“POLIMEX-MOSTOSTAL” S.A.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Warsaw on 11th April 2019

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(in PLN thousand)

Profit and Loss Account

	Note	Year ended 31 December 2018	Year ended 31 December 2017*
Sales revenues	7.1	515 205	1 341 765
Cost of goods sold	7.3	(472 153)	(1 282 051)
Gross profit / (loss) on sales		**43 052**	**59 714**
Cost of sales	7.3	–	(1 080)
General administration expenses	7.3	(32 955)	(26 357)
Profit / (loss) on impairment of financial assets	7.6	9 913	(1 672)
Other operating revenue	7.7	39 027	40 240
Other operating costs	7.8	(4 055)	(5 513)
Profit / (loss) on operating activities		**54 982**	**65 332**
Financial income	7.9	35 772	79 740
Financial costs	7.10	(66 828)	(32 476)
Gross profit/ (loss)		**23 926**	**112 596**
Income tax	8.1	(1 824)	(30 038)
Net profit / (loss)		**22 102**	**82 558**
Profit / (loss) per share (in PLN per share)			
– basic and diluted profit per share	10	0,093	0,349

Comprehensive income statements

	Year ended 31 December 2018	Year ended 31 December 2017
Net profit / (loss)	**22 102**	**82 558**
Items which shall not be allocated in later periods to profit and loss account:		
Change in status resulting from revaluation of tangible assets	**–**	**1 717**
Actuarial profit / (loss)	**(11)**	**(155)**
Other comprehensive net income	**(11)**	**1 562**
Total comprehensive income	**22 091**	**84 120**

** Transformed data – changes described in the note 3.4.*

(in PLN thousand)

Balance sheet

	Nota	As at 31 December 2018	As at 31 December 2017
Assets			
Fixed assets			
Tangible fixed assets	11.1	27 420	20 169
Investment properties	11.3	37 825	50 637
Intangible assets		560	903
Financial assets	12.1	457 935	432 101
Long-term receivables	13	19 632	172 501
Deposits due to construction contracts	16	91 836	103 275
Deferred tax assets	8.3	135 129	135 877
Total fixed assets		**770 337**	**915 463**
Current assets			
Inventories		168	321
Trade and other receivables	14	284 992	291 102
Deposits due to construction contracts	16	41 968	33 620
Construction contracts assets	16	10	6 065
Financial assets	12.2	6 033	230 084
Cash	17	183 623	162 763
Other assets		816	1 165
Assets held for sale	19.1	36 267	32 280
Total current assets		**553 877**	**757 400**
Total assets		**1 324 214**	**1 672 863**
Liabilities and equity			
Equity			
Share capital	20.1	473 238	473 238
Reserve capital	20.2	157 746	157 746
Other capitals	20.3	(149 732)	(232 302)
Reserve capital from the surplus of bonds convertible into shares	20.4	31 552	31 552
Accumulated other comprehensive income	20.5	36 880	36 891
Retained earnings/ Uncovered losses	20.6	17 527	82 570
Total equity		**567 211**	**549 695**
Long-term payables			
Bank loans and borrowings	21	95 968	164 409
Long-term bonds	23	163 630	169 034
Provisions	25	37 335	170 998
Liabilities due to employee benefits	26.1	475	967
Other liabilities	24	14 260	80 022
Deposits due to construction contracts	16	18 345	22 496
Total long-term liabilities		**330 013**	**607 926**
Short-term liabilities			
Bank loans and borrowings	21	70 571	815
Short-term bonds	23	12 839	–
Trade and other liabilities	27	141 627	405 790
Deposits due to construction contracts	16	16 001	29 330
Construction contracts	16	83 019	2 008
Provisions	25	96 135	67 789
Liabilities due to employee benefits	26.1	5 290	7 927
Deferred income		1 508	1 583
Total short-term liabilities		**426 990**	**515 242**
Total liabilities		**757 003**	**1 123 168**
Total liabilities and equity		**1 324 214**	**1 672 863**

(in PLN thousand)

Cash flow statement

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Gross profit/ (loss)		**23 926**	**112 596**
Adjustment items :		**4 354**	**(308 270)**
Depreciation	7.3	3 178	6 190
Net interest and dividends		16 530	13 085
Profit / (loss) on investing activities	7.7, 7.9	(2 262)	(2 468)
Change in receivables	18	379 402	(125 006)
Change in inventories	18	153	(2 425)
Change in liabilities excluding bank loans and borrowings	18	(269 429)	(146 025)
Change in other assets and deferred income	18	275	202
Change in provisions		(105 317)	(44 951)
Other	18	(18 176)	(6 872)
Net cash from operating activities		**28 280**	**(195 674)**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		10 891	1 678
Purchase of tangible fixed assets and intangible assets		(895)	(620)
Disposal of financial assets		1 040	–
Purchase of financial assets		(64)	(7 011)
ZCP contributions in-kind		–	(8 427)
Interest and dividends received		2 926	8 457
Repayment of granted loans		53 526	43 436
Loans granted		(64 015)	(107 130)
Net cash from investing activities		**3 409**	**(69 617)**
Cash flows from financing activities			
Proceeds from issue of shares		–	300 000
Lease payments		–	–
Interest paid		(10 829)	(12 529)
Other		–	–
Net cash financing activities		**(10 829)**	**287 471**
Increase / (decrease) in net cash and cash equivalents		20 860	22 180
Net foreign exchange differences		95	(96)
Cash at the beginning of the period		**162 763**	**140 583**
Cash at the end of the period		**183 623**	**162 763**
Including restricted funds		*2 416*	*70 250*

(in PLN thousand)

Statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of convertible bonds	Accumulated other comprehensive income		Retained earnings / Uncovered loss	Total equity
					Capital from revaluation	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 changes	**473 238**	**157 746**	**(232 302)**	**31 552**	**35 933**	**958**	**77 995**	**545 120**
Net profit / (loss)	–	–	–	–	–	–	22 102	22 102
Actuarial profit / (loss)	–	–	–	–	–	(14)	–	(14)
Deferred tax	–	–	–	–	–	3	–	3
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(11)**	**22 102**	**22 091**
Division of profit	–	–	82 558	–	–	–	(82 558)	–
Allocation 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**

** Description of the influence of new standards implementation has been included in the note 3.4.*

(in PLN thousand)

Statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of convertible bonds	Accumulated other comprehensive income		Retained earnings / Uncovered loss	Total equity
					Capital from revaluation	Actuarial profit / (loss)		
As at 1 January 2017	**173 238**	**309 710**	**(444 924)**	**29 734**	**34 215**	**1 552**	**60 658**	**164 183**
Net profit / (loss)	–	–	–	–	–	–	82 558	82 558
Increase / decrease from fixed assets revaluation	–	–	–	–	2 120	–	–	2 120
Actuarial profit / (loss)	–	–	–	–	–	(193)	–	(193)
Deferred tax	–	–	–	–	(402)	37	–	(365)
Total comprehensive income	**–**	**–**	**–**	**–**	**1 718**	**(156)**	**82 558**	**84 120**
Division of profit	–	–	1 018	–	–	–	(1 018)	–
Shares/bonds issue	300 000	–	–	1 818	–	–	–	301 818
Allocation to other capitals	–	(151 964)	211 604	–	–	–	(59 640)	–
Other	–	–	–	–	–	(438)	12	(426)
As at 31 December 2017	**473 238**	**157 746**	**(232 302)**	**31 552**	**35 933**	**958**	**82 570**	**549 695**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2018

1. General

Polimex-Mostostal Spółka Akcyjna (the "**Company**") operates under the statute established by the notarial deed on 18 May 1993 (Rep. A No 4056/93), as amended. The registered office of the Company is located in Warsaw at Aleja Jana Pawła II 12, 00-124 Warszawa. The Company was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under KRS No 0000022460. The Company was given a statistical number (REGON) 710252031.

The Company has been established for an indefinite period. The financial year of the Company shall correspond to the calendar year.

Primary scope of the Company's activities includes a wide range of construction and assembly services, industrial equipment and systems assembly rendered in the general contracting system at home and abroad and rendering the administration services for the benefit of the company of Polimex Mostostal Capital Group (the "Capital Group", the "Group"). The company operates in the following fields: Energy and Oil, gas, chemistry (Petrochemistry), Other activities. Detailed description of the activities presented within the segment concerned has been included in the note number 6.1.

The Company's shares have been listed at the Warsaw Stock Exchange. The Company is a parent company within the Capital Group.

2. Approval of the financial statements

On 11 April 2019, the Management Board approved the financial statements of the Company for the year ended on 31 December 2018 for the publication.
As the parent entity in the Capital Group, the Company also prepared the consolidated financial statements for the year ended 31 December 2018, which was approved for the publication on 11 April 2019.

3. Platform of applied International Financial Reporting Standards

3.1. Compliance declaration

These financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the interpretations related thereof announced in the form of the European Commission's regulations.
The annual financial statements of the Company have been prepared under the requirements of the EU IFRS. In order to understand the Company's financial standing and results as a parent entity in the Capital Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended on 31 December 2018. The consolidated financial statements shall be available on the Company's website at the address of www.polimex-mostostal.pl within the time-limit compliant with the statutory report referring to the time-limit of transferring the consolidated financial statements of the Capital Group for the year 2018.

3.2. Going concern

These financial statements have been prepared upon a going concern assumption in foreseeable future. As at the date of the approval of these financial statements not any premises have been noted indicating the threat to the going concern.

3.3. Impact of new and amended standards and interpretations

IFRS in the form approved by the EU do not significantly differ at present from the regulations adopted by the International Financial Reporting Interpretations Committee (IFRIC), except the following interpretations and standards which as at 11 April 2019 have not yet been adopted for application:

- IFRS 14 "Regulatory Deferral Accounts" (applicable in reference to the annual periods commencing on 1 January 2016 or after this date) – under the decision of the European Commission the process to approve this temporary standard shall not be initiated until the final version of IFRS 14 has been issued,
- IFRS 17 "Insurance Contracts" (applicable in reference to the annual periods beginning on 1 January 2021 or after that date),
- Amendments to IFRS 9 "Financial Instruments" characteristics of the prepayment option with negative compensation (in force in reference to the annual periods beginning on 1 January 2019 and after that date),
- Amendments to IFRS 10 and IAS 28 "Investments in Associates and Joint Ventures" (published on 11 September 2014) – the EU has adjourned the works leading to approve these amendments without the time-limit,
- Amendments to IAS 19 "Employee benefits" - Change of plan, restriction or settlement (effective for annual periods beginning on 1 January 2019 or after that date),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term shares in associates and joint ventures (effective for annual periods beginning on January 1, 2019 or after that date).
- Amendments to various standards "Amendments to IFRS (cycle 2015-2017)" – amendments made within the procedure of implementing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) directed mainly to resolve inconsistencies and specification of the vocabulary (effective for annual periods beginning on 1 January 2019 or after that date),
- Amendment to IFRS 3 "Business combinations" (published on 22 October 2018) – applicable to the annual periods beginning on 1 January 2020 or a later date,
- Amendments to References to IFRS Conceptual Concepts (published on 29 March 2018) and effective for annual periods beginning on 1 January 2020 or after that date,
- IFRIC interpretation 23 "Uncertainty over income tax treatments" (applicable in reference to the annual periods beginning on 1 January 2019 or after that date),
- Amendments to IAS 1 and IAS 8: Definition of material (published on 31 October 2018) and effective for the annual periods beginning on 1 January 2020 or after that date.

According to the Company's estimations the above-mentioned new standards and amendments to the existing standards would not significantly affect the financial statements if they were applied by the Company as at the balance sheet.

Approving these financial statements, the following new standards which had been issued by IFRIC and approved to application in the EU, but they have not become effective so far:

- FRS 16 "Leasing" approved in the EU on 31 October 2017 (applicable in reference to the annual periods beginning on 1 January 2019 or after that date),

In accordance with IFRS 16, the lessee recognises the right to use an asset and liability under leasing. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the current value of lease payments payable during the lease period, discounted by the rate included in the lease, if its determination is not difficult. If the rate cannot be easily determined, the lessee applies the marginal interest rate. Regarding the classification of leasing with the lessors, it is carried out in the same way as in accordance with IAS 17 - i.e. as operating or financial leasing. With a lessor, leasing is classified as a financial lease if it transfers substantially all the risks and rewards incidental to ownership of the related assets. Otherwise, the lease is classified as an operating lease. In a financial lease, the lessor recognises financial income over the lease term, based on a fixed periodic rate of return on the net investment. The lessor recognises payments of operating leases in revenues on a straight-line basis or in another systematic manner, if it better reflects the pattern of obtaining benefits from the use of related assets. The company is a lessee in such contracts as: car rental, computers and other IT equipment, office real estate. These contracts are currently recognized in accordance with the principles of operating lease. After the entry into force of the new standard, the Company will change the method of inclusion in the books and present contracts in accordance with the requirements of the new standard. The effect of the changes will be recognising in the balance sheet assets and liabilities of significant amounts related to these contracts.

(in PLN thousand)

The Company shall apply new standard retrospectively with the joint effect of the first application on the day of the first application, i.e. the day of 1 January 2019. The Company shall apply exemptions referred to in the standard referring to recognition of low value leases (not exceeding the amount of PLN 15,000) and short-term leases (not exceeding 12 months). In the cases it is not possible to determine the lease interest rate, the Company shall apply the final interest rate of the lessee. The Company estimates that the recognition of the standard shall materially affect the financial statements by recognition of assets under the usufruct rights and lease liabilities and by the change of the presentation in the profit and loss account. The table below presents the estimated influence of the application of the new standard as at 1 January 2019:

	Carrying amount as at 01.01.2019
Assets under the usufruct right	10 860
Lease liabilities	10 860
	For the period of 12 months from 1.01.2019 until 31.12.2019
Estimated annual depreciation cost	5 336
Estimated annual interest cost	348

Implementation of the new standard shall not materially affect the financial result.

The Company decided not to take advantage of the possibility to apply the above new standards and amendments to the existing standards earlier.

The following standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and approved for application in the EU are effective for the first time in the Company in the financial statements for the year 2018:

- IFRS 9 “Financial Instruments”,
- IFRS 15 "Revenue from contracts with customers” and later amendments and explanations,
- Amendments to IFRS 2 “Share based payment”,
- Amendments to IFRS 4 "Insurance contracts” – Application of IFRS 9 “Financial instruments” with IFRS 4 “Insurance instruments”,
- Amendments to IAS 40 "Investment Property" – Transfers of investment property,
- Amendments to various standards “Amendments to IFRS (2014-2016 cycle” – amendments made within the procedure of implementing annual amendments to IFRS (IFRS 1 and IAS 28) directed mainly to inconsistencies resolution and vocabulary specification,
- IFRIC 22 interpretation "Foreign currency transaction and advance consideration”.

(in PLN thousand)

The above amendments applied by the Company, except IFRS 9 “Financial instruments” and IFRS 15 “Revenues from contracts with clients” and further amendments and explanations” the impact of which has been presented in the note 3.4., did not materially affect the accounting policy.

3.4. Amendments to the accounting principles and the basis of preparing the financial statements

In the period covered by the report, the Company for the first time applied the following new standards having a significant impact on the financial statements and made the following amendments to the presentation of the financial statements:

- **IFRS 9 “Financial Instruments”,**

The Company decided not to convert the data relating to earlier periods and to recognise the influence of the first application in the initial balance of results from previous years. The impact of the first application of the standard as at 1 January 2018 on the financial statements amounted to PLN 4 575 thousand - included as a reduction of retained earnings. The value adjustment results from the recognition of additional write-offs for expected credit losses. The table below presents the impact of implementing the new standard on selected items of the financial statements:

	Carrying amounts		
Balance sheet	**As at 01.01.2018 acc. to IAS 39**	**As at 01.01.2018 acc. to IFRS 9**	**Change due to IFRS 9 implementation**
Fixed assets			
Financial assets	432 101	431 413	(688)
Deposits under construction contracts	103 275	102 222	(1 053)
Assets under deferred tax	135 877	136 950	1 073
Current assets			
Trade and other payables	291 102	289 085	(2 017)
Deposits under construction contracts	33 620	31 861	(1 759)
Financial assets	230 084	229 953	(131)
Total			**(4 575)**

Financial assets classified by the Company as loans and receivables have been presented in the category of financial assets measured at amortised cost. The Company did not identify any other changes to the recognition.

