scenario, will determine the amount of acquisition / settlement between the parties in the future. In an event when the Company fails to generate the minimum return on investment expected by the investor, it will be required to cover a relevant part of the loss. In case of an increase in the value of the property portfolio, the Company has a guaranteed participation in the profit share over the rate of the profit guaranteed to the investor. In the reporting period there were no changes in the manner of valuation of this instrument by discounting the predicted growth in the value of the property portfolio in the course of the transaction. The value of the instrument included in the books as at 31 December 2019 amounted to PLN 0 (as at 31 December 2018: PLN 0).

(in thousands of PLN)

12.4. Shares in related entities as at 31 December 2019

No	Entity	Registered office	Scope of business activity	Value of shares according to the purchase price	Impairment write-offs (total)	Carrying amount of shares	Percen-tage share
	Subsidiaries						
1	Mostostal Siedlce Sp. z o.o. Sp.k.	Siedlce	Production of metal and other structures	208 039	–	208 039	99%
2	Polimex Energetyka Sp. z o.o.	Warsaw	Construction works	223 257	(85 309)	137 948	100%
3	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Construction works	53 518	–	53 518	100%
4	Polimex Mostostal Ukraina Spółka z dodatkową odpowiedzialnością	Zhytomyr, Ukraine	Production of metal structures	17 422	(12 166)	5 256	100%
5	Polimex Operator Sp. z o.o. Sp.k.	Warsaw	Rental and leasing services of construction machinery and equipment and office equipment	16 983	–	16 983	98.99%
6	Polimex Budownictwo Sp. z o.o.	Siedlce	Architecture, engineering and technical consulting. Construction works for residential and non-residential buildings	11 242	(11 090)	152	100%
7	Czerwonogradzki Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością	Chervonograd, Ukraine	Production of metal structures	9 035	–	9 035	100%
8	Polimex Opole Sp. z o.o. Sp.k.	Warsaw	Construction works	8 052	–	8 052	99.80%
9	BR Development Sp. z o.o. in liquidation	Cracow	Acquisition and sale of real estate, business and management consultancy	6 198	–	6 198	100%
10	Polimex Budownictwo Sp. z o.o. Sp.k.	Siedlce	Construction works	5 475	–	5 475	98.99%
11	Stalfa Sp. z o.o.	Sokołów Podlaski	Manufacturing of metal products	5 294	–	5 294	100%
12	Polimex-Development Inwestycje Apartamenty Tatarska Sp. z o.o. in liquidation	Cracow	Construction works	4 970	–	4 970	100%

(in thousands of PLN)

13	Polimex Centrum Usług Wspólnych Sp. z o.o. in liquidation	Warsaw	Accounting and bookkeeping services, office administration services	4 180	(3 162)	1 018	100%
14	Polimex-Mostostal ZUT Sp. z o.o.	Siedlce	Technical services	1 006	–	1 006	100%
15	Polimex Infrastruktura Sp. z o.o.	Warsaw	Construction works on the roads and highways	5 269	–	5 269	100%
16	Energomontaż-Północ Bełchatów Sp. z o.o.	Rogowiec	Specialized construction and assembly services	4 198	–	4 198	54.95%
17	Polimex Mostostal GmbH	Dortmund, Germany	Construction works	219	–	219	100%
18	Polimex Opole Sp. z o.o.	Warsaw	Construction works, commercial activity, consulting and advisory services	70	(4)	66	100%
19	Polimex SPV1 Sp. z o.o.	Katowice	Business and management consulting	50	–	50	100%
20	Polimex-Mostostal Wschód Sp. z o.o.	Moscow, Russia	Distribution of metal products	20	–	20	100%
21	Polimex SPV 2 Sp. z o.o.	Warsaw	Business and management consulting, legal, accounting and bookkeeping services	15	–	15	100%
22	Polimex-Inwestycje Sp. z o.o. in liquidation	Cracow	The company is in liquidation and does not conduct any business activity	10	–	10	100%
23	Mostostal Siedlce Sp. z o.o.	Siedlce	Manufacturing of metal products	5	–	5	100%
24	Polimex Operator Sp. z o.o.	Warsaw	Rental and leasing services of construction machinery and equipment and office equipment	5	–	5	100%
25	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Construction works	5	–	5	100%
26	Other			45 414	(45 153)	261	
	Associates						
1	Finow Polska Sp. z o.o.	Ostrowiec Świętokrzyski	Specialized construction and assembly services	2 394	–	2 394	26.4%
			Total	**632 345**	**(156 884)**	**475 461**	

(in thousands of PLN)

13. Trade and other receivables

	Status as at 31 December 2019	Status as at 31 December 2018
Trade receivables	**52 115**	**136 795**
From related entities	11 154	126 798
From other entities	40 961	9 997
Other receivables	**71 680**	**148 197**
Budget receivables:	8 799	–
- due to VAT	8 791	–
- other	8	–
Other receivables from third parties	2 023	4 198
Other receivables from related entities	60 858	143 999
Total receivables (net)	**123 795**	**284 992**
Write-downs on receivables	62 452	87 583
Total receivables (gross)	**186 247**	**372 575**

Trade receivables do not bear interest and they usually have a payment period of 30 to 180 days.

Settlements and turnover with related entities are presented in note 28.2.

There is a credit risk associated with trade receivables - more information on this matter is presented in note 31.3.

Impairment on trade receivables in the year ended on 31 December 2019 is presented in note 14.

14. Financial instruments – impairment

Classification of financial assets measured at amortized cost to individual levels of the impairment model:

Financial instruments	Status as at 31 December 2019		
	12-month ECL	Lifetime ECL – without impairment	Lifetime ECL – with impairment
Gross carrying amount	**135 423**	**259 371**	**126 584**
Trade receivables	–	37 641	72 706
Other receivables*	–	61 746	5 364
Deposits due to the construction contracts	–	110 751	3 887
Borrowings (granted)	–	49 233	44 627
Bank guarantee deposits	2 026	–	–
Cash and cash equivalents	133 397	–	–
Revaluation write-offs	**–**	**(735)**	**(110 843)**
Trade receivables	–	(123)	(58 109)
Other receivables	–	–	(4 220)
Deposits due to the construction contracts	–	(71)	(3 887)
Borrowings (granted)	–	(541)	(44 627)
Bank guarantee deposits	–	–	–
Cash and cash equivalents	–	–	–
Carrying amount	**135 423**	**258 636**	**15 741**
Trade receivables	–	37 518	14 597
Other receivables	–	61 746	1 144
Deposits due to the construction contracts	–	110 680	–
Borrowings (granted)	–	48 692	–
Bank guarantee deposits	2 026	–	–
Cash and cash equivalents	133 397	–	–

** This item covers other long-term and short-term receivables.*

(in thousands of PLN)

Financial instruments	Status as at 1 January 2018		
	12-month ECL	Lifetime ECL – without impairment	Lifetime ECL – with impairment
Gross carrying amount	**185 738**	**511 692**	**146 925**
Trade receivables	–	134 690	84 931
Other receivables*	–	167 829	4 757
Deposits due to the construction contracts	–	133 925	13 543
Borrowings (granted)	–	75 248	43 694
Bank guarantee deposits	2 115	–	–
Cash and cash equivalents	183 623	–	–
Revaluation write-offs	**–**	**(1 320)**	**(144 343)**
Trade receivables	–	(477)	(82 349)
Other receivables*	–	–	(4 757)
Deposits due to the construction contracts	–	(121)	(13 543)
Borrowings (granted)	–	(722)	(43 694)
Bank guarantee deposits	–	–	–
Cash and cash equivalents	–	–	–
Carrying amount	**185 738**	**510 372**	**2 582**
Trade receivables	–	134 213	2 582
Other receivables*	–	167 829	–
Deposits due to the construction contracts	–	133 804	–
Borrowings (granted)	–	74 526	–
Bank guarantee deposits	2 115	–	–
Cash and cash equivalents	183 623	–	–

** This item covers other long-term and short-term receivables.*

The below table presents the indicators used to estimate the expected credit losses.