The main assumptions of the accounting policy adopted by the Company with the first application of IFRS 9 are as follows:

<u>Classification and valuation</u>

Financial assets and liabilities are recognised when the Company becomes a party to a valid agreement. At the moment of initial recognition, the Company measures a financial asset or financial liability at its fair value, with the exception of trade receivables that are valued at the transaction price - if they do not contain a significant element of financing.

After the initial recognition, the Company measures a financial asset:
- at amortised cost;
- at fair value through other comprehensive income; or
- at fair value through profit or loss.

Financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is maintained in accordance with the business model, which aims to maintain financial assets to receive cash flows under the contract;
- terms of the contract relating to the financial asset cause cash flows to occur at specific times, which are only the repayment of the principal and interest from principal amount remaining to be repaid.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, upon initial recognition, the Company may make an irrevocable choice regarding certain investments in equity instruments that would otherwise be measured at fair value through profit or loss to recognise subsequent changes in fair value through other comprehensive income.

Assets are derecognised from the accounting books when the rights to receive cash flows on their account have expired or have been transferred and substantially all of the risks and rewards have been transferred due to their ownership.

The Company classifies all financial liabilities as measured after initial recognition at amortised cost with the exception of financial assets at fair value through profit or loss.

The Company does not apply hedge accounting.

Impairment of financial assets

The Company recognises allowances for expected credit losses due to a financial asset.

In the case of financial assets other than trade receivables and assets recognised in accordance with IFRS 15, the Company measures a write-down for expected credit losses for a financial instrument in the amount equal to expected credit losses over the entire life-cycle if the credit risk related to a given financial instrument has significantly increased since the moment of initial recognition.

In case of financial assets other that trade receivables and assets recognised under IFRS 15 if as at the reporting date the credit risk related to the financial instrument has not grown significantly from the moment of initial recognition, the Company measures the write-off for expected credit losses under this financial instrument in the amount equal to the expected 12 months' credit losses.

In case of trade receivables and assets recognised under IFRS 15, the Company always measures the write-off for the expected credit loss in the amount equal to the expected credit loss over the entire life-cycle.

The Company recognises in the financial result, as an impairment gain or loss, the amount of expected credit losses (or the amount of the released provision), which is required to adjust the write-off for expected credit losses as at the reporting date. Write-offs for the expected credit loss, recognised in the period have been presented in the note number 15.

The Company measures the expected credit losses due to financial instruments in a way that considers:

- an unencumbered and probability weighted amount that is determined by assessing a number of possible outcomes;
- the value of money over time; and
- rational and possible to be documented information that is available without excessive costs or efforts at the reporting date, regarding past events, current conditions and forecasts regarding future economic conditions.

The Company applies three step impairment model for the financial assets other than trade and other receivables:

Step 1 – balances for which credit risk has not significantly increased from the initial recognition. The expected credit loss is determined under the probability of not meeting the liability within 12 months (i.e. total expected credit loss is multiplied by the probability that the loss occur within the next 12 months);

Step 2 – includes the balances for which significant increase of credit risk has occurred from the initial recognition but there are not any objective premises for the loss of value; the expected credit loss is determined under the probability of not meeting the liability for the entire contractual life-cycle of an asset concerned;

Step 3 – includes balances in the case of which individual value loss has been identified;

Trade receivables are included to Step 2 or Step 3:

Step 2 – includes trade receivables for which a simplified approach has been applied for the expected credit loss valuation in the entire life-cycle of receivables except certain trade and other receivables classified to the Step 3;

Step 3 – includes trade and other receivables outdated for more than 90 days or in the case of which individual impairment has been identified;

- **IFRS 15 "Revenue from contracts with customers” and subsequent changes,**

The Company decided to apply the standard retrospectively with the combined effect of the first application recognised on the first application date, i.e. 1 January 2018. The impact of the implementation of the new standard on equity items in the financial statements as at 1 January 2018 is immaterial. The table below presents a comparison of the relevant items of the financial statements prepared for the current period in accordance with the implemented IFRS 15 standard and prepared in accordance with the policies in force in the Company until 31 December 2017:

(in PLN thousand)

	Data acc. to IFRS 15	Adjustment	Data acc. to IAS 18 and IAS 11
		As at 31 December 2018	
Contract valuation payables	10	–	10
Contracts valuation liabilities	83 019	3	83 016
		Year ended 31 December 2018	
Sales revenues	515 205	(242)	515 447
Gross sales revenues	(472 153)	239	(472 392)
Gross profit / (loss)	23 926	(3)	23 929

Distinction of separate obligations on some contracts which, according to the previously applied principles, were not distinguished, constitutes the reason for significant changes in the presentation.

The main assumptions of the accounting policy, adopted by the Company with the first application of IFRS 15, are as follows:

The Company recognises the contract with the client only if all of the following criteria have been met:
- the parties to the contract have entered into a contract (in writing, or in accordance with other usual commercial practices) and are required to perform their duties;
- The Company is able to identify the rights of each party regarding goods or services to be transferred;
- The Company is able to identify the payment terms for goods or services to be transferred;
- the contract has economic content (i.e. it can be expected that the contract changes the risk, schedule or amount of future cash flows of the entity); and
- it is probable that the Company receives remuneration that the Company is entitled to in exchange for goods or services transferred to the client.

The Company combines two or more contracts that were concluded simultaneously or almost concurrently with the same client (or entities related to the client), and recognises them as one contract if at least one of the following criteria has been met:
- contracts are negotiated as a package and concern the same commercial purpose;
- the amount of remuneration due under one agreement depends on the price or performance of another contract; or
- the goods or services promised in the contracts (or some goods or services promised in each of the contracts) constitute a single obligation to perform the service.

The Company recognises the change of contract as a separate agreement if at the same time: 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 sales prices of additional promised units' goods or services and any appropriate adjustments to that price made to consider the circumstances of the specific contract.

At the time of concluding the contract, the Company evaluates the goods or services promised in the contract with the client and identifies as a commitment to carry out the performance each promise to transfer to the client:
- goods or services (or a bundle of goods or services) that can be extracted; or
- groups of separate goods or services that are basically the same and for which the transfer to the client is of the same nature.

A piece of goods or service promised to the client is separate if both of the following conditions have been met:

- the customer can benefit from the piece of goods or service either directly or by linking to other resources that are readily available to them (i.e. the piece of goods or service may be separate); and
- the entity's obligation to transfer the piece of goods or service to the client can be identified as separate from other obligations specified in the contract (i.e. the piece of goods or service is separate under the contract itself).

The Company recognises revenue when it meets (or in the course of meeting) the obligation to perform the service by transferring the promised piece of goods or service (i.e. an asset) to the client. The transfer of an asset takes place when the client has taken over the control over this asset.

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

The Company uses one method of measuring the degree of fulfilment of obligations in respect of each obligation to perform the service over time and applies this method consistently in relation to similar obligations to perform the service and in similar circumstances. At the end of each reporting period, the Company reassess the degree of total fulfilment of the obligation to perform the benefit over time.

To measure the extent to which the obligation is met, the Company uses input-based methods. Revenues are recognised based on activities or expenditures incurred in meeting the obligation to perform the service in relation to the total expected expenses necessary to fulfil the obligation to perform the service. The progress is measured by the share of costs borne from the date of concluding the agreement until the day of determining the revenue in the assessed total costs of service provision or share of the performed work outlay in relation to total work outlays.

After fulfilment (or during the fulfilment) of the liability to carry out the benefit the Company recognised as revenue, the amount equal to the transaction price (excluding estimated values of changeable remuneration which are limited), which was assigned to this liability for carry out the benefit.

The Company takes into account the contract terms to determine the transaction price. The transaction price is the amount of remuneration, which according to the Company's expectations, shall be vested to it in return for the transfer of goods and services for the benefit of the client except the amounts collected on behalf of third parties. Remuneration determined in the contract with the client may include fixed, changeable or both types of the amounts.

Determining the transaction price, the Company adjusts the promised amount of remuneration with the change of the money value over time if the distribution of payments agreed by the parties to the contract (explicitly or implicitly) provides material benefits to the Company or generates financial costs under the financing of goods or services. In such circumstances, the Company acknowledges that the contract contains a material element of financing. Material element of financing may occur regardless of the fact that the promise of financing is explicitly determined in the agreement or also results from the payment conditions agreed by the Parties to the contract.

The Company assigns to the obligations to perform the benefit described in the contract, any subsequent changes to the transaction price under the same principles as at the moment of concluding the contract. The amounts assigned to the fulfilled obligations to perform the benefit are recognized as revenues or as a decrease of revenues in the period in which the transaction price was subject to change.

If the Company, as one of the parties to the contract, has fulfilled the obligation, the Company presents the contract as an element of assets under the contract (in the item "Receivables due to the valuation of contracts") or contractual liability (under the item "Liabilities due to the valuation of contracts") - depending on the relationship between the entity's fulfilment of obligations and issued invoices. The Company presents all unconditional rights to receive remuneration separately as trade receivables.

The Company presents the advance payments received in the item referring to contract valuation.

In the case, another entity has been involved in the supply of goods or services to the client, the Company determines whether the nature of the promise constitutes the obligation to carry out the benefit in the form of the supply of specific goods or services (in this case, the Company is the principal) or the commission for another entity to supply these goods or services (in this case, the Company acts as the agent).

The Company is the principal if it exercises control over the promised piece of goods or service before it is passed on to the client. However, the Company does not have to act as a principal if it obtains a legal title to the product only temporarily before it is transferred to the customer. A company appearing in the contract as the principal may itself fulfil the obligation to perform the service or may entrust the fulfilment of this obligation or its part to another entity (e.g. subcontractor) on its behalf. If the principal company fulfils the obligation to perform the service, it recognises revenues in the amount of remuneration to which - in accordance with the entity's expectation - it will be entitled in exchange for the goods or services transferred.

The Company acts as an intermediary if its obligation to perform the service consists in ensuring the delivery of goods or services by another entity. If the intermediary company fulfils the obligation to perform the service, it recognises revenue in the amount of any fee or commission to which, in accordance with the entity's expectation, it will be entitled in exchange for ensuring delivery of goods or services by another entity. The fee or commission payable to the unit may be the amount of remuneration that the Company retains after paying to another entity remuneration in exchange for goods or services provided by that entity.

- **The presentation changes,**

The Company has applied the following changes within the presentation of the profit and loss account:

- due to the application of the amended IAS 1, the Company has separated a new line “Profit / (loss) under the impairment of the financial assets”. This line presents revaluation write-offs for financial assets, in particular receivables, loans, recognized change in recognition of impairment losses for expected credit losses and other transactions regarding impairment of financial assets,
- discount referring to financial assets recognized in the period valued in the depreciated costs has been presented in the financial activity (previously presented in the cost of sales),
- stock revaluation write-offs recognized in the period have been presented within the remaining operating activities (previously presented in the cost of sales).

Table below presents the impact of the presentation changes on the comparative data for the year 2017:

	Year ended 31 Dec. 2017 prior to the change	Change	Year ended 31 Dec. 2017 after the change
Sales revenues	1 341 765	–	1 341 765
Cost of sales	(1 289 016)	6 965	(1 282 051)
Gross profit /(strata) on sales	**52 749**	**6 965**	**59 714**
Cost of sales	(1 080)	–	(1 080)
General administration costs	(26 357)	–	(26 357)
Profit / (loss) due to impairment of financial assets		(1 672)	(1 672)
Other operating revenues	39 855	385	40 240
Other operating expenses	(5 496)	(17)	(5 513)
Profit /(loss) on operating activities	**59 671**	**5 661**	**65 332**
Financial revenues	79 740	–	79 740
Financial expenses	(26 815)	(5 661)	(32 476)
Gross profit / (loss)	**112 596**	**–**	**112 596**

According to the Company, the presentation changes presented above shall cause that the financial statements shall include reliable and more useful information on these transactions' impact on the financial standing and results. After making the presentation change, the line "Gross profit / (loss) on sales" shall better present the result achieved on sales.

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 valued at revalued amounts or at fair values and financial instruments measured at fair value at the end of each reporting period in accordance with the accounting policy specified below.

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

The financial statements are presented in zlotys ("zlotys") (presentation currency), and all values, unless indicated otherwise, are given in thousand zlotys ("PLN thousand").

The most significant accounting principles applied by the Company:

The most important accounting principles applied by the Company have been presented below. In the scope of the accounting principles referring to the application of IFRS 9 and IFRS 15 for the first time, these principles have been described in the note 3.4.

4.2. Translation of positions expressed in foreign currency

The Polish zloty is the functional currency of the Company.

Transactions expressed in currencies other than the Polish zloty are translated into Polish zlotys using the exchange rate valid for the date of the transaction.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than the Polish zloty are translated into Polish zlotys using the average exchange rate set for a given currency by the National Bank of Poland in force at the end of the reporting period. Foreign exchange differences resulting from the translation and settlement of these items are recognised respectively in the financial income/expenses item or capitalised in the value of assets. Non-cash assets and liabilities recognised at historical cost expressed in a foreign currency are disclosed at the historical exchange rate as at the transaction date. Non-monetary assets and liabilities recognised at fair value expressed in a foreign currency are translated at the exchange rate effective at the date of valuation to the fair value.

4.3. Tangible fixed assets

Tangible fixed assets are shown at purchase price/production cost less amortisation and impairment write-downs, outside the asset class defined as real estate and buildings permanently connected with land, i.e. land, production plants and real estate developed with a warehouse, industrial office space building complex. The above class of assets is presented in the category of land and buildings and is valued according to the revalued value model.

The initial value of fixed assets includes their purchase price increased by all costs directly related to the purchase and adaptation of the asset to a condition suitable for use. The cost also includes the cost of replacing components of machines and devices when incurred, if the recognition criteria are met. Costs incurred after the date of putting the fixed asset into use, such as maintenance and repair costs, are charged to profit or loss when incurred.

Increases in the carrying amount due to revaluation of assets recognised according to the revalued amount method are referred to the items of other comprehensive income and recognised as cumulative other comprehensive income in equity. Reductions offsetting earlier increases that relate to the same fixed asset are charged to 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 upon removal of the asset item concerned from the balance sheet.

Fixed assets at the time of their acquisition are divided into components being items of significant value, to which a separate period of economic usability can be assigned.

Depreciation is calculated using the straight-line method over the estimated useful life of the given asset, amounting to:

Type	Period
Buildings and structures	10-60 years
Machinery and plant	2-40 years
Office equipment	3-10 years
Means of transport	2-30 years
Computers	2-8 years
Investments in third party tangible assets	10-25 years

The final value, period of use and method of amortisation of assets components is verified every year, at the end of December and if necessary, it is corrected with effect from the beginning of the next financial year.

Investments in progress relate to fixed assets under construction or assembly and are recognised at acquisition or production cost less any impairment losses. Fixed assets under construction are not subject to depreciation until the completion of construction and transfer of a fixed asset for use.

4.4. Investment real property

Initial recognition of investment property is based on the purchase price including transaction costs.

After initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss under other income or other operating expenses in the period in which they arose.

The transfer of assets to investment property is made only when there is a change in the manner of their use confirmed by the end of use of the asset by the owner or the conclusion of an operating lease agreement. If an element of assets used by the owner, i.e. the Company, becomes an investment property, the Company applies the principles described in the section *Property, plant and equipment* until the day of changing the manner of use of this property. The difference between the carrying amount determined in accordance with the principles set out in the section *Property, plant and equipment* and its fair value as of the date of transfer is treated analogically to the recognition 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. After the initial recognition, intangible assets are disclosed at the purchase price or production cost less depreciation and impairment losses.

Intangible assets with a definite useful life are amortised over their useful lives and tested for impairment each time there are indications that their value is impaired. The following periods of use have been applied:

Type	Period
Patents and licenses	For patents and licenses used under the contract concluded for a definite period, that period is assumed, taking into account the period for which the use my be extended
Costs of development works	5 years
Software	2-15 years

4.6. Lease

Lease agreements, according to which the lessor retains substantially all the risk and all benefits resulting from possessing the leased object, are classified as operating lease agreements. Initial operating fees and subsequent lease instalments are recognised as operating income in the income statement on a straight-line basis over the period of the lease.

Contingent lease payments are recognised as revenue in the period in which they have become due.

4.7. Impairment of non-financial fixed assets

At each balance sheet date, the Company assesses whether there are any indications that any of the components of non-financial fixed assets may have been impaired. If any such indication exists or if it is necessary to perform an annual impairment test, the Company estimates the recoverable amount of the asset or cash-generating unit to which the asset belongs, if the asset does not generate itself cash inflows.

The recoverable amount of an asset or a cash-generating unit is equal to the fair value less costs to sell the asset or cash-generating unit or its value in use, depending on which one is higher. If the carrying amount of an asset is higher than its recoverable amount, impairment occurs, and a write-off is made up to the determined recoverable amount.

At each balance sheet date, the Company assesses whether there are any indications that an impairment loss recognised in previous periods with respect to a given asset component is unnecessary or whether it should be reduced.

4.8. Borrowing costs

Borrowing costs are capitalised as part of the cost of producing fixed assets. Borrowing costs consist of interest calculated using the effective interest rate method, financial charges for financial leasing contracts and foreign exchange differences arising in connection with external financing up to the amount corresponding to the adjustment of the interest cost.

4.9. Shares in limited partnerships' profits

The company is a partner (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 division of this result or covering the loss takes place. Payables are assessed with application of the depreciated cost method. Shares in profits of limited partnerships are subject to revaluation in terms of impairment on principles for financial assets. The value update is presented as financial costs.

4.10. Inventories

Inventories are valued according to the lowest of two values: purchase price / cost of manufacture and net sale price possible to obtain.

Costs are recognised in the following manner:

Materials	in the purchase price determined by the "first in first out" method;
Finished products and work in progress	Cost of direct materials and labour and relevant margin of direct manufacturing costs determined at the assumption of the regular use of production capacity excluding the costs of borrowing;
Goods	in the purchase price determined with "first in first out" method.

At the moment of providing the inventories from the warehouse, the Company recognises own costs of sales in the case of sale or use of materials in the case of providing the inventory for further manufacturing or rendering the services.

At the moment of the inventories sales, the carrying amount of these inventories shall be recognized as the cost of the period in which relevant revenues are recognized.

Net sales price possible to obtain shall be the estimated sale price executed in the course of regular business activity decreased by the costs of finishing and the estimated costs necessary to make the sales effective.

4.11. Trade and other receivables

Trade and other receivables are recognised and disclosed according to the amounts initially invoiced, including write-down for doubtful receivables.

If the effect of the time value of money is material, the value of receivables is determined by discounting the projected future cash flows to the current value, using a discount rate reflecting current market assessments of the time value of money and counterparty credit risk. If the discounting method was applied, the increase in receivables due to the passage of time is recognized as financial revenues.

Other receivables include in particular advances forwarded for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented in accordance with the nature of the assets to which they relate - as fixed or current assets, respectively. As non-cash assets, advances are not discounted.

4.12. Deposits under the construction projects

The deposits under construction contracts are amounts due to the Company resulting from the amounts paid as part of the construction contracts.

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

If the effect of the time value of money is material, the value of the deposit is determined by discounting the projected future cash flows to the current value, using a discount rate reflecting current market assessments of the time value of money and counterparty credit risk. The write-off for deposits transferred under construction contracts is estimated when it is no longer probable to recover the full amount of the deposit.

If the discounting method has been applied, the increase in value due to the passage of time is recognised as financial income.

4.13. Cash and cash equivalents

The cash shown in the balance sheet includes cash at bank and on hand as well as bank deposits payable on demand.

Cash equivalents include investments that meet all of the following criteria: short-term, i.e. generally with a maturity of less than 3 months from the date of acquisition, high liquidity, 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. Credits, loans and debt securities (bonds)

At the moment of initial recognition, all bank loans, loans and debt securities are recognised at fair value less costs associated with obtaining a credit or a loan.

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

4.15. Assets (or groups held for sale) held for sale

Fixed assets (or groups held for sale) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, and sales are considered highly probable. They are recognised in the lower of the following two amounts: their carrying amount and fair value less costs to sell.

4.16. 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 shown at face value after having made sure that these costs will bring benefits to the entity in the future. Prepayments include mainly:
- insurance,
- subscriptions,
- rents paid in advance.

4.17. Shares in subsidiaries

Shares in subsidiaries are value at the costs. Impairment write-offs for shares held in subsidiaries are reversed when there are not any longer any premises for the depreciation up to the amount of the estimated recoverable amount not higher than the value which would have been recognised had there not been any depreciation recognised.

4.18. Deferred income

Deferred income is recognised taking into account the principle of prudent valuation. These include primarily the equivalent of received or due funds for benefits that will be performed in the next reporting periods. Amounts included into deferred income gradually increase operating income. This item includes also amounts reflecting the value invoiced in the case of which recognition of income shall take place in the subsequent periods.

4.19. Trade and other liabilities

Short-term trade liabilities are recognised in the amortised cost. Accrued expenses and also other financial liabilities that are not financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Other non-financial liabilities include, in particular, liabilities related to the purchase of fixed assets. Other non-financial liabilities are recognised in the amortised cost.

Liabilities due to guarantee deposits whose maturity date is shorter than 12 months are recognised as current liabilities.

Replacement of an existing debt instrument by an instrument with substantially different terms made between the same entities is recognised by the Company as the expiration of the original financial liability and the recognition of a new financial liability. Similarly, significant modifications to the terms of the agreement regarding an existing financial liability are recognised by the Company as expiration of the original and recognition of a new financial liability. The differences in respective balance sheet values arising from the conversion are shown in the profit and loss account.

4.20. Deposits under the construction projects

The deposits received under construction contracts are the amounts resulting from the amounts received as part of the implemented construction contracts.

The deposits under the construction contracts are recognised and reported according to the amounts originally invoiced or paid by the suppliers. In the subsequent periods, deposits are recognised in the amortised cost. Influence of measurement in the amortised cost is recognised as the financial profit / expenses.

4.21. Liabilities due to Employee Benefits

Short-term employee benefits paid by the Company include:

- remuneration and social insurance contributions,
- short-term paid absences, if absences are expected to occur within 12 months of the end of the period in which employees performed work related to such absences, payments from profit and bonuses falling due for payment within 12 months from the end of the period in which employees performed work related to such payments and bonuses,
- 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, when the following conditions are met:

- the entity has a present legal or constructive obligation to make such payments from the result of past events and
- this liability can be reliably valued.

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 the entitlements to which 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).

In accordance with the Collective Labour Agreement, the employees of the Company are entitled to retirement and pension benefits. Retirement and disability severance pays are paid once, at the time of retirement or pension. The amount of severance pay depends on the length of service in the Company and its legal predecessors (provided that the company obtains a net profit for 2 years in a row, otherwise the amount of the payment is one-month reward). The amount of the severance payment is affected by the aforementioned internship but also the average remuneration in the Company from December of the previous year. The Company creates a provision for future liabilities related to retirement benefits in order to allocate costs to the periods to which they relate. Demographic information and information about employment turnover are based on historical data.

Liabilities due to retirement benefits are presented by the Company in the item of liabilities due to employee benefits.
Post-employment benefits in the form of defined benefit plans (retirement and pension severance pay) 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 profit and loss account of the current reporting period.

4.22. Provisions

Provisions are established when the Company has an existing obligation (legal or constructive) resulting from past events and when it is probable that fulfilment of this obligation will result in the necessity of outflow of economic benefits and it is possible to reliably estimate the amount of this liability. If the Company expects that the costs covered by the provision will be returned, for example under an insurance contract, then this return is recognized as a separate asset, but only when it is virtually certain that the return will actually take place. The costs related to a given provision are disclosed in the profit and loss account after deduction of all returns.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the current value, using a discount rate reflecting current market assessments of the time value of money and the potential risk associated with the liability concerned. If the discounting method has been applied, the increase in the provision due to the passage of time is recognised as financial costs.

4.23. Reserve capital from the surplus on convertible bonds

The Company separately recognizes the components of financial instruments that create its financial liability and give its holders the option of converting to the Company's equity instrument. The company is the issuer of bonds convertible into shares of the Company. As at the date of the issue of bonds, the Company valued the capital element and the liability element of the issued bonds. The liability element was measured at fair value. The capital element was defined as the residual value of the amount remaining after deducting from the fair value of the entire instrument of the separately determined value of the liability component. The company does not change the qualification of the liability and equity component depending on the change in the probability of the conversion option.

4.24. Taxes

Current tax

Current tax liabilities and receivables for the current and previous periods are measured at the amount of expected payment to the tax authorities (subject to reimbursement from tax authorities) using tax rates and tax regulations that were legally or actually already in effect at the balance sheet date.

- *Deferred tax*

For the purposes of financial reporting, deferred tax is calculated using the balance sheet method in relation to temporary differences existing as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

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

- except when the provision for deferred tax arises as a result of the initial recognition of goodwill or initial recognition of an asset or liability when a transaction is not a business combination and does not affect gross profit or taxable income tax loss and
- in the case of positive temporary differences arising from investments in subsidiaries or affiliates 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 are not be reversed in the foreseeable future.

The carrying amount of the deferred tax asset is verified as at each balance sheet date and is subject to a corresponding reduction in so far as achievement of taxable income sufficient to partially or fully realise the deferred tax asset has ceased to be probable. Unrecognised deferred tax asset is subject to reassessment at each balance sheet date and is recognised to the amount reflecting the probability of future taxable income that allows the asset to be recovered.

Deferred income tax assets and deferred tax provisions are valued using tax rates that are expected to apply in the period when the asset is realised or the provision is released, based on tax rates (and tax regulations) in force as at the balance sheet date or those whose validity is certain in the future as at the balance sheet date.

Income tax related to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income regarding items recognised in other comprehensive income or directly in equity for items recognised directly in equity.

The company offsets deferred tax assets and deferred tax liabilities with it if and only if it has a legally enforceable right to set off the receivables with current tax liabilities and the deferred income tax is related to the same taxpayer and the same tax authority.

Most significant accounting principles applied by the Company until 31 December 2017.

Below, the most significant accounting principles have been presented applied by the Company in the period prior to the implementation of new IFRS 9 and IFRS 15 standards, i.e. until 31 December 2017.

4.25. Financial assets

Financial assets are divided into the following categories:
• Financial assets held to maturity,
• Financial assets at fair value through profit or loss,
• Loans and receivables,
• Available-for-sale financial assets.

Financial assets held to maturity

Financial assets held to maturity are financial assets that are not derivative instruments with defined or possible to specify payments and fixed maturity, which the Company intends and has the possibility to hold in possession until then, other than:

• designated at the initial recognition as measured at fair value through profit or loss,

• meeting the definition of loans and receivables,

• designated as available for sale.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets at fair value through profit or loss

A component of financial assets at fair value through profit or loss is an asset that meets one of the following conditions:

a) Is classified as held for trading.

Financial assets are classified as held for trading if they are:

- purchased mainly for the purpose of selling in the short term,
- part of the portfolio of specific financial instruments managed together, and for which there is a probability of obtaining a profit in the short term,
- derivative instruments, excluding derivative instruments being part of hedge accounting and financial guarantee contracts.

b) In accordance with IAS 39, he was qualified to this category upon initial recognition.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value as at the balance sheet date without taking into account the costs of the sale transaction. Changes in the value of these financial instruments are recognised in the profit and loss account as financial income or costs. If the contract contains one or more embedded derivatives, the entire contract may be classified as a financial asset at fair value through profit or loss. This does not apply to cases where the embedded derivative does not significantly affect the cash flows from the contract, or the separation of embedded derivatives is clearly prohibited.Financial assets may be initially recognised as those measured at fair value through profit or loss if the following criteria are met:

a) such elimination eliminates or significantly reduces the inconsistency of treatment, when both the valuation and rules for recognizing losses or profits are subject to other regulations; or

b) assets are part of a group of financial assets that are managed and assessed based on fair value, in accordance with a documented management strategy

risk; or

c) financial assets contain embedded derivatives, which should be separately recognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, provided their maturity does not exceed 12 months from the balance sheet date. Loans granted and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets. After the initial recognition, loans and receivables are measured at amortised cost using the effective interest rate.

Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are classified as available for sale or not belonging to any of the three categories of assets previously mentioned. Available-for-sale financial assets are recognised at fair value, without deducting transaction costs, taking into account the market value as at the balance sheet date. In the absence of stock exchange quotations on an active market and the inability to reliably determine their fair value by alternative methods, available-for-sale financial assets are measured at cost, adjusted for impairment losses. A positive and negative difference between the fair value of assets available for sale (if there is a market price determined on an active market or fair value of which can be determined in other reliable manner), and their acquisition price, net of deferred tax, is recognised in other comprehensive income. The decrease in the value of assets available for sale caused by impairment is recognised as a financial cost.

Shares in subsidiaries are recognised at acquisition cost adjusted for impairment loss write-offs.

Acquisition and sale of financial assets are recognised as at the transaction date. At initial recognition, a financial asset is measured at fair value increased in the case of an asset not qualified as measured at fair value through profit or loss, and transaction costs that can be directly assigned to purchase.

A financial asset is removed from the balance sheet when the Company loses control over the contractual rights making up a given financial instrument; usually this happens when the instrument is sold or when all cash flows attributed to the instrument are transferred to an independent third party.

4.26. Impairment of financial assets

At each balance sheet date, the Company assesses whether there is objective evidence of impairment of financial assets or a group of financial assets.

Assets recognized at amortised cost

If there are objective indications that a loss was incurred for the impairment of loans granted and receivables measured at amortised cost, the amount of the impairment allowance equals the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses due to the non-collection of receivables that have not yet been incurred), discounted using the original (i.e. determined at the initial recognition) effective interest rate. The carrying amount of an asset is reduced through a revaluation write-down. The amount of the loss is recognised in the profit and loss account.

The Company first assesses whether there is objective evidence of impairment of individual components of financial assets that are individually significant, as well as indications of impairment of financial assets that are not individually significant. If the analysis shows that there is no objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Company includes this component in the group of financial assets with similar credit risk characteristics and jointly evaluates the loss of value. Assets that are individually assessed for impairment and for which an impairment loss has been recognised or it was considered that the existing write-off will not change, are not taken into account in the collective assessment of the group of assets for impairment.

If, in the subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment has been recognised, the previously recognised write-down is reversed. Subsequent reversal of the impairment write-off is recognised in the profit and loss account to the extent that the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

Financial assets reported at cost

If there are objective indications of impairment of an unquoted equity instrument that is not carried at fair value, because its fair value cannot be measured reliably, or a derivative that is related and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment allowance is determined as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted using the current market rate of return for similar financial assets.

Impairment write-offs under losses on financial assets measured at cost are not reversed.

4.27 Revenues

Revenues are recognised in the amount in which it is probable that the Company obtains economic benefits related to a given transaction and when the amount of revenues can be measured reliably. Revenues are recognised net of value added tax (VAT) and excise tax as well as rebates. When recognising revenues, the criteria set out below apply as well.

Construction contracts

Revenue from completion of unfinished construction service covered by the contract, made as at the balance sheet date to a significant extent, is determined as at the balance sheet date proportionally to the stage of completion of the service, if the revenue amount can be determined reliably. The degree of advancement is measured by the share of costs incurred from the date of conclusion of the contract to the date of determining the revenue in the estimated total costs of the service or share of the work done in relation to the total labour outlays.

If the stage of completion of the unfinished service cannot be reliably established as at the balance sheet date, the revenue is determined in the amount incurred in the given reporting period, but not higher than the costs that the ordering party is likely to cover in the future.

In the event that it is probable that the total costs of performing the contract will exceed the total revenues from the contract, the expected loss is recognised as the cost of the period in which it was disclosed.

The costs of production of unfinished service include costs incurred from the date of conclusion of the relevant contract until the balance sheet date. The production costs incurred before the conclusion of the contract related to the implementation of its objective are counted into assets if it is probable that these costs are covered in the future with revenues obtained from the ordering party. Then they are recognised in the costs of producing the unfinished construction service.

If the incurred costs decreased by expected losses increased by profits included in the profit and loss account exceed percentage advancement the percentage of invoiced sales, resulting from the above difference, the amount of invoiced sales is presented in the balance sheet assets in receivables from the valuation of long-term contracts in correspondence with revenues from services.

If the percentage of invoiced sales exceeds the percentage advancement of incurred costs minus expected losses and increased by profits included in the profit and loss account, the future revenues resulting from the above difference are presented in liabilities due to the valuation of long-term contracts in correspondence with revenues from these services.

Revenues from the sale of goods, materials and products

Revenues are recognised if the significant risk and benefits resulting from the ownership of goods and products have been transferred to the buyer and when the amount of revenues can be reliably estimated.

Revenues from the rental of investment properties

Revenues from renting investment property are recognised using the straight-line method over the rental period in relation to open contracts.