Trade receivables	**Current and 30 days after the payment date**	**Overdue between 31 and 90 days**	**Overdue between 91 and 180 days**	**Overdue over 180 days**
Ratio	0.05%	0.08%	0.51%	8.78%
Value of the write-offs on expected credit losses as at 31 December 2019	8	2	–	113
Borrowings	**Current and 30 days after the payment date**	**Overdue between 31 and 90 days**	**Overdue between 91 and 180 days**	**Overdue over 180 days**
Ratio	0.96%	–	–	–
Value of the write-offs on expected credit losses as at 31 December 2019	541	–	–	–

The basis for calculating the expected loan loss ratios are historical balance sheet data on the balances of financial assets (including long-term receivables, deposits, trade and other receivables) and the values created in the corresponding write-off periods. The ratios were estimated as the quotient of the sum of the value of created revaluation write-offs in relation to the sum of balances of financial assets broken down by the time structure.

(in thousands of PLN)

Reconciliation of write-offs on trade receivables and deposits is presented in the table below.

Trade receivables	As at 31 December 2019	As at 31 December 2018
Revaluation write-offs as at 31.12.2017 (according to IAS 39)	–	186 785
Adjustment from the first application of IFRS 9	–	2 017
Opening balance as at 1 January	**82 826**	**188 802**
Increases	**817**	**1 062**
Write-offs - increases	817	1 062
Decreases	**24 815**	**105 740**
Dissolution	18 389	6 879
Use	6 426	98 861
Change of a write-off on expected credit losses	(596)	(1 298)
Closing balance as at 31 December	**58 232**	**82 826**

Deposits due to the construction contracts	As at 31 December 2019	As at 31 December 2018
Revaluation write-offs as at 31.12.2017 (according to IAS 39)	–	17 212
Adjustment from the first application of IFRS 9	–	2 811
Opening balance as at 1 January	**13 664**	**20 023**
Increases	**50**	**87**
Write-offs - increases	50	87
Decreases	**9 706**	**3 800**
Dissolution	2 185	3 624
Use	7 521	176
Change of a write-off on expected credit losses	(50)	(2 646)
Closing balance as at 31 December	**3 958**	**13 664**

15. Long-term construction contracts

The value of recognized receivables and liabilities due to the valuation of long-term contracts for the provision of construction services in the Company was as follows:

Contracts during the reporting period	Construction contracts assets	Construction contracts liabilities
Status as at 1 January 2019	**10**	**(83 019)**
Changes in valuation of contracts	38 013	(74)
Revenues recognized in 2019 included in the balance of liabilities as at 01.01.2019	–	10 891
Change in the period during which the right to remuneration becomes unconditional	–	–
Change in advances received	(26 470)	67 487
Status as at 31 December 2019	**11 553**	**(4 715)**

(in thousands of PLN)

Contracts during the reporting period	Construction contracts assets	Construction contracts liabilities
Status as at 1 January 2018	**6 065**	**(2 008)**
Changes in valuation of contracts	–	(10 891)
Revenues recognized in 2018 included in the balance of liabilities as at 01.01.2018	–	2 008
Change in the period during which the right to remuneration becomes unconditional	(6 055)	–
Change in advances received	–	(72 128)
Status as at 31 December 2018	**10**	**(83 019)**

The revenues recognized in 2019 included in the balance of liabilities at the beginning of the period amounted to PLN 10 891 thousand.

The revenues recognized in 2019 regarding performance obligations fulfilled in the previous periods amounted to PLN 0 thousand.

The transaction price allocated to the performances of services that are pending at the end of the reporting period, to be executed:

	As at 31 December 2019	As at 31 December 2018
a) up to 1 year	428 880	462 496
b) over 1 year	885 529	149 010
Total	**1 314 409**	**611 506**

16. Cash and cash equivalents

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	32 157	5 073
Short-term deposits	101 240	178 550
Total	**133 397**	**183 623**
Restricted cash	–	2 416

The above balance of cash includes cash on the VAT accounts under split payment.

Bank cash bears interest at variable interest rates, the amount of which depends in particular on the dates when the deposits were made and the relevant market interest rates. Short-term deposits are made for various periods, normally varying from one day to one month depending on the Company's current demand for cash, and they bear interest according to the interest rates determined for them.

17. Change in the balance sheet items in the cash flow statement

	Year ended on 31 December 2019	Year ended on 31 December 2018
Change in receivables in the balance sheet	**192 401**	**168 127**
Adjustment for receivables from dividends	(76 566)	–
Adjustment for receivables from sales of non-financial fixed assets	(423)	(1 739)
Adjustment for receivables from warranty deposits	–	217 842
Adjustment for a loan interest compensation	561	–
Adjustment for ECL recognized as at 1 January 2018	–	(4 828)
Change in receivables in the cash flow statement	**115 973**	**379 402**
Change in liabilities in the balance sheet	**(137 786)**	**(269 524)**
Adjustment for a change in liabilities due to the acquisition of tangible fixed assets	(864)	95

(in thousands of PLN)

Adjustment for a loan interest compensation	(117)	–
Adjustment for foreign income tax	(1 033)	–
Change in liabilities in the cash flow statement	**(139 800)**	**(269 429)**

Revaluation of shares	–	(9 319)
Revaluation of the borrowings granted	(241)	(96)
Written borrowings received (related to the liquidation of the company)	–	(815)
Revaluation, valuation of tangible fixed assets and change in the sales plan	–	(7 932)
Adjustment due to revaluation of tangible fixed assets and actuarial valuation	(95)	(14)
Other	1	–
Other	**(335)**	**(18,176)**

18. Assets held for sale

In compliance with the Agreement on the Management of Financial Debt of 21 December 2012 the Issuer has undertaken to divest certain assets. The table presents the balance of assets held for sale as at 31 December 2019 and as at 31 December 2018:

	As at 31 December 2019	**As at 31 December 2018**
Tangible fixed assets	14 389	1 465
Investment property	27 796	34 802
Total assets held for sale	**42 185**	**36 267**

The valuation of investment property presented under assets held for sale corresponds to level 1 or 2 of the fair value hierarchy.

The change in the value of tangible fixed assets held for sale results mainly from the classification under this item of the property in Kozienice worth PLN 13 140 thousand and the sale of property in Cracow on ISEP street (valued at PLN 5 612 thousand), as well as the sale of property in Warsaw on Chełmżyńska street (valued at PLN 2 100 thousand).

19. Equity

19.1. Share capital

As at 31 December 2019 the company's share capital amounted to PLN 473 237 604 and was divided into 236 618 802 shares with a nominal value of PLN 2 each. The shares have been fully paid.

Share capital	**As at 31 December 2019**	**As at 31 December 2018**
Series A ordinary shares	86 618 802	86 618 802
Series T ordinary shares	150 000 000	150 000 000
Total	**236 618 802**	**236 618 802**

Shareholders' rights

Each share has the right to one vote at the General Meeting of Shareholders. Shares of all series are equally privileged with regards to the dividends and return on capital. The structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at 31 December 2019 is as follows:

(in thousands of PLN)

Shareholder	Number of shares / votes	% in the share capital / in the total number of votes at the General Meeting of Shareholders
ENEA S.A. with the registered office in Poznań, ENERGA S.A. with the registered office in Gdańsk, PGE Polska Grupa Energetyczna S.A. with the registered office in Warsaw, PGNiG Technologie S.A. with the registered office in Krosno – as Investors acting jointly and in agreement *	156 000 097	65.93%
Bank Polska Kasa Opieki S.A.	13 629 376	5.76%
Others – below 5% of the share capital	66 989 329	28.31%
The overall number of shares issued	**236 618 802**	**100.00%**

* each Investor holds 16.48% of the shares

19.2. Reserve capital

Pursuant to article 396 § 1 of the code of commercial companies and partnerships to cover the loss, a reserve fund must be established, to which at least 8% of the profit for the financial year shall be assigned, as long as this capital does not reach at least one-third of the share capital. The reserve capital created in this way shall not be divided. As at 31 December 2019 the reserve capital amounted to PLN 157 746 thousand.

19.3. Other capitals

The other capitals of the Company relate to the effect of settlement of the merger with subsidiaries in the amount of PLN (444 924) thousand that took place in 2010. According to the Resolutions No 8 and 9 of the Extraordinary General Meeting of the Company of 27 June 2017, the negative value of the remaining capital was covered with retained earnings in the amount of PLN 59 640 thousand and other capital amounting to PLN 151 964 thousand. The change in the amount of other capital in 2018 resulted from Resolution No 6 of the Ordinary General Meeting of 21 June 2018 regarding the transfer of the Company's net profit in the amount of PLN 82 558 thousand to other capital, as well as Resolution No 7 of the Ordinary General Meeting of 21 June 2018 regarding the transfer of retained earnings in the amount of PLN 12 thousand to other capital. On 31 December 2018 the remaining capitals amounted to PLN (149 732) thousand. On 13 June 2019 there was the adoption of Resolution No 7 of the Ordinary General Meeting regarding the distribution of the Company's net profit and the allocation of PLN 17 528 thousand to other capital. On 31 December 2019 the other capital amounted to PLN (132 204) thousand.

19.4. Reserve capital from surplus of bonds convertible into shares

The equity component of the issued convertible bonds as at 31 December 2019 and as at 31 December 2018 amounted to PLN 31 552 thousand. The bonds are presented in detail in note 22.

19.5. Accumulated other comprehensive income

Accumulated other comprehensive income consists of capital from revaluation of tangible fixed assets and actuarial gains/(losses). The revaluation reserve as at 31 December 2019 is PLN 35 099 thousand, whereas as at 31 December 2018 it was PLN 35 933 thousand. The actuarial profit as at 31 December 2019 amounted to PLN 871 thousand and as at 31 December 2018 it amounted to PLN 947 thousand.

19.6. Retained earnings

Pursuant to Resolution No 7 of the Ordinary General Meeting of the Company of 13 June 2019, the net profit for the financial year 2018 in the amount of PLN 17 528 thousand was allocated to reduce the negative value of other capital and the remaining part of the profit in the amount of PLN 4 574 thousand remained under retained earnings. As at 31 December 2019 the retained earnings amounted to PLN 93 663 thousand.

(in thousands of PLN)

20. Bank loans, borrowings and other sources of financing

	As at 31 December 2019	As at 31 December 2018
Short-term	**79 901**	**70 571**
Bank loans	45 608	69 102
Borrowings	30 020	1 469
Lease liabilities	4 273	–
Short-term	**25 885**	**95 968**
Bank loans	22 456	66 445
Borrowings	1 323	29 523
Lease liabilities	2 106	–
Total bank loans, borrowings and other external sources of financing	**105 786**	**166 539**

	As at 31 December 2019	As at 31 December 2018
The value of liabilities due to bank loans and borrowings at the beginning of the period	**166 539**	**165 224**
Accrued interest calculated at the effective interest rate	5 016	5 110
Interest payments	(30 183)	(2 980)
Capital payments	(41 965)	–
Written borrowings related to the liquidation of the company	–	(815)
The value of liabilities due to bank loans and borrowings at the end of the period	**99 407**	**166 539**

Comparison of interest rates in the following periods:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Weighted average for the loans in PLN	Warsaw Interbank Offered Rate 3M + 1.25 p.p	Warsaw Interbank Offered Rate 3M + 1.25 p.p

On 31 December 2019 the Company repaid the first instalment of the debt under the Agreement on the Management of Financial Debt in the total amount of PLN 72 148 thousand (of which PLN 30 183 thousand falls on the accrued interest and PLN 41 965 thousand falls on the capital). The next planned debt repayment falls on 31 December 2020. In addition, on 31 December 2019 the Company redeemed part of series E and F bonds - this is presented in note 22.

	As at 31 December 2019
The value of lease liabilities at the beginning of the period	–
Lease liabilities	10 996
Interest cost on leasing	1 086
Repayment of liabilities	(5 703)
The value of lease liabilities at the end of the period	**6 379**

(in thousands of PLN)

21. Assets pledged as collateral

	As at 31 December 2019	As at 31 December 2018
Tangible fixed assets	14 683	27 420
Intangible assets	345	560
Investment property	37 994	37 825
Bonds and shares	467 343	376 205
Inventories	168	168
Assets held for sale	42 185	36 267
Total	**562 718**	**478 445**

The following items are presented under assets held for sale as collateral as at 31 December 2019: tangible fixed assets in the amount of PLN 14 389 thousand and investment property in the amount of PLN 27 796 thousand (note 18).

22. Bonds

	As at 31 December 2019	As at 31 December 2018
Long-term bonds	**86 857**	**163 630**
Liabilities under the issue of series E and F bonds	4 365	12 840
Liabilities under the issue of series A and B bonds	68 561	137 436
Liabilities under the issue of series C bonds	13 931	13 354
Short-term bonds	**86 721**	**12 839**
Liabilities under the issue of series E and F bonds	8 474	12 839
Liabilities under the issue of series A and B bonds	78 247	–
Bonds in total	**173 578**	**176 469**

Series A, B bonds were issued on 1 October 2014 are bonds with the option of conversion into shares of the Company. The total value of proceeds from the issue was PLN 140 000 thousand. At the initial recognition of these bonds the capital component in the amount of PLN 29 747 thousand was recognized in the Company's equity, the liability was recognized at PLN 108 292 thousand and the commission on issue guarantees amounted to PLN 1 960 thousand.

Bonds can be converted at any time until the day the bonds are redeemed (i.e. 31 July 2020, 31 July 2021 and 31 July 2022). In case this is not the case, the bonds will be redeemed on specific maturity days at a unit price of PLN 2. The interest rate of the Warsaw Interbank Offered Rate 3M plus 3 percentage points per year is payable quarterly until the conversion or purchase of the bond.

On 27 September 2017 the C series bonds convertible into U series bearer shares were issued. The total value of issued bonds was PLN 14 500 thousand. The nominal value and the issue price of one bond is PLN 500 000. The interest rate is variable based on the Warsaw Interbank Offered Rate 3M plus a margin which may increase if the Company fails to make payments on the Bonds on time. The bonds are redeemable on 31 July 2022 or on the first business day after this date.

On 31 December 2019 in accordance with the Agreement on the Management of Financial Debt, the Company redeemed part of E and F bonds in the amount of PLN 11 209 thousand. Simultaneously, pursuant to this Agreement, the Company repaid the first instalment of the debt, which was described in note 20.

(in thousands of PLN)

The table below shows the valuation of the series bonds A, B, C, E and F at amortized cost:

	As at 31 December 2019	As at 31 December 2018
The value of the liability at the beginning of the period	**176 469**	**169 034**
Accrued interest calculated according to the effective interest rate of 11% (11% for 2018) for series A and B and 7.6% for series C bonds	16 602	15 589
Interest payments	(8 284)	(8 154)
Redemption of bonds	(11 209)	–
The value of the liability at the end of the period	**173 578**	**176 469**

23. Other long-term liabilities

	As at 31 December 2019	As at 31 December 2018
Long-term liabilities due to guarantees and sureties	4 544	13 375
Long-term guarantees	131	743
Other	–	142
Total	**4 675**	**14 260**

Long-term liabilities under guarantees and sureties relate to the obligations incumbent on the Company in connection with the use of guarantees and sureties by contractors.