Interest

Interest income is recognised successively as they accrue (taking into account the effective interest rate method, which is the rate that exactly discounts future cash flows over the estimated life of financial instruments) in relation to the net carrying amount of a given financial asset.

Dividends

Dividends are recognised when the shareholders' rights to be granted them have been established.

5. Significant values based on professional judgment and estimates

The basic assumptions regarding the future and other key sources of uncertainty occurring as at the balance sheet date, with which the significant risk of significant adjustment to the balance sheet value of assets and liabilities in the next financial year have been described below.

Useful lives of property, plant and equipment, note 4.3

The Company verifies the expected periods of economic use of items of property, plant and equipment at the end of each annual reporting period.

Fair value measurement and procedures related to the valuation

Investment properties are valued by the Company at fair value for the purposes of financial reporting. The valuation is carried out by external qualified property appraisers. The Company uses a revalued value model for the asset class: real estate and structures. When the revaluation is carried out, the Company acquires valuations at fair value for individual locations of real estate and structures. Revaluation is carried out for the entire asset class when the fair value differs significantly from the carrying amount. Valuations are prepared using income methods or comparative methods. Fair values are described in note 11.3.

Impairment of assets

The Company tests for impairment of fixed assets and shares when there are factors that indicate the impairment of assets. This requires estimating the value in use of the cash-generating unit to which these fixed assets belong. The estimation of value in use consists in determining future cash flows generated by the cash-generating unit and requires determining the discount rate to be used in order to calculate the current value of these cash flows.

Asset component due to deferred tax, note 8.3

The Company recognises deferred tax asset based on the assumption that in the future tax profit is achieved allowing its use. Deterioration of tax results in the future could make this assumption unjustified.

Recognition of revenues, note number 16

The gross margins of the contracts are determined based on the formalised process of the Project Review, as the difference between the sales price and the estimated total contract costs (the sum of costs incurred and estimated costs until completion of the contract). Verification of estimated costs to complete the project takes place during the Project Review carried out monthly, quarterly, semi-annual, or with a different frequency depending on the type of contract. Costs to complete the project are determined by competent teams, substantively responsible for the implementation of the area based on knowledge and experience.

The Company uses the method of percentage progress of works in the settlement of long-term contracts. The application of this method requires the Company to estimate the proportion of work done so far to all services to be performed. Based on the updated budgets of contracts and the progress of construction contracts, the Company recognises the effects of changes in estimates in the result of the next period.

Valuation of liabilities due to employee benefits - retirement and pension severance pays

Provisions for employee benefits were estimated using actuarial methods. The assumptions adopted for this purpose are presented in note 26.

Provision for warranty repairs; note number 25

Provisions for liabilities for warranty repairs are created during the contract in proportion to sales revenues. The amount of the created reserves depends on the type of construction services performed and constitutes a certain percentage of the value of revenues from the sale of a given contract. The value of reserves for the costs of warranty repairs may, however, be subject to individual analysis (including the opinion of the manager responsible for a given construction) and may be increased or decreased in justified cases. The release of provisions takes place within the first 3-5 years after completing the investment in proportions corresponding to the actually incurred costs of repairs.

Restructuring provision, note number 25

The Company creates a restructuring provision in case it has a detailed, formal plan specifying the activity or part of the business to which it pertains, the main locations to be covered, the number of employees who are to receive compensation in exchange for termination of employment and the date by which the plan has been implemented; in addition, the plan has been announced or its implementation started.

Provisions for litigation, note number 25

Provisions related to the effects of pending court proceedings are established when a claim is filed against the entity and the probability of a judgment unfavourable to the entity is greater than the probability of a favourable judgment. The basis for the assessment of this probability is the course of court proceedings and the opinions of lawyers. The created provisions are charged to other operating costs.

Provision for penalties, note number 25

Estimates of contractual penalties are made by the technical services involved in the construction contract, together with the legal department that interprets the provisions of the contract. Provisions for penalties are created when the probability of imposing a penalty by the contracting party due to improper performance of the contract is high.

Provisions for contract settlement costs, note number 25

Provisions for contract costs relate to the final settlement of road contracts. Detailed information on this subject has been included in the note number 7.1.

Provision for expected losses on construction contracts, note number 25

As at each balance sheet date, the Company updates the estimates of total revenues and expenses related to the projects implemented. The estimated total loss on the contract is recognised as costs of the period in which it was recognised.

Provision for sureties, note number 25

Surety granted is recognised in the books as a provision if, as at the balance sheet date, there is a high probability that the borrower is not be able to pay their debts.

Write-down of receivables (note number 15) and materials

At each balance sheet day, the Company analyses individual indications of trade receivables impairment such as: disputable receivables, receivables pursued at the court, receivables from companies in bankruptcy or liquidation and others. On these grounds, individual write-offs for the value of receivables are made and the remaining receivables are included by the Company by the write-off for the expected credit loss. Calculation technique has been described in the note number 3.4.

For each balance sheet day, the Group updates the redundant materials value write-off taking into account the period of storage in the warehouse and potential possibility to use them in the future.

6. Reporting segments

6.1. Reporting segments

For management purposes, the Company has been divided into parts based on the products and services provided. Due to the failure to meet the quantitative thresholds set out in IFRS 8, the Company combined information on the segments: Industrial construction and the infrastructure construction segment with information presented in the Other business segment. There are therefore the following reporting segments:

Power industry	services related to the energy industry. General contracting of facilities in the energy sector, design, production and sale of power boilers, maintenance services for the permanent and comprehensive service of power plants, combined heat and power plants and industrial plants.
Oil, gas, chemistry	general contracting of facilities in the chemical industry. Installation of process chemistry equipment for the chemical and petrochemical industry, prefabrication and assembly of steel structures, pipelines, technological storage tanks and piping, prefabrication and assembly of furnaces for the refinery industry. Implementation of pro-ecological projects. Recipients of services are chemical plants, refineries, petrochemical and gas industry.
Other business	industrial and infrastructure construction as well as hardware services transport, rental, 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 monitors the operating results of the segments separately in order to make decisions regarding the allocation of resources, the assessment of the effects of this allocation and results of operations. To assess operating results of segments, the Management Board uses the segment's result achieved on operating activities and the segment's gross result. Income tax is monitored at the level of the Company and its allocation to segments is not made.

Transaction prices applied to transactions between operating segments are set on market terms, similar to transactions with unrelated parties.

The tables below present data on revenues and profits of individual operating segments of the Company for the year ended on December 31, 2018 and as at December 31, 2017. The Management Board of the Company regularly monitors the results of segments; however, from January 1, 2014, due to the change in the organisational structure of the Company, no current assessment of segment assets and liabilities has been made. Consequently, in accordance with IFRS 8.23, the tables below do not include the breakdown of assets and liabilities by segment.

(in PLN thousand)

Reporting segments

Year ended December 31, 2018	**Power sector**	**Oil, gas, chemistry**	**Other business**	**Exclusions**	**Total business**
Revenues					
Sales to external customers	462 108	823	52 274	–	**515 205**
Sales between segments	–	–	–	–	**–**
Total segment revenues	**462 108**	**823**	**52 274**	**–**	**515 205**
Results					
Depreciation including:	45	3	3 130	–	3 178
- property, plant and equipment depreciation	11	3	2 659	–	2 673
- intangible assets depreciation	34	–	471	–	505
Segment profit / (loss) on operating activities	24 710	4 376	25 896	–	**54 982**
Financial revenue and expenses balance	(145)	–	(30 911)	–	**(31 056)**
Gross profit / (loss)	**24 565**	**4 376**	**(5 015)**	**–**	**23 926**

(in PLN thousand)

Reporting segments

Year ended December 31, 2017	**Power sector**	**Oil, gas, chemistry**	**Other business**	**Exclusions**	**Total business**
Revenues					
Sales to external customers	1 264 108	2 602	75 055	–	1 341 765
Sales between segments	–	–	10 446	(10 446)	–
Total segment revenues	**1 264 108**	**2 602**	**85 501**	**(10 446)**	**1 341 765**
Results					
Depreciation including:	1 739	5	4 446	–	6 190
- property, plant and equipment depreciation	1 671	5	3 894	–	5 570
- intangible assets depreciation	68	–	552	–	620
Segment profit / (loss) on operating activities	51 476	4 389	9 467	–	65 332
Financial revenue and expenses balance	154	(14)	47 124	–	47 264
Gross profit / (loss)	**51 630**	**4 375**	**56 591**	**–**	**112 596**

Revenues from transactions between segments are subject to elimination.

(in PLN thousand)

6.2. Geographical Information

The tables below present data on revenues generated in particular geographical areas for the year ended on December 31, 2018 and as at December 31, 2017.

Year ended December 31, 2018	Domestic	Abroad	TOTAL
Revenues			
Sales to external customers	509 744	5 461	**515 205**

Year ended December 31, 2017	Domestic	Abroad	TOTAL
Revenues			
Sales to external customers	1 327 153	14 612	**1 341 765**

The Company classifies sales as domestic or foreign sales based on the place of the service or delivery provided.

6.3. Key recipients of the Company

In 2018, the Company had one recipient, the sales for which exceed 10% of sales revenues. Sales to this recipient amounted to PLN 323.6 million and have been presented in the Power industry segment.

7. Revenues and expenses

7.1. Sales revenues

	Year ended December 31, 2018	Year ended December 31, 2017
Revenues from the sales of construction services and products	496 567	1 316 636
Revenues from the sales of goods and materials	184	784
Revenues from lease	18 454	24 345
Total sales revenues	**515 205**	**1 341 765**

In 2018, the Company was carrying out two strategic contracts in the Power Industry segment:

- for the construction of two new power blocks in Opole Power Plant,
- for new block construction in Żerań Power and Heat Plant

From January 2014, the Company has been carrying out the contract for the construction of two new power blocks in Opole Power Plant. Polimex Opole limited liability company limited partnership had been established as an SPV and at the level of this company the essential part of the margin has been realized. This contract has been an important contract of the Company in the power sector, which has been strategic for the firm. Historically, it is the largest and crucial investment in the Polish Energy sector for the Polish power segment. Its value amounts to PLN 11.6 billion gross, 42% of which, i.e. PLN 4.8 billion falls for the Company. Within the scope of the contract the turbines islands and the chimney coolers shall be constructed with the cooling water system. Electric systems with control and measurement equipment and automatics shall also be made. The Company shall also participate in the design works. Planned transfer for use of block 5 shall take place on 31 May 2019 and block number 6 on 30 September 2019 that is confirmed in the Annex number 9, signed on 10 October 2018 by the Consortium of (Polimex Mostostal, Mostostal Warszawa, Rafako and GE Power Sp. z o.o., which is the general designer and acts as the consortium leader managing the Project implementation).

From June 2017, the Company (within the consortium) has been also carrying out the supply and assembly of gas and vapour block of the electrical power at the level of 497 MW and heat capacity at the level of 326 MW with additional systems and objects in Żerań Heat and Power Plant in Warsaw. Total value of the contract amounts to PLN 982.28 mln and EUR 111.93 mln of which 26% falls to the Company. In the financial year 2018, there was a need to create additional reserve for costs amounting to ca. PLN 57.6 mln, which decreased the Company's EBITDA in the above provided amount. Creation of the reserve results from the conducted analyses, during which the risk was identified causing the increase of Żerań Project implementation's costs.

(in PLN thousand)

In 2017, the Company (signing PAC, December 2017), completed the implementation in the consortium of the contract in Kozienice Power Plant for the new unit of the capacity of 1075 MW. In the result of activities related to realization of the power unit construction in Kozienice Power Plant, within which previously diagnosed technical risks have been partially limited, purchase processes optimization and sub-contractors and suppliers' verification and settlement processes improvement and also due to signing the protocol of taking over the block for operations on 19 December 2017, the Management Board of the Company having analysed during the process of closing the accounting books of the Company for the year 2017, adopted a resolution on decreasing total Kozienice Project costs amounting to PLN 42.3 mln. This inflow was entirely recognised in 2017. In the financial year 2018, during further verification and settlements processes with subcontractors and suppliers and absence of materialization of the sequence of earlier estimated risks, further decreases of budget costs of the project occurred in the total amount of PLN 56.3 mln. The influence of budget adjustment was entirely included in the financial result for the year 2018.

7.2. Revenues in division into the categories

Revenues according to the type of good or service

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

Revenues from contracts with clients under IFRS 15 include first two items in the table above.

Year ended on December 31, 2017	Power	Oil, gas, chemistry	Other operations	Exclusions	Total operations
Revenues from the sales of construction services and products	1 264 086	2 478	60 518	(10 446)	1 316 636
Revenues from the sales of goods and materials	15	124	645	–	784
Revenues from lease	7	–	24 338	–	24 345
Total sales revenues	**1 264 108**	**2 602**	**85 501**	**(10 446)**	**1 341 765**

(in PLN thousand)

Revenues by the geographical region

Year ended on December 31, 2018	Power	Oil, gas, chemistry	Other operations	Exclusions	Total operations
Domestic	462 108	331	47 305	–	509 744
Abroad	–	492	4 969	–	5 461
Total sales revenues	**462 108**	**823**	**52 274**	**–**	**515 205**

Year ended December 31, 2017	Power	Oil, gas, chemistry	Other operations	Exclusions	Total operations
Domestic	1 264 108	2 602	70 889	(10 446)	1 327 153
Abroad	–	–	14 612	–	14 612
Total sales revenues	**1 264 108**	**2 602**	**85 501**	**(10 446)**	**1 341 765**

7.3. Expenses by types

	Year ended December 31, 2018	Year ended December 31, 2017*
Depreciation	3 178	6 190
Materials and energy consumption	14 202	32 026
External services including the construction ones	454 295	1 233 129
Taxes and charges	3 439	4 156
Costs of employee benefits	27 820	31 881
Other costs by types	2 060	4 226
Total costs by types	**504 994**	**1 311 608**
Items recognised in costs by types	–	(1 080)
Items recognised in total administration costs	(32 955)	(26 357)
Value of goods and materials sold	106	655
Change in products stock	8	(2 775)
Own costs of sales	**472 153**	**1 282 051**

**Transformed data – amendments described in the note 3.4.*

7.4. Depreciation costs recognised in the profit and loss account

	Year ended December 31, 2018	Year ended December 31, 2017
Items recognised in own costs of sales	**3 010**	**6 080**
Depreciation of fixed assets	2 564	5 468
Depreciation of intangible assets	446	612
Items recognised in the general administration costs	**168**	**110**
Depreciation of fixed assets	109	102
Depreciation of intangible assets	59	8
Total depreciation and impairment write-offs	**3 178**	**6 190**
Total fixed assets depreciation	2 673	5 570
Total intangible assets depreciation	505	620

(in PLN thousand)

7.5. Costs of employee benefits

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries	23 434	25 926
Social insurance contributions	3 574	4 382
Pension benefits	281	97
Social Fund write-offs	245	461
Other	286	1 015
Total employee benefits costs	**27 820**	**31 881**

7.6. Assets impairment profits / (losses)

	Year ended December 31, 2018	Year ended December 31, 2017*
Receivables impairment write-offs	10 791	(693)
Loans impairment write-offs	(878)	(979)
Profits / (losses) for financial assets impairment	**9 913**	**(1 672)**

**Transformed data – changes described in the note 3.4.*

7.7. Other operating revenues

	Year ended December 31, 2018	Year ended December 31, 2017*
Revenues from the sales of assets		
Profit on sale of fixed assets	1 683	2 468
Dissolved impairment write-offs and provisions		
Dissolved provisions for litigation	13 081	16 309
Other operating revenues		
Profit from revaluation of fixed assets to fair value	–	612
Profit from revaluation of investment properties to fair value	8 464	–
Court settlement	–	12 513
Compensation and penalties gained	2 322	1 683
Redemption of liabilities	8 909	1 627
Changes to the sales plan	–	1 919
Social Fund settlement arrangements	–	1 575
Funds from the liquidated company’s auction	3 013	–
Other	1 555	1 534
Total other	**39 027**	**40 240**

**Transformed data – amendments described in the note 3.4.*

(in PLN thousand)

7.8. Other operating expenses

	Year ended December 31, 2018	Year ended December 31, 2017*
Established impairment write-offs and provisions		
Non-financial fixed assets impairment write-offs	532	97
Provisions for litigation	1 873	2 233
Other operating expenses		
Investment real properties valuation to fair value	–	745
Compensation and penalties	548	1 055
Current assets liquidation expenses	–	209
Litigation expenses	987	1 063
Other	115	111
Total other operating expenses	**4 055**	**5 513**

** Transformed data – amendments described in the note 3.4.*

7.9. Financial revenues

	Year ended December 31, 2018	Year ended December 31, 2017
Revenues from bank interest and loans	6 213	4 579
Revenues from interests on arrears in the payment of payables	1 202	7 282
Revenues from dividend	1 876	700
Revenues from sales of financial assets	579	–
Long terms settlements depreciated by cost measurement	2 827	–
Dissolution of provisions for financial costs	1 000	2 105
Dissolution of shares value impairment write-offs	9 318	–
Credits valuation to amortised cost	–	5 803
Shares in limited partnerships profits	11 329	59 215
Profit on companies' liquidation	817	–
Other	611	56
Total financial revenues	**35 772**	**79 740**

7.10. Financial expenses

	Year ended December 31, 2018	Year ended December 31, 2017*
Interest on bank credits and loans	5 840	4 859
Interest and commissions on bonds	15 589	15 648
Interest on other liabilities	2 041	2 862
Bank commissions on Guarantees and credits	1 754	1 668
Exchange losses	396	147
Measurement of long-term settlements depreciated with cost	–	6 640
Provisions for financial expenses	753	327
Share in the losses of limited partnerships	40 454	–
Other	1	325
Total financial expenses	**66 828**	**32 476**

** Transformed data – amendments described in the note 3.4.*

(in PLN thousand)

8. Income tax

8.1. Income tax

Main elements of tax encumbrance for the year ended December 31, 2018 and December 31, 2017 are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Profit and loss account		
Current encumbrance due to income tax	–	(1 030)
Deferred income tax	(1 824)	(29 008)
Tax expense from continued operations indicated in the profit and loss account	**(1 824)**	**(30 038)**
Statement of comprehensive income		
Deferred income tax due to land and buildings revaluation	–	(402)
Deferred income tax due to valuation of liabilities under post-employment benefits	3	37
Tax expense from the continued operations indicated in the comprehensive income	**3**	**(365)**

Income tax on profit before tax differs as follows from the theoretical amount that would have been obtained by using the weighted average tax rate (applicable to the profits of consolidated companies):

	Year ended December 31, 2018	Year ended December 31, 2017
Profit/ (loss) before tax	23 926	112 597
Tax according to the tax rate applicable in Poland amounting to 19% in 2018 (2017: 19%)	(4 546)	(21 393)
Tax effects of the following items:		
- Non-taxable income	6 375	4 843
- Costs not constituting costs of obtaining income	(1 686)	(2 533)
- Recognition of temporary differences settlements related to limited partnerships' results	22 176	1 908
- Tax losses and negative temporary differences due to which no deferred income tax assets were recognised	(9 914)	(11 458)
- Tax rates depreciation adjustment for previous years	(6 073)	-
- Other	(8 156)	(1 405)
Financial result encumbrance due to income tax	**(1 824)**	**(30 038)**

8.2. Deferred income tax

Table below presents deferred income tax assets and provisions prior to offsetting.

	Year ended December 31, 2018	Year ended December 31, 2017
Deferred income tax assets:		
prior to offsetting		
- due for settlement after 12 months	74 975	74 385
- due for settlement within 12 months	64 759	73 712
	139 734	**148 097**
Deferred income tax provisions: prior to offsetting		
- due for settlement after 12 months	3 532	9 477
- due for settlement within 12 months	1 073	2 743
	4 605	**12 220**

(in PLN thousand)

8.3. Deferred income tax assets and provisions

Deferred income tax assets	Liabilities due to employee benefits	Other employee benefits	Provisions impairment write-offs	Payables impairment write-offs	Long-term contracts valuation	Provisions	Overdue liabilities	Tax losses	Accrued interest	Deferred tax related to temporary differences in limited partnership	Other	Total
As at January 1, 2017	**380**	**2 130**	**537**	**19 086**	**45 547**	**40 278**	**542**	**26 651**	**14 399**	**28 453**	**2 548**	**180 552**
Financial result credit / (debit)	(163)	(905)	59	120	(42 342)	22 583	(257)	7 921	190	(19 381)	(316)	(32 491)
Other comprehensive income credit / (debit)	37	–	–	–	–	–	–	–	–	–	–	37
As at December 31, 2017	**254**	**1 225**	**596**	**19 207**	**3 205**	**62 861**	**285**	**34 572**	**14 589**	**9 072**	**2 231**	**148 097**
Financial result credit / (debit)	(133)	(649)	(17)	(4 607)	1 300	(32 446)	(81)	24 108	(4 181)	6 483	774	(9 449)
Other comprehensive income credit / (debit)	3	–	–	–	–	–	–	–	–	–	–	3
Retained earnings credit / (debit)	–	–	–	1 073	–	–	–	–	–	–	–	1 073
Reclassification of provisions	–	–	–	–	–	–	–	–	–	–	10	10
As at December 31, 2018	**124**	**576**	**579**	**15 673**	**4 505**	**30 415**	**204**	**58 680**	**10 408**	**15 555**	**3 015**	**139 734**
Net presentation of asset and deferred income tax provisions												(4 605)
Deferred income tax Asset in the balance sheet												**135 129**

Deferred income tax provisions	Temporary differences referring to fixed assets	Long-term contracts valuation	FX valuation	Other	Total
As at January 1, 2017	**11 933**	**2 599**	**57**	**712**	**15 301**
Financial result debit / (credit)	(2 858)	(1 447)	29	793	(3 483)
Other comprehensive income debit / (credit)	402	–	–	–	402
As at December 31, 2017	**9 477**	**1 152**	**86**	**1 505**	**12 220**
Financial result debit / (credit)	(5 945)	(1 150)	(96)	(434)	(7 625)
Reclassification to assets	–	–	10	–	10
As at December 31, 2018	**3 532**	**2**	**–**	**1 071**	**4 605**
Net presentation of deferred income tax assets and provision					(4 605)
Deferred income tax provision in the balance sheet					**–**

(in PLN thousand)

Table below presents expiry periods for unsettled tax losses, due to which deferred income tax assets have not been recognised.

Loss settlement expiration year	Amount of loss to be deducted in future periods	Amount of asset unrecognised from tax losses
2023	45 171	8 583
2019	43 417	8 249
Total	**88 588**	**16 832**

9. Dividends paid and offered to be paid

In the years 2017-2018, the Company did not declare or pay any dividends. The Company does not foresee to pay dividend in 2019 for the financial year ended December 31, 2018.

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the Company for a given period by the weighted average number of issued ordinary shares existing in the reporting period.

The company has financial liabilities under convertible bonds. These bonds, when calculating earnings per share, have anti-diluting effect. Therefore, they are not included in the diluted profit calculation. Basic earnings per share are convergent with diluted earnings per share.

Data on profit and shares that is used to calculate earnings per share has been presented below:

	Year ended December 31, 2018	Year ended December 31, 2017
Net profit / (loss)	**22 102**	**82 558**
Basic and diluted earnings / (loss) per share (in PLN):		
Number of shares registered as at the balance sheet date	236 618 802	236 618 802
Weighted average number of ordinary shares used for basic earnings / (loss) per share calculation	236 618 802	236 618 802
Earnings / (loss) per share	0,093	0,349

(in PLN thousand)

11. Property, plant and equipment

11.1. Property, plant and equipment

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

(in PLN thousand)

	Land and buildings	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets unde construction	Total
Net value as at January 1, 2017	**28 151**	**11 795**	**9 976**	**3 255**	**914**	**54 091**
Revaluation	2 120	–	–	–	–	**2 120**
Acquisition of property, plant and equipment	–	628	–	14	–	**642**
Sales and liquidation of fixed assets	(84)	(547)	(40)	(57)	(250)	**(978)**
In-kind contribution to subsidiary	(9 862)	(7 923)	(8 953)	(204)	–	**(26 942)**
Changes to the sales plan	3 933	(2 108)	3	79	–	**1 907**
Reclassification from assets held for sales	5 929	5 573	55	137	–	**11 694**
Reclassification to assets held for sales	(144)	(360)	–	(1)	–	**(505)**
Reclassification to investment real property	(16 290)	–	–	–	–	**(16 290)**
Depreciation write-off for the financial period	(736)	(2 064)	(714)	(2 056)	–	**(5 570)**
Net value as at December 31, 2017	**13 017**	**4 994**	**327**	**1 167**	**664**	**20 169**
As at January 1, 2017						
Gross value	36 987	84 818	36 960	24 171	2 304	**185 240**
Depreciation and impairment allowances	(8 836)	(73 023)	(26 984)	(20 916)	(1 390)	**(131 149)**
Net value as at January 1, 2017	**28 151**	**11 795**	**9 976**	**3 255**	**914**	**54 091**
As at December 31, 2017						
Gross value	14 287	62 134	10 542	21 778	2 054	**110 795**
Depreciation and impairment allowances	(1 270)	(57 140)	(10 215)	(20 611)	(1 390)	**(90 626)**
Net value as at December 31, 2017	**13 017**	**4 994**	**327**	**1 167**	**664**	**20 169**

(in PLN thousand)

11.2. Fair values of land, buildings and structures

Property, land and equipment (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 built up with a complex of storage, industrial and office buildings ("Lands and buildings"). The above asset class has been measured at fair value starting from October 2013.

The last valuation of fixed assets was carried out as at August 31, 2017.

The valuations were prepared by independent property appraisers. The income approach, the investment method and the simple capitalisation technique were applied. The techniques used for the valuation were based on unobservable input data. In the case of land, there was a change in the valuation technique, a change from the comparative approach to the income approach. The property appraiser stated that after considering the purpose and scope of the valuation, the destination of the property, its legal status and the state of development and market information on similar properties, the appropriate procedure to determine the market value of the property will be the income approach, investment method, simple capitalisation technique.

The fair value measurement was categorised in the fair value hierarchy on level 3. Material information referring to the measurement techniques and parameters applied, and significant unobservable data have been presented in the Financial statements for the year ended December 31, 2017 in the note number 11.2.

As at December 31, 2018, the property was not revalued to the fair value determined based on the independent appraisers' surveys. The company monitors the situation on the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, and structures). As at December 31, 2018, the value of fixed assets recognised in accordance with the revalued model does not differ materially from their fair value.

11.3. Investment real properties

	Year ended December 31, 2018	Year ended December 31, 2017
Value as at January 1	**50 637**	**34 347**
Increase:		
- reclassification from fixed assets	–	16 290
Decrease:		
- reclassification to fixed assets	(10 391)	–
- reclassification to assets held for sale	(2 421)	–
Value as at December 31	**37 825**	**50 637**

Investment properties have been valued as at November 30, 2018.

The Company employs external, independent appraisers to determine fair value of land, buildings and structures owned by the Company. As at November 30, 2018, fair values of real estate were determined in the form of appraisal reports by ICF Corporate Finance Sp. z o.o.

As at December 31, 2018, no valuation for the value of investment property was carried out. The company monitors the situation on the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, and structures). There were not any indications that the fair value of investment properties changed significantly from the previous valuation.

In estimating the fair value of real estate, the best and best use of real estate was applied (which is the current application of these properties). The external valuation of land, buildings and structures within level 3 was carried out using the income approach. In the case of land, there was a change in the valuation technique, a change from the comparative approach to the income approach. The property appraiser stated that after considering the purpose and scope of the valuation, the destination of the property, its legal status and the state of development and market information on similar properties, the appropriate procedure to determine the market value of the property will be the income approach, investment method, simple capitalisation technique.

(in PLN thousand)

Details on investment properties and information on the hierarchy of fair values as at December 31, 2018 and as at December 31, 2017 are as follows:

	Fair value as at December 31, 2018	**Fair value as at December 31, 2017**
	Level 3	**Level 3**
Real properties built up with warehouse, industrial and office buildings complex, including land	37 825	50 637
Total	**37 825**	**50 637**

(in PLN thousand)

The following data is significant for investment real Property for level 3 of fair value hierarchy:

<table>
<tr><th>Description</th><th>Fair value as at December 31, 2018</th><th>Valuation technique</th><th>Unobservable data</th><th>Scope of unobservable data (probability weighted average)</th><th>Relations between unobservable data and fair value</th></tr>
<tr><td rowspan="5">Real properties developed with warehouse, industrial, office complex, including land included in the manufacturing, office and warehouse complex</td><td rowspan="7">37 825</td><td rowspan="5">Income approach, investment method, simple capitalisation technique</td><td>Capitalisation rate</td><td>Capitalisation rate was applied taking into account revenue capitalisation potential, type of real property and existing market conditions: 8.5-11.5%</td><td>Insignificant increase of applied capitalization rate would cause significant decrease of real property fair value (and vice versa).</td></tr>
<tr><td rowspan="4">Rent charge</td><td>Average market rent was applied taking into account real estate assignment (office and administration, warehouse purposes), differences in location as well as individual factors, such as real property size, comparison to other real property – at average value.</td><td rowspan="4">Significant increase of market rent would cause significant fair value growth (and vice versa).</td></tr>
<tr><td>- PLN 12 – 16 per sqm per month for manufacturing, office and warehouse purposes real property (Jasło district)</td></tr>
<tr><td>- PLN 8.5 - 20.5 per sqm per month for real property of administration, office and warehouse and manufacturing purposes real property (Krosno district)</td></tr>
<tr><td>- PLN 15 - 23 per sqm per month for real property of administration and office and warehouse and manufacturing purposes (Płock district)</td></tr>
<tr><td rowspan="2">Land included in real properties developed with the complex of manufacturing, office and warehouse real properties</td><td rowspan="2">Comparative approach, adjustment method average prices</td><td rowspan="2">Average price per sqm of comparable land depending on the assignment</td><td>- average price per sqm of comparable real properties PLN 29.99 (Jasło district), adjustment co-efficient 1.217;</td><td rowspan="2">Average sqm price growth influences real property value (and vice versa)</td></tr>
<tr><td></td></tr>
</table>

				- average sqm price of comparable real properties PLN 43.96 (Krosno district), average price per sqm of the perpetual usufruct of land PLN 32.97 (Krosno district) adjustment co-efficient 1.484;	
				- average price per sqm of comparable real properties PLN 83.59 (Płock district), the adjustment coefficient K 0.96;	
		comparative approach, method of comparing by pairs	Average price per sqm of comparable lands depending on their assignment	- average price per sqm of comparable real properties PLN 65.65 (Płock district), the adjustment coefficient K 0.90;	Increase of average price per sqm influences the increase of real estate value (and vice versa)

(in PLN thousand)

12. Financial assets

12.1. Long-term financial assets

	As at December 31, 2018	As at December 31, 2017
Stock and shares in subsidiaries	386 824	377 902
Stock and shares in associates	503	503
Bank guarantee commissions	2 000	–
Loans	68 608	53 696
Total	**457 935**	**432 101**

Shares in associates have been presented in the note 12.5.

12.2. Short-term financial assets

	As at December 31, 2018	As at December 31, 2017
Bank guarantee commissions referring to contracts	115	219 616
Loans	5 918	10 468
Total	**6 033**	**230 084**

12.3. Information on financial instruments measured at fair value

The Company is a party to the Investment Certificates Option Purchase Agreement concluded with PKO BP S.A. on November 7, 2013 as amended, which, depending on the real estate price scenario, will determine the amount of acquisition / settlement between the parties in the future. If the investor does not achieve the minimum rate of return on investment, the Company will be required to compensate the relevant part of the loss. In the case of an increase in the value of the real estate portfolio, the Company is guaranteed to participate in the part of the profit over the rate of profit guaranteed to the investor. In the reporting period, there was not any change in the method of valuation of this instrument, consisting in discounting the projected growth rate of the value of the real estate portfolio in the horizon of the transaction's duration. The value of the instrument recognised in the books as at December 31, 2018 amounted to PLN 0 (December 31, 2017: PLN 0).

12.4. Change in the long-term financial assets – shares and stock

	Year ended December 31, 2018	Year ended December 31, 2017
As at January 1	**378 405**	**310 735**
Increases	**9 383**	**67 670**
Acquisition of shares	65	11 179
In-kind contribution to subsidiary to cover the contributions	–	47 516
Reclassification from assets held for sales	–	8 975
Revaluation – reversal of impairment write-offs	9 318	–
Decreases	**(461)**	**–**
Sales of shares	(461)	–
As at December 31	**387 327**	**378 405**

During the year ended December 31, 2018, the Company reversed value of impairment write-offs for shares held in the following companies: Polimex Mostostal ZUT Sp. z o.o. Sp.k., Stalfa Sp. z o.o., Czerwonogradzki Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością i Polimex Mostostal Ukraina Spółka z dodatkową odpowiedzialnością, for the total value of PLN 9 318 ths.