(in thousands of PLN)

24. Provisions

	Provisions for warranty repairs	Provisions for litigations	Provisions for penalties	Provisions for the settlement price of contracts	Provisions for losses	Provisions for sureties	Total
As at 1 January 2019	**46 596**	**26 634**	**3 028**	**9 478**	**47 654**	**80**	**133 470**
Created in the financial year	2 111	–	–	–	–	300	**2 411**
Used	(4 208)	(890)	(976)	(1 928)	(19 298)	–	**(27 300)**
Dissolved	(25 931)	(10 290)	(1 279)	(898)	(1 766)	(297)	**(40 641)**
As at 31 December 2019	**18 568**	**15 454**	**773**	**6 652**	**26 590**	**83**	**68 120**
Short-term as at 31 December 2019	7 933	9 103	773	6 652	26 590	83	**51 134**
Long-term as at 31 December 2019	10 635	6 351	–	–	–	–	**16 986**
As at 1 January 2018	**58 351**	**6 669**	**23 551**	**149 888**	**1**	**327**	**238 787**
Reclassification	–	22 990	–	(22 990)	–	–	**–**
Created in the financial year	6 587	6 942	–	5 935	54 697	753	**74 914**
Used	(6 785)	(3 115)	(90)	(110 885)	(7 043)	–	**(127 918)**
Dissolved	(11 557)	(6 852)	(20 433)	(12 470)	(1)	(1 000)	**(52 313)**
As at 31 December 2018	**46 596**	**26 634**	**3 028**	**9 478**	**47 654**	**80**	**133 470**
Short-term as at 31 December 2018	17 793	19 529	1 601	9 478	47 654	80	**96 135**
Long-term as at 31 December 2018	28 803	7 105	1 427	–	–	–	**37 335**

The significant value of the use of provisions for the costs of contracts and the presentation reclassification of provisions from the provision for the costs of contracts to the provision for the litigation results from concluding the settlement with the General Directorate for National Roads and Highways.

(in thousands of PLN)

25. Employee benefit liabilities

25.1. Employee benefit liabilities

	As at 31 December 2019	As at 31 December 2018
Payroll liabilities	2 126	1 531
Social security liabilities	1 802	1 459
Bonuses and rewards	1 894	1 014
Unused holidays	1 445	1 108
Retirement and disability benefits	191	178
Liabilities due to employee benefits - short-term	**7 458**	**5 290**
Retirement and disability benefits	766	475
Liabilities due to employee benefits - long-term	**766**	**475**

The Company pays retiring employees the amount of retirement and disability severance payments in the amount specified by the Collective Bargaining Agreement. Therefore, based on the valuation made by a professional actuarial company, the Company creates a provision for the current value of the liability for retirement and disability benefits and other post-employment benefits.

25.2. Main assumptions adopted by the actuary to measure liabilities due to long-term employee benefits

	31 December 2019	31 December 2018
Discount rate %	2.0%	3.0%
Expected inflation rate %	2.5%	2.5%
Expected wage growth rate %	3.5%	3.5%

The costs of benefits recognized in profit/ (loss) and actuarial gains and losses regarding retirement and disability benefits are presented in the table below:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Cost of benefits:		
Current employment costs	78	33
Past service cost and benefit plan restrictions	248	(493)
Costs of interests	22	43
Other (benefits paid)	(139)	(281)
Components of defined benefit plan costs recognized in profit or loss	**209**	**(698)**
Revaluation of net liabilities due to defined benefits:		
Actuarial gains/ (losses) resulting from changes in demographic assumptions	17	4
Actuarial gains/ (losses) resulting from changes in financial assumptions	77	10
Components of benefit plan costs recognized in other comprehensive income	**94**	**14**
Total	**303**	**(403)**

(in thousands of PLN)

The reconciliation of the balance sheet change in provisions for retirement and disability benefits is presented in the table below:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Liabilities due to defined benefits as at the beginning of the period	**653**	**1 338**
Current employment costs	78	33
Costs of interests	22	43
Profits/ (losses) due to revaluation:		
Actuarial gains / (losses) due to differences between assumptions and their implementation	17	4
Actuarial gains/ (losses) resulting from changes in economic assumptions	78	10
Past service cost and benefit plan restrictions	248	(493)
Benefits paid	(139)	(282)
Liabilities due to defined benefits as at the end of the period	**957**	**653**

25.3. Sensitivity analysis

In accordance with IAS 19 the table below presents the sensitivity (-/+ 0.5 p.p) of liabilities to changes in the discount rate and the assumptions about the growth of salaries. The methods and assumptions used in conducting the sensitivity analysis have not changed compared to the previous reporting period. The liability recognized in the balance sheet for the retirement and disability benefits is PLN 957 thousand.

Discount rate 1.5 %

Liabilities due to:	retirement benefits	disability benefits	total
short-term	227 176	–	227 176
long-term	763 796	46 598	810 394
Total	**990 972**	**46 598**	**1 037 570**

Discount rate 2.5 %

Liabilities due to:	retirement benefits	disability benefits	total
short-term	227 176	–	227 176
long-term	681 924	43 808	725 732
Total	**909 100**	**43 808**	**952 908**

Salary growth rate 3.0%

Liabilities due to:	retirement benefits	disability benefits	total
short-term	227 112	–	227 112
long-term	684 057	42 937	726 994
Total	**911 169**	**42 937**	**954 106**

Salary growth rate 4.0%

Liabilities due to:	retirement benefits	disability benefits	total
short-term	227 240	–	227 240
long-term	760 994	47 501	808 495
Total	**988 234**	**47 501**	**1 035 735**

26. Trade and other liabilities

Terms and conditions of payment of the below financial obligations:

Transactions with related entities are concluded on an arm's length basis (typical commercial transactions).

Liabilities due to deliveries and services do not bear interest and are usually settled within 30 to 180 days.

Other liabilities with an average payment period of 1 month do not bear interest.

Interest payable is usually accounted for on the basis of accepted interest notes.

(in thousands of PLN)

Accruals cover mainly the value of construction contract costs incurred and not settled in the invoiced costs.

Trade and other liabilities are presented in the table below:

	As at 31 December 2019	As at 31 December 2018
Trade liabilities	**73 743**	**81 184**
Liabilities towards associated entities	40 575	61 415
Liabilities towards other entities	33 168	19 769
Accrued expenses	**10 799**	**31 280**
Total trade liabilities	**84 542**	**112 464**
Tax, customs, social insurance and other liabilities		
Tax on goods and services	–	14 295
Personal income tax	669	515
PFRON (State Fund for Rehabilitation of Disabled People)	14	11
Personal income tax abroad	–	248
Other	29	–
Financial guarantee expenses	8 821	13 852
Tangible fixed assets purchase liabilities	749	187
Social fund	–	3
Other	33	52
Total other liabilities	**10 315**	**29 163**

27. Contingent liabilities

	As at 31 December 2019	As at 31 December 2018
Contingent liabilities	**453 133**	**551 926**
– granted guarantees and sureties	339 344	506 019
– promissory notes	51 182	3 470
– litigations	62 607	42 437

With reference to the contracts for bank loans and guarantees (both bank and insurance), as well as in terms of bond liabilities (including series A and B bonds issued in 2014 in the amount of PLN 140 million and series C bonds issued in 2017 in the amount of PLN 14.5 million), and in particular, with reference to the Agreement of 24 July 2012 on refraining from the execution of liabilities, the Agreement of 21 December 2012 on the Management of Financial Debt, as stipulated by annex 11 of 31 December 2019, the Agreement on the New Guarantee Line and the related revolving credit of 21 December 2012, as stipulated by annex 4 of 31 December 2019, the Terms of Issuance of Ordinary and Convertible Bonds of 12 September 2014, as amended, the Credit Agreement on the guarantee lines and related revolving and non-revolving credit of 31 May 2017 (as amended), in the wording as of 31 December 2019, the Terms of Issuance of Series C Convertible Bonds of 27 September 2017, as amended, the Guarantee Agreement with BOŚ S.A. of 31 December 2019, the Company and the selected subsidiaries have established mortgages, pledges, transfers of ownership, assignments, they have also issued promissory notes, accepted sureties of certain subsidiaries and granted sureties to selected subsidiaries to secure receivables under the instruments in question. The total commitment of the Company in terms of these credit instruments as at 31 December 2019 was PLN 605 million (as at 31 December 2018 it was PLN 832 million).