(in PLN thousand)

12.5. Shares in subsidiaries as at December 31, 2018

Item	Unit	Registered office	Scope of activities	Shares value according to purchase price	Valuation adjustments (total)	Carrying amount of shares	Share capital percentage held	Share in the total number of votes
	Subsidiaries							
1	Mostostal Siedlce Sp. z o.o. Sp. k.	Siedlce	Manufacture of metal and other structures	208 039	-	208 039	99%	
2	Polimex Energetyka Sp. z o.o.	Warszawa	Construction works	183 274	(85 309)	97 965	100%	100%
3	Naftoremont - Naftobudowa Sp. z o.o.	Płock	Construction works	53 518	(34 587)	18 931	100%	100%
4	PRInż - 1 Sp. z o.o. w restrukturyzacji (under recomposition)	Sosnowiec	Road construction	35 320	(35 320)	-	95%	91%
5	Polimex-Mostostal Ukraina Spółka z dodatkową odpowiedzialnością	Żytomierz, Ukraine	Construction of residential buildings	17 422	(14 418)	3 004	100%	100%
6	Polimex Operator Sp. z o.o. Sp. k.	Warszawa	Construction and office machinery and equipment rental and lease	16 983	-	16 983	98,99%	
7	Polimex Budownictwo Sp. z o.o.	Siedlce	Architecture, engineering and technical advisory. Construction works related to erection of residential and non-residential buildings.	11 242	(11 090)	152	100%	100%
8	Czerwonogradzki Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością	Czerwonograd-Ukraine	Metal structures manufacture	9 035	-	9 035	100%	100%
9	Polimex Opole Sp. z o.o. Sp.k.	Warszawa	Construction works, commercial activities, consulting and advisory services	8 052	-	8 052	99,80%	
10	BR Development Sp. z o.o.	Kraków	Real property purchase and sale, advisory in the scope of business activity	6 198	-	6 198	100%	100%
11	Polimex Budownictwo Sp. z o.o. Sp. k.	Siedlce	Construction works	5 475	-	5 475	98,99%	
12	Stalfa Sp. z o.o.	Sokołów Podlaski	Metal products manufacture	5 294	-	5 294	100%	100%

(in PLN thousand)

13	Polimex-Development Inwestycje Apartamenty Tatarska Sp. z o.o.	Kraków	Construction works	4 970	-	4 970	100%	100%
14	Polimex Engineering Sp. z o.o. w upadłości	Gliwice	Design in the construction sector	4 881	(4 881)	-	100%	100%
15	Polimex Centrum Usług Wspólnych Sp. z o.o.	Warszawa	Accounting and book-keeping activities, accounting and book-keeping services	4 180	(3 161)	1 019	100%	100%
16	WBP Zabrze Sp. z o.o.	Gliwice	Design	3 331	(3 331)	-	100%	100%
17	Polimex-Mostostal ZUT Sp. z o.o.	Siedlce	Technical services	1 006	-	1 006	100%	100%
18	Polimex Infrastruktura Sp. z o.o.	Warszawa	Road and motorways constructions works	269	-	269	100%	100%
19	Sinopol Trade Center Sp. z o.o.	Płock	Wholesale trade	257	(257)	-	50%	50%
20	Polimex Opole Sp. z o.o.	Warszawa	Construction works, commercial activities, consulting and advisory services	70	(4)	66	100%	100%
21	Polimex SPV1 Sp. z o.o.	Katowice	Business activity and management advisory	50	-	50	100%	100%
22	Polimex-Mostostal Wschód Sp. z o.o.	Moskva, Russia	Specialised and general construction	20	-	20	100%	100%
23	Polimex SPV 2 Sp. z o.o.	Warszawa	Advisory in the scope of business activity and management, legal, accounting and	15	-	15	100%	100%
24	Polimex-Inwestycje Sp. z o.o. w likwidacji	Kraków	Construction works	10	-	10	100%	100%
25	Mostostal Siedlce Sp. z o.o.	Siedlce	Steel structures, gratings and supports manufacturing	5	-	5	100%	100%
26	Polimex Operator Sp. z o.o.	Warszawa	Construction and office machinery and equipment rental and lease	5	-	5	100%	100%
	Other			1 625	(1 364)	261		
	Associates							
1	Energomontaż - Północ Bełchatów Sp. z o.o.	Rogowiec	Specialised construction and assembly services	503	-	503	32,82%	32,82%
			Total	**581 049**	**(193 722)**	**387 327**		

(in PLN thousand)

13. Long-term receivables

	As at December 31, 2018	As at December 31, 2017
Receivables due to shares in limited partnership profit	–	144 029
Other	19 632	28 472
Total	**19 632**	**172 501**

As at December 31, 2018 and December 31, 2017 other long-term receivables constitute long-term part of an advance payment on the contract for the delivery and assembly of gas and vapour block in Żerań Heat and Power Plant. Then, as at December 31, 2017 long-term receivables additionally constituted shares in the profits of Polimex Opole Sp. z o.o. Sp. k. amounting to PLN 144 029 ths. The expected date for the realization of these receivables falls on September 30, 2019. As at December 31, 2018 shares in the profits of Polimex Opole Sp. z o.o. Sp. k. (amounting to PLN 111 193 ths) have been presented as the remaining short-term receivables from associates.

14. Trade and other receivables

	As at December 31, 2018	As at December 31, 2017
Trade receivables	**136 795**	**258 050**
From related entities	126 798	122 228
From other units	9 997	135 822
Taxes, duties, insurances and other receivables	**–**	**38**
Other budget receivables	–	38
Other receivables	**148 197**	**33 014**
Other receivables from third parties	4 197	1 928
Other receivables from related entities	144 000	31 086
Total net receivables	**284 992**	**291 102**
Allowances on receivables	87 583	191 737
Total gross receivables	**372 575**	**482 839**

Trade receivables do not bear interest and usually have a payment term from 30 to 180 days.

Settlements and turnover with related entities are presented in note 29.2.

Credit risk is related to trade receivables - further information presented in note 32.3.

Impairment of trade and other receivables in the year ended December 31, 2018 has been presented in the note 15.

15. Financial instruments – impairment

Classification of financial assets measured according to the depreciated cost for particular levels of impairment model:

(in PLN thousand)

Financial instruments	As at December 31, 2018 Stage 1 12 months ECL	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	As at January 1, 2018 Stage 1 12 months ECL	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment
Gross carrying amount	**185 738**	**511 692**	**146 925**	**382 379**	**660 671**	**255 660**
Trade and other receivables	-	134 690	84 931	-	254 059	190 775
Other receivables*	-	167 829	4 757	-	205 553	4 953
Construction contracts deposits	-	133 925	13 543	-	136 895	17 212
Loans (granted)	-	75 248	43 694	-	64 164	42 720
Bank guarantee commissions	2 115	-	-	219 616	-	-
Cash and cash equivalents	183 623	-	-	162 763	-	-
Impairment write-offs	**-**	**(1 320)**	**(144 343)**	**-**	**(5 646)**	**(251 669)**
Trade and other payables	-	(477)	(82 349)	-	(2 017)	(186 784)
Other payables*	-	-	(4 757)	-	-	(4 953)
Deposits under the construction contracts	-	(121)	(13 543)	-	(2 811)	(17 212)
Loans (granted)	-	(722)	(43 694)	-	(818)	(42 720)
Bank guarantee commissions	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Carrying amount	**185 738**	**510 372**	**2 582**	**382 379**	**655 025**	**3 991**
Trade and other receivables	-	134 213	2 582	-	252 042	3 991
Other receivables*	-	167 829	-	-	205 553	-
Deposits under the construction contracts	-	133 804	-	-	134 084	-
Loans (granted)	-	74 526	-	-	63 346	-
Bank guarantee commissions	2 115	-	-	219 616	-	-
Cash and cash equivalents	183 623	-	-	162 763	-	-

**Item includes other long and short-term payables.*

Below statement presents indexes applied to estimate expected credit loss.

	Current and up to 30 days after the payment date	Overdue from 31 up to 90 days	Overdue from 91 up to 180 days	Overdue more than 180 days
Trade and other receivables	0.06%	0.46%	0.48%	11.07%
Deposits under the construction contracts	0.06%	0.46%	0.48%	11.07%
Loans	0.96%	-	-	-

Indexes of expected credit losses are based on historical balance sheet data referring to financial assets (including long-term receivables, deposits, trade and other receivables) and values of impairment write-offs created in the periods relevant for them. Indexes have been estimated as the product of the total of values of the created impairment values in relation to the total of financial assets balances in division into the time structure.

Reconciliation of impairment write-offs of trade and other payables and other payables and also reconciliation of impairment write-offs of the loans have been presented in the tables below.

(in PLN thousand)

Trade and other receivables*	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Impairment write-offs value as at 31.12.2017 (acc. to IAS 39)	-	191 737	**191 737**
Adjustment from the first application of IFRS 9	2 017	-	**2 017**
Opening balance as at 01.01.2018	**2 017**	**191 737**	**193 754**
Increases	**-**	**1 063**	**1 063**
Impairment write-offs increases	-	1 063	**1 063**
Decreases	**-**	**105 936**	**105 936**
Dissolution	-	6 878	**6 878**
Use	-	99 058	**99 058**
Exchange of write-off into expected credit loss	**(1 540)**	**242**	**(1 298)**
Closing balance as at 31.12.2018	**477**	**87 106**	**87 583**

**Item includes other long and short-term receivables.*

Deposit under the construction contracts	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Value of impairment write-offs as at 31.12.2017 (according to MSR 39)	-	17 212	**17 212**
Adjustment under the first application of IFRS 9	2 811	-	**2 811**
Opening balance as at 01.01.2018	**2 811**	**17 212**	**20 023**
Increases	**-**	**87**	**87**
Impairment write-offs increases	-	87	**87**
Decreases	**-**	**3 756**	**3 756**
Dissolution	-	3 581	**3 581**
Use	-	175	**175**
Exchange of write-off into ECLs	**(2 690)**	-	**(2 690)**
Closing balance as at 31.12.2018	**121**	**13 543**	**13 664**

Loans	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Value of impairment write-offs at 31.12.2017 (according to IAS 39)	-	42 720	**42 720**
Adjustment due to the first application of IFRS 9	818	-	**818**
Opening balance as at 01.01.2018	**818**	**42 720**	**43 538**
Increases	**-**	**974**	**974**
Impairment write-offs – increases	-	974	**974**
Change of write-off into the ECLs	(96)	-	**(96)**
Closing balance as at 31.12.2018	**722**	**43 694**	**44 416**

Changes of the gross carrying amount of trade and other receivables and also changes of the carrying amount of gross loans have been presented in the table below.

Trade and other receivables*	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Gross value as at 1 January 2018	459 612	195 728	**655 340**
Other	478 918	-	**478 918**
Transferred to stage 3 (with impairment)	(1 063)	1 063	**-**
Repaid	611 952	107 103	**719 055**
Change (shares in limited partnerships' profits)	(22 996)	-	**(22 996)**
Gross value as at 31 December 2018	**302 519**	**89 688**	**392 207**

**Item includes other long and short-term receivables.*

(in PLN thousand)

Deposits under the construction contracts	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Gross value as at 01.01.2018	136 895	17 212	**154 107**
Other	22 189	2 521	**24 710**
Transferred to stage 3 (with impairment)	(87)	87	**-**
Repaid	25 072	6 277	**31 349**
Gross value as at 31.12.2018	**133 925**	**13 543**	**147 468**

Loans	Stage 2 lifetime ECL – without impairment	Stage 3 lifetime ECL – with impairment	Total
Gross value as at 1 January 2018	64 164	42 720	**106 884**
Other	84 287	974	**85 261**
Accrued interest	2 311	-	**2 311**
Repaid	75 514	-	**75 514**
Gross value as at 31 December 2018	**75 248**	**43 694**	**118 942**

16. Long-term construction contracts

Contracts in progress by the end of the reporting period:

	As at 31 December 2018	As at 31 December 2017
Contracts in progress by the end of the reporting period:		
Recognised in the balance sheet as the amounts		
- from clients within the construction contracts (receivable)	10	6 065
- for the benefit of the clients within the construction contracts (liability)	(83 019)	(2 008)
Total	**(83 009)**	**4 057**
Deposits under the construction contracts (receivables)	133 804	136 895
Deposits due to the construction contracts (liabilities)	34 346	51 826

Revenues recognised in 2018 and taken into account in the liabilities balance as at the beginning of the period amounted to PLN 2 008 ths.,

Revenues recognised in 2018 referring to undertakings to carry out the service fulfilled in the preceding periods amounted to PLN 4 920 ths.

The amount of the transaction price assigned to undertakings to carry out the service which had not been fulfilled by the end of the reporting period to be carried out:

	As at 31 December 2018
a) up to 1 year	462 496
b) more than 1 year	149 010
Total	**611 506**

(in PLN thousand)

17. Cash and cash equivalents

	As at 31 December 2018	As at 31 December 2017
Cash at bank and in hand	5 073	74 584
Short-term deposits	178 550	88 179
Total	**183 623**	**162 763**
Cash with limited disposal	2 416	70 250

The above cash balance includes cash in the VAT accounts within the scope of split payment.

Cash at the bank bears variable interest rates, the amount of which depends in particular on the dates on which deposits are placed and the market interest rates applicable to these dates. Short-term deposits are established for various periods; from one day to one month, depending on current Company's demand for cash and bear fixed interest rates.

Cash with limited disposal concerns funds related to the implementation of strategic contracts, mainly construction of blocks 5 and 6 in the Opole Power Plant (in 2017 also the construction of a new unit at Kozienice Power Plant). These funds will be released upon the completion of contracts.

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

	Year ended 31 December 2018	Year ended 31 December 2017
Change in the inventories' status in the balance sheet	**153**	**2 109**
Adjustment due to ZCP contributions in-kind	–	(4 534)
Change in the inventories' status in the statement of cash flows	**153**	**(2 425)**
Change in the receivables in the balance sheet	**168 127**	**(101 505)**
Adjustment with receivables from the sales of non-financial fixed assets	(1 739)	2 190
Adjustment for receivables due to guarantee deposits	217 842	(1 199)
Adjustment for ZCP contributions in-kind	–	(24 492)
Adjustment with ECL recognised as at 1 January 2018	(4 828)	–
Change in the receivables in the statement of cash flows	**379 402**	**(125 006)**
Change in other assets and deferred income status in the balance sheet	**275**	**483**
Adjustment due to ZCP contributions in-kind	–	(281)
Change in the status of other assets in the statement of cash flows	**275**	**202**
Change in the status of liabilities in the balance sheet	**(269 524)**	**(157 941)**
Adjustment due to liabilities resulting from investment acquisitions	–	(76)
Adjustment with the change of liabilities status due to the purchase of property, plant and equipment	95	–
Adjustment with share purchase compensation	–	(4 170)
Adjustment due to ZCP in-kind contributions	–	17 192
Adjustment due to the foreign income tax	–	(1 030)
Change in the status of liabilities in the statement of cash flows	**(269 429)**	**(146 025)**
Shares revaluation	(9 319)	–
Revaluation of the loans granted value	(96)	–
Received loans written-off (due to the company's liquidation)	(815)	
Revaluation, fixed assets measurement and change in the sales plan	(7 932)	(4 051)
Adjustment due to revaluation of fixed assets and actuarial measurement	(14)	1 561
Adjustment due to ESP valuation and exchange differences	–	(4 459)

(in PLN thousand)

Adjustment with cash of ZCP	–	137
Other	–	(60)
Other	**(18 176)**	**(6 872)**

19. Assets and liabilities held for sales

19.1. Assets and liabilities held for sales

Under the provisions of the Agreement on Debt Service Principles concluded on December 21, 2012, the Issuer undertook to sell certain assets. The table below presents balance of assets held for sales as at December 31, 2018 and as at December 31, 2017.

	As at 31 December 2018	**As at 31 December 2017**
Tangible fixed assets	1 465	6 784
Investment real properties	34 802	25 496
Total assets held for sale	**36 267**	**32 280**

19.2. Investment properties held for sale

Investment properties were valued in the fourth quarter of 2018. The Company hires external, independent appraisers to determine fair value of land, buildings and structures owned by the Company.

In estimating fair value of the property, the most beneficial and the best use of the property approach has been applied (constituting present application of these properties).

In estimating the fair value of real estate, the best and best use of real estate was applied (which is the current application of these properties). The external valuation of land, buildings and structures within level 3 was carried out using the income approach. In the case of land, there was a change in the valuation technique, from the comparative approach to the income approach. The property appraiser stated that after considering the purpose and scope of the valuation, the assignment of the property, its legal status and the state of development and market information on similar properties, the appropriate procedure to determine the market value of the property will be the income approach, investment method, simple capitalisation technique.

As at December 31, 2018, not any valuation updates have been performed for the value of the investment properties. The company monitors the situation on the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, and structures). There were no indications that the fair value of investment properties changed significantly from the previous valuation. In the case of three properties, the Company is in the process of advanced disposal and preliminary sales contracts have been concluded. The fair value of these properties has been included in the amount consistent with the signed contracts. Their valuation corresponds to level 1 of the fair value hierarchy.

20. Equity

20.1. Share capital

As at December 31, 2018, the share capital amounts to PLN 473 237 604 and is divided into 236 618 802 shares of the nominal value of PLN 2 each. The shares have been fully paid up for.

Share capital (data in thousand shares)	As at 31 December 2018	As at 31 December 2017
Ordinary series A shares	86 619	86 619
Ordinary series T shares	150 000	150 000
Total	**236 619**	**236 619**

On January 18, 2017, the Company entered into the Investment Agreement with ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with its registered office in Warszawa and PGNiG Technologie Spółka Akcyjna with its registered office in Krosno that specifies the detailed parameters of the investors' participations and the mutual rights and obligations of the parties. The investors undertook to invest in the Company by taking up the series T shares of the Company at the issue price equal to PLN 2 each, in the number of PLN 37 500 thousand shares attributable to each of the Investors. On January 18, 2017, the Company's Supervisory Board adopted resolutions in which: (i) it granted consent to the issue price of the Company's T shares set by the Management Board; and (ii) granted consent to offer shares of the T-series to subscribers designated by the Management Board, including the number of T series shares offered to each of them. On January 20, 2017, due to the fulfilment of the conditions precedent reserved in the Investment Agreement and as a result of accepting by all Investors the offer to subscribe for shares of the T-series, submitted by the Company to each Investor, a subscription agreement was concluded between the Company and the Investors, according to which the Investors took all shares offered to them, i.e. a total of 150 000 thousand shares with a total value of PLN 300 000 thousand. The shares were fully paid by the Investors on January 25, 2017 and the Company was provided with cash in the amount of PLN 300 000 thousand.

Rights of Shareholders

Each share entitles to one vote at the General Meeting of Shareholders. The shares of all series are equally preferred in terms of dividend and return on capital. The structure of shareholders holding, directly or indirectly through the subsidiaries, at least 5% of the total number of votes as at December 31, 2017 has been presented as follows:

Shareholder	Number of shares/votes	% held in the share capital /total number of votes in the GM
ENEA Spółka Akcyjna with the registered office in Poznań, ENERGA Spółka Akcyjna with the registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warszawa PGNiG Technologie Spółka Akcyjna with the registered office in Krosno - as Investors acting jointly and upon the agreement*	156 000 097	65,93%
Bank Polska Kasa Opieki SA	13 629 376	5,76%
Others – less than 5% of share capital	66 989 329	28,31%
Number of shares of all issues	**236 618 802**	**100,00%**

* each of the investors holds 16.48%

(in PLN thousand)

20.2. Reserve capital

Under the article 396 par. 1 of the code of commercial Companies and partnerships, the reserve capital is to be established to cover the loss and at least 8% of the profit for the financial year concerned shall be assigned thereto, 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 subject to division. As at December 31, 2018, the supplementary capital amounted to PLN 157 746 thousand.

20.3. Other capitals

Other Company's capitals pertain to the effect of settlement of the merger with subsidiaries, which took place in 2010 in the amount of PLN (444 924) thousand. In accordance with the Resolution No. 8 and No. 9 of the Ordinary General Meeting of the Company of June 27, 2017, the negative value of other capitals was covered with retained earnings in the amount of PLN 59 640 thousand and other capitals in the amount of PLN 151 964 thousand. Additionally, in accordance with Resolution No. 7, the Ordinary General Meeting of the Company on June 27, 2017 allocated the Company's profit for the financial year 2016 in the amount of PLN 1 018 thousand to cover the negative value of other capitals. As at December 31, 2017, the remaining capital amounts to PLN (232 302) thousand. Change of the amount of other capitals in 2018 results from the Resolution number 6 of the Ordinary General Meeting dated 21 June 2018 on transfer of the Company's net profit amounting to PLN 82 558 thousand to other capitals and also Resolution number 7 of the Ordinary General Meeting dated 21 June 2018 on transfer of retained earnings amounting to PLN 12 thousand to other capitals. As at 31 December 2018, other capitals amount to PLN (149 732) thousand.

20.4. Reserve capital from the surplus on bonds convertible into shares

Equity component of issued bonds convertible into shares as at 31 December 2018 amounts to PLN 31 552 thousand and as at 31 December 2017 also amounted to PLN 31 552 thousand. Bonds have been described in more detail in the note number 23.

20.5. Accumulated other comprehensive income

The accumulated other comprehensive income consists of capital from revaluation of fixed assets and actuarial gains / (losses). Revaluation reserve as at December 31, 2018 amounts to PLN 35 933 thousand and the same amount as at December 31, 2017. Actuarial profit as at December 31, 2018 amounts to PLN 947 thousand and as at 31 December 2017 amounted to PLN 958 thousand.

20.6. Retained earnings

Under the Resolution number 6 and 7 of the Ordinary General Meeting of the Company dated 21 June 2018, net profit for the financial year 2017 amounting to PLN 82 558 thousand and retained earnings amounting to PLN 12 thousand were assigned for the decrease of the negative values of other capitals. Additionally, due to the first application of IFRS 9 "Financial Instruments" as at 1 January 2018, the amount of PLN 4 575 thousand as a decrease of retained earnings (issue described in more detail in the note number 3.4). As at 31 December 2018, retained earnings amount to PLN 17 527 thousand.

21. Credits and loans

	As at 31 December 2018	As at 31 December 2017
Short-term, including:	**70 571**	**815**
Bank loans	69 102	-
Loans	1 469	815
Long-term, including:	**95 968**	**164 409**
Bank loans	66 445	133 837
Loans	29 523	30 572
Total loans and borrowings	**166 539**	**165 224**

(in PLN thousand)

	As at 31 December 2018	As at 31 December 2017
Value of liabilities due to loans and credits at the beginning of the period	**165 224**	**171 187**
Accrued interest calculated according to the effective interest rate	5 110	4 859
Repayment of interest	(2 980)	(4 969)
Unrealised FX differences	–	(50)
Loans written off due to company's liquidation	(815)	–
Recognition of liabilities to amortised cost	–	(5 803)
Value of liabilities due to credits and loans at the end of the period	**166 539**	**165 224**

Interest rate comparison in the periods

	Year ended 31 December 2018	Year ended 31 December 2017
Weighted average for the loans in PLN	WIBOR 3M + 1.25 p.p	WIBOR 3M + 1.25 p.p

22. Assets transferred for the collateral

	As at 31 December 2018	As at 31 December 2017
Tangible fixed assets	27 420	20 169
Intangible assets	560	903
Investment property	37 825	50 637
Shares and holdings	376 205	370 288
Inventories	168	321
Assets held for sales	36 267	32 280
Total	**478 445**	**474 598**

As at 31 December 2018, item named Assets held for sales transferred as a collateral shows fixed assets of the value PLN 1 465 thousand and investment real properties of PLN 34 802 thousand (note 19.2).

23. Bonds

	As at 31 December 2018	As at 31 December 2017
Long-term bonds	**163 630**	**169 034**
Liabilities under Series E, F bonds' issue	12 840	25 682
Liabilities under Series A, B bonds' issue	137 436	130 425
Liabilities under Series C bonds' issue	13 354	12 927
Short-term bonds	**12 839**	**–**
Liabilities under Series E, F bonds' issue	12 839	–
Total bonds	**176 469**	**169 034**

Series A and B bonds were issued on October 1, 2014; these are bonds that have the option of conversion into shares of the Company. The total value of inflows from the issue was PLN 140 000 thousand. At the moment of initial recognition of these bonds, the capital element in the amount of PLN 29 747 thousand was included in the capital of the Company, the liability was included in the

(in PLN thousand)

value of PLN 108 292 thousand, commission under the underwriting guarantee amounted to PLN 1 960 thousand.
Bonds can be converted at any time up to the bond redemption date (i.e., July 31, 2020, July 31, 2021 and July 31, 2022). If they have not been converted, bonds will be redeemed on certain redemption dates of the year for the unit price of PLN 2. The interest rate at the WIBOR 3M rate increased by 3 percentage points per year will be paid quarterly until conversion or purchase of bonds.

On 27 September 2017, the Management Board of the Company addressed Bankowe Towarzystwo Kapitałowe S.A. and Towarzystwo Finansowe Silesia Sp. z o. o. with the proposals to purchase series C bonds convertible into series U bearer shares. The proposal to acquire the Bonds was accepted and the Bonds were issued and paid up for. The subject matter of the issue is 29 Bonds without any form of a document with a total nominal value of up to PLN 14 500 thousand. The nominal value and the issue price of one bond is PLN 500 thousand. The interest rate is floating based on WIBOR 3M increased with margin, which may increase in the case in which the Company does not make timely distributions on account of the Bonds. The Bonds will be redeemed on July 31, 2022 or on the first business day after such day. Proceeds from the issue of the Bonds have been allocated to cover the Issuer's obligations towards Towarzystwo Finansowe Silesia and Bankowe Towarzystwo Kapitałowe in respect of commissions for changing the terms of issue of convertible bearer bonds series A, revised on January 20, 2017 and unified on June 20, 2017, about which the Issuer informed in the regulatory announcement respectively No. 11/2017 (in conjunction with 5/2017) and 55/2017.

Table below presents valuation of series A, B and C bonds at an amortised cost:

	As at 31 December 2018	**As at 31 December 2017**
Value of liability at the beginning of the period	**143 352**	**134 657**
Series C bonds issue	–	14 500
Recognition of the capital element of Series C bonds issue	–	(1 818)
Accrued interest calculated according to the effective interest rate of 11% (11% for the year 2017) for series A and B and 7.6% (7.7% for the year 2017) for the series C bonds	14 925	14 706
Payment of the commission regarding changes in the terms of series A and B bonds	–	(14 500)
Repayment of interest	(7 487)	(4 194)
Liability value at the end of the period	**150 790**	**143 352**

24. Other long-term liabilities

	As at 31 December 2018	**As at 31 December 2017**
Long-term liabilities due to Guarantees and sureties	13 375	26 754
Advance payments received for Opole and Żerań contracts implementation	–	49 179
Long-term financial guarantees	743	2 577
Other	142	1 512
Total	**14 260**	**80 022**

Long-term guarantees and sureties' liabilities concern obligations incumbent on the Company in connection with the use of guarantees and sureties by the counterparties.

(in PLN thousand)

25. Provisions

	Provisions for the warranty repairs	Recomposition provision	Provision for litigations	Provision for penalties	Provision for contract settlement costs	Provision for losses	Provision for sureties	Total
As at 1 January 2018	**58 351**	**–**	**6 669**	**23 551**	**149 888**	**1**	**327**	**238 787**
Reclassification	–	–	22 990	–	(22 990)	–	–	**–**
Created during 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)**
Released	(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**
As at 1 January 2017	**66 659**	**1 819**	**19 855**	**24 129**	**150 748**	**20 541**	**18**	**283 769**
Created during the financial year	7 332	–	2 233	2 416	–	71	327	**12 379**
Used	(6 374)	(1 697)	(660)	(2 864)	(834)	–	–	**(12 429)**
Dissolved	(9 266)	(122)	(14 759)	(130)	(26)	(20 611)	(18)	**(44 932)**
As at 31 December 2017	**58 351**	**–**	**6 669**	**23 551**	**149 888**	**1**	**327**	**238 787**
Short-term as at 31 December 2017	15 120	–	6 111	16 053	30 177	1	327	**67 789**
Long-term as at 31 December 2017	43 231	–	558	7 498	119 711	–	–	**170 998**

Material value of using the provisions for the costs of contracts and presentation reclassification of the provisions from the item of the provisions for the costs of contracts to the item provisions for litigations results from the conclusion of the settlement with GDDKiA (General Directorate of the National Roads and Motorways). More information in this scope has been disclosed in the note number 36.

(in PLN thousand)

26. Liabilities under employee benefits

26.1. Liabilities under employee benefits

	As at 31 December 2018	As at 31 December 2017
Payroll liabilities	1 531	952
Social insurance liabilities	1 459	786
Bonuses and rewards	1 014	4 178
Unused holidays	1 108	1 640
Retirement and pensions benefits	178	371
Liabilities under short-term employee benefits	**5 290**	**7 927**
Retirement and pension benefits	475	967
Liabilities under long-term employee benefits	**475**	**967**

The Company pays to the retiring employees the amount of retirement benefits in the amount specified by the Collective Labour Agreement. Therefore, according to the valuation prepared by the professional actuarial company, the Company creates a provision for the current value of liabilities due to retirement and pension benefits and other post-employment benefits.

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

	31 December 2018	31 December 2017
Discount rate %	3.0%	3.2%
Expected inflation rate %	2.5%	2.5%
Predicted salaries increase rate %	3.5%	3.5%

Costs of benefits recognised in the profit and loss and actuarial profits / (losses) referring to pension and retirement benefits have been presented in the table below:

	Year ended 31 December 2018	Year ended 31 December 2017
Costs of benefits:		
Current service costs	33	214
Past service costs and limitations of the benefits programme	(493)	(1 508)
Costs of interests	43	70
Components of the specific benefits plan's costs recognised in the profit and loss	**(417)**	**(1 224)**
Revaluation of net liability under specific benefits:		
Actuarial profits / (losses) under the changes of demographic assumptions	4	1 918
Actuarial profits / (losses)under the changes of financial assumptions	10	(1 184)
Components of the benefits plan's costs recognised in other comprehensive revenues	**14**	**193**
Total	**(403)**	**(1 031)**

Reconciliation of the balance sheet change of the pension and retirement benefits has been presented in the table below:

(in PLN thousand)

	Year ended 31 December 2018	Year ended 31 December 2017
Liabilities under specific benefits, opening balance	**1 338**	**2 001**
Current service costs	33	214
Costs of interest	43	70
Profits / (losses) under revaluation:		
Actuarial profits / (losses) due to differences between assumptions and their implementation	4	179
Actuarial profits / (losses) under the changes in economic assumptions	10	13
Costs of past service and benefits plan's limitations	(493)	(442)
Effects of settling in-kind contribution in the form of ZCP and Other transfers	–	(600)
Paid out benefits	(282)	(97)
Liabilities under specific benefits, closing balance	**653**	**1 338**

26.3. Sensitivity analysis

Under IAS 19, below, the sensitivity (- / + 0.5 pp) of liabilities to changes in the discount rate and assumptions on the increase in remuneration has been presented. The methods and assumptions used in conducting the sensitivity analysis have not changed compared to the previous reporting period. The liability recognised in the balance sheet due to retirement and disability severance pay is PLN 654 thousand.

Discount rate 2.5%

Liabilities under:	pension severance payment	disability severance payment	Total
Short-term	261 018	–	261 018
Long-term	475 483	30 934	506 417
Total	**736 501**	**30 934**	**767 435**

Discount rate of 3.5%

Liabilities under:	pension severance payment	disability severance payment	Total
Short-term	261 018	–	261 018
Long-term	427 225	29 160	456 385
Total	**688 243**	**29 160**	**717 403**

Remuneration growth rate of 3.0%

Liabilities under:	Pension severance payment	Disability severance payment	Total
Short-term	260 810	–	260 810
Long-term	428 371	28 553	456 924
Total	**689 181**	**28 553**	**717 734**

Remuneration growth rate of 4.0%

Liabilities under:	Pension severance payment	Disability severance payment	Total
Short-term	261 225	–	261 225
Long-term	473 979	31 566	505 545
Total	**735 204**	**31 566**	**766 770**

(in PLN thousand)

27. Trade and other payables

Terms and conditions of payment of the following financial obligations:
Transactions with related entities are concluded at arm's length (typical commercial transactions).
Trade liabilities are interest-free and usually settled within 30 to 180 days.
Other liabilities are interest-free, with an average 1-month's payment period. Liabilities due to interest are usually settled on the basis of accepted interest notes.
Accruals cover mainly the value of construction contract costs incurred and not the costs of the construction contracts' implementation settled by the invoices.