28. Information about transactions with related parties

28.1. Transactions with parties related with the State Treasury

The company is a party to transactions with entities related with the State Treasury. These transactions, which are also conducted with shareholders and parties related through shareholders, are presented in note 28.2 as transactions with other parties related through shareholders. Transactions conducted with other parties related with the State Treasury are transactions concluded under market terms.

28.2. Transactions with related parties

The transactions between related entities were conducted on terms equivalent to those that prevail in arm's length transactions. The company does not apply collaterals to receivables from related parties. The transactions within the Capital Group are settled by means of payment of receivables or their compensation with liabilities.

The table below presents the total values of the transactions concluded with related parties for the period of a year ended on 31 December 2019 and as at that day and on 31 December 2018 and as at that day.

(in thousands of PLN)

	For the period from 1 January until 31 December 2019				Status as at 31 December 2019				
	Income from related parties	Acquisitions from related parties	Share in profits	Share in losses	Receivables from related parties	Receivables from share in profits	Receivables from borrowings	Liabilities towards related parties	Liabilities from borrowings
Subsidiaries	44 588	433 682	7 519	16 174	11 152	60 858	48 240	40 569	31 343
Associates	2 394	35	–	–	–	–	–	–	–
Other parties related through shareholders	468 779	7 488	–	–	55 357	–	–	146	–
Total	**515 761**	**441 205**	**7 519**	**16 174**	**66 509**	**60 858**	**48 240**	**40 715**	**31 343**

	For the period from 1 January until 31 December 2018				Status as at 31 December 2018				
	Income from related parties	Acquisitions from related parties	Share in profits	Share in losses	Receivables from related parties	Receivables from share in profits	Receivables from borrowings	Liabilities towards related parties	Liabilities from borrowings
Subsidiaries	52 107	382 316	11 329	40 454	65 825	143 548	74 515	62 374	30 992
Associates	–	244	–	–	–	–	–	20	–
Other parties related through shareholders	469 400	4 624	–	–	165 355	–	–	72 065	–
Total	**521 507**	**387 184**	**11 329**	**40 454**	**231 180**	**143 548**	**74 515**	**134 459**	**30 992**

(in thousands of PLN)

29. Remuneration of the Management Board and the Supervisory Board

29.1. Remuneration of the Management Board and the Supervisory Board

	Year ended on 31 December 2019	Year ended on 31 December 2018
The Management Board		
Short-term employee benefits (salaries and charges)	2 193	2 885
The Supervisory Board		
Short-term employee benefits (salaries and charges)	669	625
Total	**2 862**	**3 510**

29.2. Information about the number of shares of the Company held by the Management Board and the Supervisory Board

As at 31 December 2019 the members of the Management Board and the Supervisory Board did not hold any shares of the Company. Between 31 December 2019 and the date of the publication of this report the shares of the Company were purchased by a member of the Supervisory Board Mr Konrad Milczarski. On 12 March 2020 Mr Milczarski purchased 30 000 shares for PLN 36 419.60 in total and on 13 March 2020 he purchased 40 000 shares for PLN 49 100.00 in total.

30. Employment structure

Employment in the Company at 31 December 2019 and as at on the day 31 December 2018 was as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018
The Management Board	3	3
Support division	189	153
Operations division	54	54
Total	**246**	**210**

31. Goals and principles of risk management

31.1. Interest rate risk

The Company's financial results may fluctuate due to changes in market factors, in particular, prices of materials, exchange rates and interest rates. By managing the risk to which it is exposed, the Company aims to reduce the volatility of future cash flows and minimise potential economic losses arising from the occurrence of events that may adversely affect profit or loss.

The company holds cash on the bank accounts, it has liabilities under bank loans and debt in the form of receivables under the issued bonds. The above liabilities are based on a variable interest rate. The company monitors the situation on the financial market and analyses trends and forecasts in terms of the development of the reference market rates. As at 31 December 2019 the Company did not conclude derivative transactions securing the above-mentioned risk.

Analysis of sensitivity to interest rate changes

	Value exposed to risk	Increase/decrease by 0.50 p.p.	-0.50 p.p.
For the year ended on 31 December 2019			
Cash on bank accounts	133 397	667	(667)
Borrowings granted	82 787	414	(414)
Bank guarantee deposits	2 026	10	(10)
Received bank loans and borrowings	(71 505)	(358)	358
Bonds	(165 710)	(829)	829

Impact on the gross financial result	**(96)**	**96**
Deferred tax	18	(18)
Total	**(78)**	**78**

	Value exposed to risk	Increase/decrease by 0.50 p.p.	-0.50 p.p.
For the year ended on 31 December 2018			
Cash on bank accounts	183 623	918	(918)
Borrowings granted	108 924	545	(545)
Bank guarantee deposits	2 115	11	(11)
Received bank loans and borrowings	(113 470)	(567)	567
Bonds	(176 919)	(885)	885
Impact on the gross financial result		**22**	**(22)**
Deferred tax		(4)	4
Total		**18**	**(18)**

31.2. Foreign exchange risk

The Company's exposure to foreign exchange risk is low. Due to organisational changes within the Capital Group consisting in the separation of business units from the Company's structures to subsidiaries, the Company's financial flows are characterised by less and less sensitivity to fluctuations in exchange rates.

The basic method of hedging against the exchange rate risk used by the Company remains the natural hedging, that is hedging the currency risk by entering into transactions generating costs in the same currency as the currency of revenues. As at 31 December 2019 the Company did not have any active derivative instruments hedging the exchange rate risk.

Fluctuations in the average EUR exchange rate, due to the decreasing scale of foreign exchange turnover, have a small impact on the amount of revenue expressed in PLN from contracts concluded in foreign currency. On the basis of the acquired contracts the Company estimated the exposure to the currency risk in the period January - December 2020 as follows:

Specification	2020
Forecast inflows in foreign currency - equivalent in thousands of EUR	–
Forecast expenses in foreign currency - equivalent in thousands of EUR	(300)
Business exposure to foreign exchange risk in thousands of EUR	**(300)**

Exposure to foreign exchange risk

	As at 31 December 2019 EUR	As at 31 December 2018 EUR
Cash and cash equivalents	13	37
Trade receivables	10	660
Secured borrowings	–	–
Trade liabilities	(219)	(142)
Gross carrying amount	**(196)**	**555**
Estimated forecasts of sales	–	–
Estimated forecasts of purchase	(300)	–
Gross exposure	(300)	**–**
Net exposure	**(496)**	**555**

(in thousands of PLN)

Foreign exchange risk sensitivity analysis as at 31 December 2019

	Carrying amount	EUR/PLN	
		Exchange rate (change 10 %)	Exchange rate (change -10 %)
Cash and cash equivalents	55	6	(6)
Trade and other receivables	43	4	(4)
Trade and other liabilities	(933)	(93)	93
Impact on the gross financial result	**(835)**	**(83)**	**83**
Deferred tax		16	(16)
Total		**(67)**	**67**

Foreign exchange risk sensitivity analysis as at 31 December 2018

	Carrying amount	EUR/PLN	
		Exchange rate (change 10 %)	Exchange rate (change -10 %)
Cash and cash equivalents	158	16	(16)
Trade and other receivables	2 838	284	(284)
Trade and other liabilities	(613)	(61)	61
Impact on the gross financial result	**2 383**	**239**	**(239)**
Deferred tax		(45)	45
Total		**194**	**(194)**

31.3. Credit risk

At the level of the Capital Group, the credit risk is minimised by cooperation with reliable commercial partners, the application of instruments available on the market that enable the insurance of trade receivables from foreign recipients and the acquisition of collateral for payments from the contractors. In relation to domestic recipients, collateral in the form of sureties, transfer of ownership as collateral for a registered pledge or bills of exchange is applied when the recipients have restrictions on the availability of bank or insurance guarantees. Despite monitoring this risk and ongoing negotiations with contractors in order to optimise payment deadlines, this risk remains at a moderate level, among others due to the following circumstances:

- pressure of suppliers of materials and raw materials for the maximum reduction of payment terms, including prepayments or securing payments by expensive financial instruments (bank guarantees, letters of credit);
- insufficient credit risk insurance limits and limited access to bank guarantees as well as no limits on insurance guarantees;
- no agreements regarding the settlement of additional works and increase in prices of materials in significant contracts;

Credit risk management of financial transaction partners consists in controlling the financial credibility of current and potential partners of these transactions and in monitoring credit exposure in relation to the limits granted. Transaction partners should have an appropriate rating assigned by leading rating agencies or have guarantees from institutions that meet the minimum rating requirement. The Company concludes financial transactions with reputable companies with good creditworthiness and uses diversification of institutions with which it cooperates. In the area of credit risk management of business transaction partners, the Company submits all clients who apply for granting credit limits to the procedures of verification of their financial credibility and, depending on its assessment, appropriate internal limits are granted. The Company sets guidelines regarding the credit risk management process of business partners in order to maintain appropriate standards in the area of credit analysis and operational safety of the process across the entire Company. The measure of credit risk is the amount of maximum exposure to risk for specific classes of financial assets. The book values of financial assets represent the maximum credit exposure, in particular, trade receivables and transferred deposits. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making the revaluation write-offs. The calculation of the write-offs is presented in note 14.

The Company has a concentration of the credit risk in connection with significant receivables from the power sector companies. Considering the fact that the main recipients are domestic energy companies who are controlled by the State Treasury and perform a critical function in the national energy system, the Company estimates that it is not significantly exposed to credit risk against those recipients.

The Company has significant receivables due to the share in the profits of limited partnerships which are subsidiaries. The credit risk of these receivables is low due to the good financial results of these entities, additionally limited by a large share in the sales to the companies controlled by the State Treasury. The credit risk related to liquid funds and derivative financial instruments is limited because the Company's counter parties are banks with a high credit rating assigned by international rating agencies.

31.4. Liquidity risk

In the opinion of the Company, this risk could be mitigated at a moderate level. The maintenance of financial liquidity in the medium and long-term perspective requires involvement in projects and contracts ensuring neutral and positive cash flows. These long-term and short-term liquidity risks are constantly monitored and analysed.

The current financial situation of the Issuer's Group is stable – the Group has significant cash resources and significant guarantee limits in both banking and insurance institutions. The structure, level and deadlines for the repayment of financial debts are adjusted to the current and anticipated ability to service them in a timely manner. The Group conducts a wide range of activities aimed at further improvement of operating conditions, including inter alia:

- further optimisation of operating activities to streamline processes related to the implementation, management and monitoring of construction and assembly projects and to reduce operating costs through the projected, the reduction of general administration expenses, centralisation of purchases, optimisation of organizational structures, optimisation of the contract portfolio and concentration of the Group's operations on the core business;
- continuation of the process of divesting assets, in particular property that belongs to the Group and other assets that are not indispensable to continue the Group's core business.

The documentation biding the Company with the Financial Creditors, in particular the Agreement on the Management of Financial Debt and the Terms and Conditions for the Issuance of Bond Series A, B and C, imposes a number of obligations on the Company, such as:

- making timely payments to Creditors and Bondholders,
- refraining from taking a number of actions without the prior consent of the Creditors and Bondholders.

Non-performance by the Company of the obligations arising from the Agreement on the Management of Financial Debt and the Terms and Conditions of Bonds Issuance could result in immediate maturity of the entire financial debt of the Company towards the Financing Banks and Bondholders.

The relatively high level of the Company's and Group's debt may have significant implications. In particular it may have the following effects:

- limited ability of the companies within the Group to obtain additional financing from financial institutions, in particular bank and insurance guarantees;
- slower development growth of the operations of the companies within the Group due to a significant deterioration in the availability of trade credit, reduction of payment periods or demands of prepayments by contractors;
- necessity to allocate a certain portion of cash flows from the Group's operating activities to the repayment of debt, which means that these cash flows may not always be available to finance the Group's operations or investment outlays;
- restricted flexibility of the Group in terms of planning or response to change in operating activity, in the competitive environment and on the markets where the Group operates;

(in thousands of PLN)

- less favourable market position of the Group in relation to its competitors with lower credit exposure.

The current order portfolio of the Company, less the sales revenues attributable to the consortium members, is approximately PLN 2 828 million and it only concerns contracts already concluded. Year to year estimates of the value as follows: 2020 - PLN 481 million, 2021 - PLN 784 million, 2022 - PLN 936 million, subsequent years - PLN 627 million. The risk associated with the loss of liquidity by the Company results from the mismatch of the amounts and payment dates on the side of receivables and liabilities. In order to hedge the Company against this risk it is vital to diversify the portfolio of suppliers and recipients and to finance subcontracting projects from funds received from procuring entities.

The table below presents the Company's financial liabilities as at 31 December 2019 and at 31

December 2018 by maturity based on contractual undiscounted payments.

Status as at 31 December 2019	Upon request	Less than 3 months	Between 3 and 12 months	From 1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	–	75 627	24 818	–	**100 445**
Lease	–	1 795	2 983	1 604	1 912	**8 294**
Bonds	–	–	86 721	99 676	–	**186 397**
Trade liabilities, deposits and other liabilities	25 652	55 862	7 575	15 098	–	**104 187**
Total	**25 652**	**55 862**	**174 702**	**141 195**	**1 912**	**399 323**

The Company is analysing the possibility of optimizing the conditions and terms of repayment of liabilities arising from individual financial instruments, which is to result in a change in the structure of balance-sheet and off-balance sheet financing.

Status as at 31 December 2018	Upon request	Less than 3 months	Between 3 and 12 months	From 1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	–	70 571	98 625	–	**169 196**
Bonds	–	–	12 839	185 067	–	**197 906**
Trade liabilities, deposits and other liabilities	6 906	79 743	10 775	18 607	1 395	**117 426**
Total	**6 906**	**79 743**	**94 185**	**302 299**	**1 395**	**484 528**

32. Financial instruments

32.1. Classification of financial instruments

	As at 31 December 2019	As at 31 December 2018
	Financial assets measured at amortized cost	Financial assets measured at amortized cost
Financial assets		
Other financial assets	50 718	76 641
Deposits due to the construction contracts	110 680	133 804
Trade receivables	52 115	136 795
Cash and cash equivalents	133 397	183 623

(in thousands of PLN)

	As at 31 December 2019 Financial liabilities measured at amortized cost	As at 31 December 2018 Financial liabilities measured at amortized cost
Financial liabilities		
Bank loans, borrowings and other external sources of financing	105 786	166 539
Other liabilities (long-term)	4 675	14 260
Deposits due to the construction contracts	28 759	34 346
Trade liabilities	73 743	81 184
Bonds	173 578	176 469

32.2. Revenues, expenses, profits and losses recognised in the profit and loss divided into the categories of financial instruments

Year ended on 31 December 2019

	Interest income / (costs)	Profits / (losses) due to exchange differences	Establishment/ (dissolution) of write-offs	Income / (costs) due to participation in the profits of limited partnerships	Other	Total
Financial assets						
Financial assets measured at amortized cost	4 839	(55)	19 975	(8 656)	19 647	**35 750**
Financial liabilities						
Financial liabilities measured at amortized cost	(23 060)	385	–	–	–	**(22 675)**
Total	**(18 221)**	**330**	**19 975**	**(8 656)**	**19 647**	**13 075**

Year ended on 31 December 2018

	Interest income / (costs)	Profits / (losses) due to exchange differences	Establishment/ (dissolution) of write-offs	Income / (costs) due to participation in the profits of limited partnerships	Other	Total
Financial assets						
Financial assets measured at amortized cost	7 252	(961)	9 914	(29 125)	1 876	**(11 044)**
Financial liabilities						
Financial liabilities measured at amortized cost	(22 919)	565	–	–	–	**(22 354)**
Total	**(15 667)**	**(396)**	**9 914**	**(29 125)**	**1 876**	**(33 398)**

(in thousands of PLN)

33. Fair values of individual categories of financial instruments

For the purposes of financial reporting, fair value measurements are categorized according to three levels depending on the extent to which batch data for fair value measurements are observable and on the importance of batch data for fair value measurement as a whole. These levels take shape as follows:

Level 1: batch data is quoted prices (unadjusted) from active markets for identical assets or liabilities to which the entity has access on the valuation day.

Level 2: batch data is other than quoted prices included in Level 1 that are observable for an asset or liability element, either directly or indirectly.

Level 3: Batch data is unobservable data for the valuation of an asset or liability.

The fair values of financial assets and liabilities not measured at fair value do not differ materially from book values.

The Company is a party in the Option Agreement for the Acquisition of the Investment Certificates concluded with PKO BP S.A. on 7 November 2013, as amended. The Agreement, depending on the property price scenario, will determine the amount of acquisition / settlement between the parties in the future. In an event when the Company fails to generate the minimum return on investment expected by the investor, it will be required to cover a relevant part of the loss. In case of an increase in the value of the property portfolio, the Company has a guaranteed participation in the profit share over the rate of the profit guaranteed to the investor.

In the reporting period there were no changes in the manner of valuation of this instrument by discounting the predicted growth in the value of the property portfolio in the course of the transaction. The value of the instrument included in the books as at 31 December 2019 amounted to PLN 0 (as at 31 December 2018: PLN 0).

34. Capital management

The main objective of the Company's capital management is to maintain financial liquidity adequate to the scale and specificity of the conducted activity and safe capital ratios that would support the operational activity of the Company and ultimately increase its value for the Company's shareholders

The externally imposed capital requirements for the value of the equity have been imposed on Company.

In accordance with the provisions of the Agreement on the Management of Financial Debt (the "ZOZF Agreement"), the Company is required to have positive equity on the last day of each calendar month. Failure to meet the positive equity condition constitutes a violation of the Agreement on the Management of Financial Debt. The effect of the occurrence and duration of the violation may be the termination of the Agreement.

The Company had added capital throughout the year 2019.

The Company monitors capital using a leverage ratio, which is calculated as the ratio of net debt to total capital plus net debt. The Company includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt.

	As at 31 December 2019	**As at 31 December 2018**
Bank loans, borrowings and bonds	279 364	343 008
Trade and other liabilities	94 857	141 627
Minus cash and cash equivalents	(133 397)	(183 623)
Net debt	**240 824**	**301 012**
Equity	660 877	567 211
Equity and net debt	**901 701**	**868 223**
Leverage ratio (net debt / capital and net debt)	27%	35%

35. Litigations regarding receivables and liabilities

As at 31 December 2019 there were no pending court proceedings, the value of which would represent at least 2% of the consolidated sales revenues of Polimex Mostostal Capital Group for the last four quarters, that is PLN 31.5 million.

As at 31 December 2019 there was an ongoing counterclaim proceeding initiated by Mostostal S.A. with the registered office in Warsaw (the "Defendant"). The counterclaim has been filed against the Company and Mostostal Siedlce Sp. z o.o. Sp.k. The counterclaim presents the position of the Defendant in the case filed by the Issuer and by Mostostal Siedlce Sp. z o.o. Sp.k. in June 2017 for Issuer cancellation of the sales agreement pertaining to two Mostostal trademarks: the figurative trademark “Mostostal” registered under number R 87887 and the verbal trademark “Mostostal” registered under number R 97850. The sales agreement for the trademarks was concluded in 2007 by the administrative receiver of one of the entities using the trademarks. The Defendant was the purchaser in this transaction. The value of the subject matter under dispute is PLN 96 908 719. The amount indicated by the Defendant constitutes the compensation for the violation of the protective rights with regards to the specified trademarks. The Defendant is claiming compensation of PLN 83 717 995 from the Company and PLN 13 190 724 from Mostostal Siedlce Sp. z o.o. Sp.k. The position of the Management Board of the Company is that the counterclaim and the value of the compensation have no legal merit and the counterclaim was filed merely in a reaction to the lawsuit initiated by the Parent Company in June 2017. As indicated by the analysis undertaken by the Company, the Company has subjective rights to Mostostal, as well as the prior user right to the trade name “Mostostal”, which take precedence over the above-mentioned Mostostal trademarks under dispute.

Apart from this case, as at 31 December 2019 there were no ongoing court proceedings with the values relevant from the standpoint of financial statements.

36. Key events after the balance sheet date

- On 2 January 2020 the Company withdrew with immediate effect from the agreement (the “Agreement”) concluded on 15 November 2019 with Inwat sp.z o.o. with the registered office in Łódź (the "Contractor"). The subject of the Agreement was the development by the Contractor of multidisciplinary project documentation for the purposes of the "Construction of a Coal-Fired Power Unit in Puławy" (the “Contract”) for Grupa Azoty Zakłady Azotowe "Puławy" S.A. with the registered office in Puławy (the “Ordering Party”) and the performance of the author supervision during the implementation of the Contract by the Company. The Company has withdrawn from the Agreement due to the fault of the Contractor on the basis of the relevant provisions of the Agreement granting the Company such a right under specified conditions.
- On 20 January 2020 the Company concluded an agreement with Engineering, Procurement and Construction Office “Energoprojekt-Katowice” S.A. with the registered office in Katowice (the "Contractor"). The subject of the agreement is the development by the Contractor of multidisciplinary project documentation for the purposes of the following contract: "Construction of a Coal-Fired Power Unit in Puławy" (the "Agreement"), as well as performance of the author supervision during the implementation of the contract by the Company. The period of the execution of the subject of the Agreement begins on the day of its signature and ends on 23 January 2023.

  The Contractor’s remuneration for the performance of the subject of the Agreement is flat-rate and has been set at PLN 43 200 000.00 net. The Contractor will be obliged to pay contractual penalties to the Company under the circumstances outlined in the Agreement, however, the total amount of penalties will not exceed 25% of the gross remuneration. In case the aggregate amount of penalties does not cover the damage suffered by either Party, each Party to the Agreement will be entitled to seek supplementary damages under general principles to the maximum amount of 100% of the gross remuneration.
- On 30 January 2020 there was a conclusion of an agreement (the “Agreement”) between PGE Górnictwo i Energetyka Konwencjonalna S.A. with the registered office in Bełchatów (the “Ordering Party”) and the consortium (the “Contractor”) comprising General Electric Global Services GmbH with the registered office in Switzerland (“GEGS”) (the consortium leader), General Electric International Inc. (“GEII”) with the registered office in Delaware in the US and the Company (the consortium partners). The subject of the Agreement is a turnkey construction of two gas and steam power units (number 9 and 10 provision of complete sets of power generating equipment and their auxiliary installations and any other technological, mechanical, electrical and automation

installations, along with associated facilities) for PGE Górnictwo i Energetyka Konwencjonalna S.A. at the Dolna Odra Power Plant Complex (the "Assignment"), involving all works, deliveries and services, as well as the preparation of the project documentation. Pursuant to the Agreement, the Contractor is obliged to start the implementation of the Agreement immediately after its conclusion and to finalize the Assignment by 11 December 2023.

The remuneration for the performance of the Assignment is flat-rate and amounts to PLN 3 649 712 633.13 net (the "Remuneration"), of which PLN 1 515 097 248.13 net is the share of the Company. The Remuneration will be paid in instalments on the basis of the invoices issued as per the schedule outlined in the Agreement. The Agreement stipulates for the possibility by the Ordering Party to exercise the option right, namely to ask the Contractor to perform the supplies, services and works specified in the Agreement for an additional remuneration of PLN 51 380 thousand net.

Pursuant to the provisions of the Agreement, the Contractor will provide the Ordering Party with a basic quality guarantee for the subject of the Agreement covering a period of 24 months, as well as an extended warranty for the construction works for the period of 60 months. Under the cases specified in the Agreement, the warranty period may be extended, however, the basic warranty period will not exceed 48 months in total and the extended warranty period will not exceed 84 months in total. The Contractor has separately granted the Ordering Party with the warranty for defects. The warranty period for defects corresponds with the warranty period.

In order to cover any potential claims from the Ordering Party, the Consortium will provide a security for the proper performance of the Agreement in the amount of 10% of the gross remuneration in cash or in kind. 70% of the security value will be returned within 30 days from the date of the signature of the last handover protocol. The remaining part of the security will be returned or released no later than 15 days after the expiry of the basic warranty or guarantee period.

- On 31 January 2020, the following conditions precedent were fulfilled: (i) the issuance of a guarantee for the proper performance of contract in the amount of PLN 59 650 thousand, pursuant to the agreement of 31 December 2019 between the Company and Bank Ochrony Środowiska S.A. with the registered office in Warsaw ("BOŚ") for the purpose of securing performance of the contract concluded with Grupa Azoty Zakłady Azotowe "Puławy" S.A. for the construction of a complete coal-fired heating and condensing power unit in Puławy (the "Puławy Contract"); (ii) the issuance of a guarantee for the proper performance of contract in the amount of PLN 46 340 thousand for the purpose of securing performance of the Puławy Contract, pursuant to the agreement of 31 May 2017, amended by Annex No 3 of 31 December 2019, concluded between the Company, Naftoremont-Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o., Polimex Budownictwo Sp. z o.o. Sp.k. as the liable and Bank Gospodarstwa Krajowego ("BGK").

  The main conditions precedent included an obligation to establish collateral for BOŚ, the most important of which is the submission of a declaration on establishing mortgage on the Company's real estate and pledges on the assets of the Company and its subsidiaries, as well as joint collateral of which BGK is also a beneficiary. In the remaining scope, the conditions for the issuance of the guarantees concerned the delivery of standard documentation for this type of transaction.

  In relation to the fulfilment of conditions referred to in points i) and ii) above, on 31 January 2020 BOŚ issued, at the request of the Company, a guarantee for the proper performance (due performance) in connection with the implementation of the Puławy Contract in the amount of PLN 59 650 thousand and BGK issued, at the request of the Company, a guarantee for the proper performance (due performance) in the amount of PLN 46 340 thousand.

- On 13 February 2020 there was a conclusion of an agreement (the "Agreement") between VEOLIA Energia Poznań S.A. with the registered office in Poznań (the "Ordering Party") and a consortium (the "Contractor") comprising Polimex Energetyka Sp. z o.o. with the registered office in Warsaw (a wholly owned subsidiary of the Issuer, as the consortium leader), the Issuer (as the consortium partner) and Energomontaż-Północ-Bełchatów Sp. z o.o. with the registered office in Rogowiec (a subsidiary of the Issuer, as the consortium partner). The subject of the Agreement is the turnkey construction of a heat accumulation system at the Karolin CHP Plant (the “Assignment”), involving a comprehensive design, deliveries, performance of works, commissioning and handover for operation. The Agreement came into force on the day of its conclusion and the final implementation stage of the Assignment, the handover for operation, will take place by 10 August 2021.

The remuneration for the performance of the Assignment is flat rate and it amounts to PLN 35 978 469 net (the “Remuneration”). The Remuneration will be paid in instalments after the completion of respective implementation stages of the Assignment.

- On 28 February 2020, the Company concluded an agreement (the “Agreement”) with Powszechna Kasa Oszczędności Bank Polski S.A. with the registered office in Warsaw (“PKO BP”), the subject of which is the provision, at the request of the Company, of a bank guarantee for the return of the advance payment in domestic transactions (the “Guarantee”). This is in relation with the implementation by the Company within the consortium also comprising General Electric Global Services GmbH with the registered office in Switzerland and General Electric International Inc. with the registered office in the state of Delaware in the USA, of a contract for the construction of two gas and steam power units for PGE Górnictwo i Energetyka Konwencjonalna S.A. at the Dolna Odra Power Plant Complex (the “Contract”). Pursuant to the terms of the Agreement, PKO BP provided the Company with a Guarantee in the amount of PLN 47 360 495.98. The Guarantee remains valid until 31 March 2023.

  In compliance with the Agreement, the receivables of PKO BP have been secured: (i) with the transfer to PKO BP of cash receivables the Company is entitled to under the Contract, (ii) with a registered pledge on the receivables under a bank account agreement regarding a project-specific account opened for the purpose of servicing the Contract, and (iii) with a financial pledge on cash and cash payment claims, including on deposits deployed in the financial market from the project-specific account opened for the purpose of servicing the Contract. In addition, the Company is obliged to submit within 14 days of the conclusion of the Agreement a statement of submission to enforcement, compliant with Article 777(1), point 5 of the Civil Procedure Code. The maximum amount of each of the above-mentioned collaterals is PLN 71 040 743. Pursuant to the terms of the Agreement, following the issuance of the Guarantee, the list of collaterals may be extended conditional upon the fulfilment of the provisions outlined in the Agreement.
- On 3 March 2020 there was a conclusion of an annex (the “Annex”) to the agreement for the construction of the shell of a residential complex on the Ordona street in Warsaw (the “Contract”) between the consortium comprising the Company, Polimex Infrastruktura Sp. z o.o. with the registered office in Warsaw (a subsidiary of the Company) (jointly referred to as the “Contractor”) and Projekt Echo – 136 Sp. z o.o. Sp. k. with the registered office in Kielce. The Annex stipulates: (i) an increase to the Contractor's remuneration by PLN 154 435.72 net to the amount of PLN 36 822 435.72 due to an extension of the scope of the Contract to include additional works, (ii) an extension to the deadline for the Contract execution until 31 January 2021. Other significant provisions of the Contract remain unchanged.
- On 6 March 2020 the Civil Division of the Court of Appeal in Katowice (the “Court of Appeal”) passed a judgement in the second instance in a case brought by the Issuer against the City of Katowice (the “Ordering Party") in connection with the withdrawal from the agreement concluded on 3 October 2011 for the "Construction of the multifunctional International Congress Centre in Katowice" (the "Agreement"). The details of the Agreement were published in the Issuer’s current report No 58/2011 of 4 October 2011. The withdrawal from the Agreement was disclosed in the Issuer’s current report No 75/2012 of 20 September 2012. In the first instance, the 2nd Civil Division of the District Court in Katowice (the "District Court") awarded the Issuer with a compensation in the amount of PLN 17.5 million. With today’s judgement, the Court of Appeal revised the decision of the District Court in the case at hand as follows: (i) it increased the amount of the awarded compensation from circa PLN 17.5 million to circa PLN 26.1 million and (ii) it confirmed that the interest charged from 31 December 2015 has the status of statutory interest and from 1 January 2016 it constitutes statutory interest for late payment. The Court also dismissed the appeal of the Ordering Party in its entirety and it dismissed the appeal of the Issuer in the

remaining scope, as well as ordered the Issuer to cover the costs of the appeal proceeding in the amount of circa PLN 53.6 thousand. The compensation awarded by the Court of Appeal to the Issuer, including the interest, amounts to approximately PLN 40.4 million. The judgement of the Court of Appeal is final. The Company recognized the results of the finalized legal proceeding in the financial statements for 2019 as: recognition of sales revenues in the amount of PLN 8 634 thousand, reversal of write-offs on receivables in the amount of PLN 13 039 thousand and recognition of revenues due to the modification of financial instruments (in financial revenues) in the amount of PLN 14 774 thousand.

Warsaw, 16 April 2020

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS		
Name and surname	Position / Function	Signature
Krzysztof Figat	President of the Management Board	
Przemysław Janiszewski	Vice President of the Management Board	
Maciej Korniluk	Vice President of the Management Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR THE PREPARATION OF FINANCIAL STATEMENTS		
Name and surname	Position / Function	Signature
Sławomir Czech	Financial Director / Chief Accountant	