Trade and other liabilities have been presented in the table below:

	As at 31 December 2018	As at 31 December 2017
Trade and other liabilities		
Due to related entities	61 415	113 156
Due to other entities	19 769	56 548
	81 184	**169 704**
Taxes, duties, social insurance and other liabilities		
Value added tax (Tax on goods and services)	14 295	24 249
Personal income tax	515	368
PFRON (State Fund for Rehabilitation of Disabled Persons)	11	5
Corporate income tax abroad	248	403
	15 069	**25 025**
Financial liabilities		
Costs of financial guarantees	13 852	3 650
	13 852	**3 650**
Other liabilities		
Other liabilities with related entities	–	252
Liabilities due to the purchase of fixed assets	187	283
Social fund	3	(277)
Accrued expenses	31 280	204 314
Other	52	2 839
	31 522	**207 411**
Total short-term liabilities	**141 627**	**405 790**

High accrued expenses rate as at 31 December 2017 results from the settlements of the suppliers in Kozienice project, the implementation of which ended on 17 December 2017.

28. Contingent liabilities

Off-balance sheet items and litigations

	As at 31 December 2018	As at 31 December 2017
Contingent liabilities	**551 926**	**1 294 846**
- guarantees and warranties granted	506 019	868 753
- promissory notes	3 470	2 420
- litigations	42 437	423 673

In conjunction with concluded loan and warranty agreements (both bank and insurance ones) as well as liabilities under bonds (including Series A and B issued in 2014 in the amount of PLN 140 million and Series C bonds issued in 2017 for the amount of PLN 14.5 million) and in particular due to the Agreement dated 24 July 2012 on the suspension of liabilities enforcement, Agreement dated 21 December 2012 on Financial Debt Service Principles in the reading implemented by the annex number 10 dated 20 June 2017, New Guarantee Line agreement and revolving facility dated 21 December 2012 in the reading implemented by the annex number 3 dated 20 June 2017, Ordinary and Convertible Bonds Issue Terms dated 12 September 2014 as amended, the loan agreement on the warranty lines and related renewable and non-renewable credits of May 31, 2017 as amended, the conditions of issue of convertible bonds series C of September 27, 2017 the Company and its subsidiaries established mortgages, pledges, chattel mortgages, assignments, issued bills, accepted the endorsement of certain subsidiaries and provided guarantees to the selected subsidiaries to secure claims arising from these instruments. The total exposure of the Company to the credit instruments concerned as at 31 December 2018 amounted to PLN 832 million (PLN 1 198 million as at December 31, 2017).

29. Information on transactions with related entities

29.1. Transactions with entities related to the State Treasury

The Company is a party to transactions with entities related to the State Treasury. These transactions, which are also transactions carried out with shareholders and entities related by shareholders, were presented in Note 29.2 as transactions with other entities related by shareholders. Transactions carried out with other entities related to the State Treasury are transactions carried out at arm's length.

In previous periods, the Company carried out significant transactions with the General Directorate for National Roads and Motorways. In the scope of these transactions, litigations have ended with settlement. Terms of the concluded settlement agreement have been described in the note 36.

29.2. Transactions with participation of related entities

Transactions between related parties took place under conditions equivalent to those applicable to transactions concluded at arm's length. The Company does not apply any hedging to receivables from related entities. Transactions within a capital group are settled by payment of receivables or their offsetting with liabilities.

The table below presents the total amounts of transactions concluded with related entities for the year ended on December 31, 2018 and as at this day and on December 31, 2017 and as at this date:

(in PLN thousand)

	Year ended on 31 December 2018				As at 31 December 2018				
	Sales to related entities	**Purchases from related entities**	**Profit sharing**	**Loss sharing**	**Receivables from related entities**	**Receivables due to share in profits**	**Receivables from loans granted**	**Liabilities due to related entities**	**Liabilities due to loans received**
Subsidiaries	52 107	382 316	11 329	40 454	65 825	143 548	74 515	62 374	30 992
Associates	–	244	–	–	–	–	–	20	–
Other entities related by 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**

	Year ended 31 December 2017			As at 31 December 2017				
	Sales to related entities	**Purchases from related entities**	**Profit sharing**	**Receivables from related entities**	**Receivable under profit sharing**	**Receivables under loans granted**	**Liabilities due to related entities**	**Liabilities due to obtained loans**
Subsidiaries	49 556	735 741	59 215	89 977	172 673	64 147	62 316	31 387
Associates	–	295	–	–	–	–	338	–
Other entities related by shareholders	942 109	5 238	–	146 273	–	–	102 207	–
Total	**991 665**	**741 274**	**59 215**	**236 250**	**172 673**	**64 147**	**164 861**	**31 387**

(in PLN thousand)

30. Remuneration of the Management and Supervisory Boards

30.1. Remuneration of the Management and Supervisory Boards

	Year ended 31 December 2018	Year ended 31 December 2017
Management Board		
Short-term employee benefits (remuneration and surcharges)	2 885	2 641
Supervisory Board		
Short-term employee benefits (remuneration and surcharges)	625	599
Total	**3 510**	**3 240**

30.2. Information on the number of the Company's shares held by the Management and Supervisory Boards' members

As at 31 December 2018, members of the Management and the Supervisory Boards did not hold any shares of the Company. From 31 December 2018 until the moment the report has been made public, not any changes have occurred in the number of shares and shareholding of the Company's shares or entitlements to them by the supervising or managing persons.

31. Employment structure

The structure of employment at the Company as at 31 December 2018 and as at 31 December 2017 was as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
The Management Board	3	3
Support division	–	35
Operations division	207	85
Total	**210**	**123**

Employment growth in 2018 resulted mainly from taking over from 1 March 2018, the employees of the subsidiary Polimex Centrum Usług Wspólnych Sp. z o.o.

32. Credit risk objectives and principles

32.1. 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 has cash in bank accounts, liabilities due to bank loans and debt in the form of receivables from 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 the scope of shaping the reference market rates. As at December 31, 2018, the Company did not conclude derivative transactions hedging the risk concerned. The Company was provided with funds due to the issue of series T shares in the amount of PLN 300 000 thousand.

Analysis of sensitivity to the interest rate changes

	Value exposed to risk	Increase / decrease with	
		0.50 p.p.	-0.50 p.p.
For the year ended 31 December 2018			
Cash at bank	183 623	918	(918)
Loans granted	108 924	545	(545)
Bank guarantee deposits	2 115	11	(11)
Credits and loans received	(113 470)	(567)	567
Bonds	(176 919)	(885)	885
Influence on gross financial profit/loss		**22**	**(22)**
Deferred tax		(4)	4
Total		**18**	**(18)**

	Value exposed to risk	Increase / decrease with	
		0.50 p.p.	-0.50 p.p.
For the year ended 31 December 2017			
Cash at bank	162 763	814	(814)
Loans granted	98 164	491	(491)
Guarantee bank deposits	219 616	1 098	(1 098)
Credits and loans received	(114 418)	(572)	572
Bonds	(176 919)	(885)	885
Influence on gross profit/loss (result)		**946**	**(946)**
Deferred tax		(180)	180
Total		**766**	**(766)**

32.2. 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.

Natural hedging is the basic protection method against currency risk applied by the Company, i.e. hedging currency risk by concluding transactions generating costs in the same currency as the currency of revenues. As at December 31, 2018, 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 transactions, have a small impact on the amount of revenue expressed in PLN from contracts concluded in a foreign currency. On the basis of the contracts held, the Company estimated the exposure to currency risk in the period January - December 2019 as follows:

Specification	2019
Forecasted inflows in foreign currency – equivalent in EUR thousand	660
Forecasted expenses in foreign currency – equivalent in EUR thousand	(142)
Business exposure to foreign exchange risk in EUR thousand	**518**

(in PLN thousand)

Foreign exchange risk exposure

	As at 31 December 2018 EUR	As at 31 December 2017 EUR
Cash and cash equivalents	37	566
Commercial receivables	660	3 842
Collateralised loans	–	(195)
Commercial liabilities	(142)	(121)
Gross carrying amount	**555**	**4 092**
Estimated sales forecast	–	3 842
Estimated acquisitions forecast	–	(141)
Gross exposure	**–**	**3 701**
Net exposure	**555**	**7 793**

Foreign exchange risk sensitivity analysis as at 31 December 2018

	Carrying amount	EUR/PLN	
		Rate (change 10 %)	Rate (change-10 %)
Cash and cash equivalents	158	16	(16)
Trade and other receivables	2 838	284	(284)
Trade and other payables	(613)	(61)	61
Effect on gross profit or loss (gross result)	**2 383**	**239**	**(239)**
Deferred tax		(45)	45
Total		**194**	**(194)**

Foreign exchange risk sensitivity as at 31 December 2017

	Carrying amount	EUR/PLN	
		rate (change 10 %)	Rate (change -10 %)
Cash and cash equivalents	2 362	236	(236)
Trade and other receivables	16 026	1 603	(1 603)
Trade and other payables	(506)	(51)	51
Credits, loans and other sources of financing	(815)	(82)	82
Gross influence on the financial profit/loss	**17 067**	**1 707**	**(1 707)**
Deferred tax		(324)	324
Total		**1 382**	**(1 382)**

32.3. Credit risk

At the level of the Capital Group, the credit risk is minimised by co-operation 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 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 co-operates. 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 maximum risk exposure for particular classes of financial assets is the measure of credit risk. The book values of financial assets represent the maximum credit exposure. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making write-downs of their value (allowances on revaluation). The analysis of the aging of overdue receivables, for which no impairment occurred, as at December 31, 2018 and as at December 31, 2017 has been presented in Note 14.

The Company has a concentration of credit risk in connection with significant receivables from energy companies. Considering the fact that the main recipients, being domestic energy companies, are entities 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 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 sales to companies controlled by the State Treasury. The credit risk related to liquid funds and derivative financial instruments is limited because the Company's counterparties are banks with a high credit rating assigned by international rating agencies.

32.4. Liquidity risk

In the Company's opinion, this risk is at a moderate level. Maintaining financial liquidity in the medium and long term requires involvement in projects and contracts ensuring neutral and positive financial flows. This risk is constantly monitored and analysed in both the short and long term.

In January 2017, the Company completed the recapitalisation process, under which its liquidity was provided with the amount of PLN 300 000 thousand in connection with the subscription of newly issued series T shares by a group of investors from the energy sector. In the second quarter of 2017, as a result of the renegotiation process of debt financing agreements, including credit and bond agreements, the financial documentation linking the Company and its selected subsidiaries with financial institutions was adapted to the new ownership realities and strategic plans. As part of this process, the Issuer's Group also gained wider access to guarantee instruments, which are an indispensable element of investment processes implemented by the Group's project companies such as Naftoremont-Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o. and Polimex Budownictwo Sp. z o.o. Sp.k.

The current financial situation of the Issuer's Group is stable - the Group has significant resources of cash and significant guarantee limits in both banking and insurance institutions. The structure, level and dates of repayment of the financial debt are adjusted to the current and forecasted capacity of their timely service. The Group conducts a number of activities aimed at further improvement of operating conditions including but not limited to the following:

- further optimisation of operations in order to streamline the processes related to the implementation, management and monitoring of construction and assembly projects and to reduce operational costs through, inter alia, reduction of general administrative expenses, centralisation of purchases, optimisation of organisational structures, optimisation of the contract portfolio and concentration on the Group's core operations;
- continuation of the process of selling assets, in particular properties belonging to the Group and other assets that are not necessary for the continuation of the Group's core business.

The documentation, in particular the Agreement on the Principles of Debt Servicing and the Conditions for the Issue of Bonds Series A, B and C, which imposes on the Company a number of obligations, in particular such as the commitment to:

- make timely payments to Creditors and Bondholders;
- not take a series of actions without the prior consent of Creditors and Bondholders.

The Company's failure to perform its obligations under the Agreement on the Principles of Debt Servicing and the Terms and Conditions of Issuing Bonds may result in the entire financial debt of the Company against the Financing Banks and Bondholders become immediately due and payable.

Relatively high level of indebtedness of the Company and the Group may have significant consequences, including in particular the possibility to affect:

- limited ability of the Group's companies to obtain additional financing from financial institutions, including in particular bank and insurance guarantees;
- slower dynamics of the development of the operations of the Group Companies due to a significant reduction in the availability of trade credit and shortening payment dates or demands for the prepayment on the part of the contractors;
- the need to allocate a certain portion of cash flows from the Group's operating activities for repayment of debt, which means that these flows may not always be used to finance the Group's operations or capital expenditures;
- limiting the flexibility of the Group when planning or responding to changes in its operations, in the competitive environment and in the markets in which it operates;
- less advantageous market position of the Group in relation to its competitors who have lower credit exposure.

The current order portfolio of the Company, decreased by the sales attributable to consortium members, amounts approx. to PLN 620 million and relates entirely to the contracts concluded. In individual years, it is as follows: 2019 PLN 471 mln, 2020 PLN 148.4 million and then PLN 0.6 million. The risk of losing liquidity by the Company results from a mismatch between the amounts and dates of payment on the side of receivables and liabilities. It is important to protect against this risk by diversifying the portfolio of suppliers and recipients, financing subcontractors’ projects from funds received from ordering parties.

The Company’s liquidity is additionally supported by the inflow of cash from the settlement of transferred long-term deposits and also the expected inflow of the margin implemented on Opole contract by the subsidiary Polimex Opole Sp. z o.o. that shall take place after the implementation of the contract in 2019.

The table below presents the Company's financial liabilities as at December 31, 2018 and as at December 31, 2017 by maturity based on contractual undiscounted payments.

(in PLN thousand)

As at 31 December 2018	Upon request	Less than 3 months	From 3 up to 12 months	From 1 year up to 5 years	More than 5 years	Total
Interest-bearing bank loans and borrowings	–	–	70 571	98 625	–	**169 196**
Bonds	–	–	12 839	185 067	–	**197 906**
Other long-term liabilities	–	–	–	18 607	1 395	**20 002**
Trade and other payables	21 976	79 743	10 775	–	–	**112 494**
	21 976	**79 743**	**94 185**	**302 299**	**1 395**	**499 598**

As at 31 December 2017	Upon request	Less than 3 months	From 3 up to 12 months	From 1 year up to 5 years	More than 5 years	Total
Interest-bearing bank loans and borrowings	815	–	–	168 818	–	**169 633**
Bonds	–	–	–	198 121	–	**198 121**
Other long-term liabilities	–	–	–	101 321	3 705	**105 026**
Trade and other payables	50 220	128 664	48 550	–	–	**227 434**
	51 035	**128 664**	**48 550**	**468 260**	**3 705**	**700 214**

33. Financial instruments

33.1. Classification of financial instruments

	As at 31 December 2018 According to IFRS 9 Financial assets measured at amortised cost	As at 1 January 2018 According to IFRS 9 Financial assets measured at amortised cost	Change due to IFRS 9 impl.	As at 31 December 2017 Acc. to IAS 39 Loans granted and payables
Financial assets				
Other financial assets	76 641	282 961	(819)	283 780
Deposits under the construction contracts	133 804	134 083	(2 812)	136 895
Trade and other payables	136 795	256 033	(2 017)	258 050
Cash and other equivalents	183 623	162 763	–	162 763

	As at 31 December 2018 Acc. to IFRS 9 Financial liabilities measured acc. to amortised cost	As at 1 January 2018 Acc. to IFRS 9 Financial liabilities measured acc. to amortised cost	Change due to IFRS 9 implementation	As at 31 December 2017 According to IAS 39 Other financial liabilities measured at amortised cost
Financial liabilities				
Credits and loans	166 539	165 224	–	165 224
Other liabilities (long-term)	14 260	80 022	–	80 022
Deposits under the construction contracts	34 345	51 826	–	51 826

(in PLN thousand)

Trade and other liabilities	81 184	169 704	–	169 704
Bonds	176 469	169 034	–	169 034

Absence of changes to the values of financial liabilities resulting from IFRS 9 "Financial instruments" implementation.

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

Year ended December 31, 2018

	Revenues / (expenses) under interest	Profits / (losses) under FX rates differences	Impairment write-offs establishment / (dissolution)	Revenues / (expenses) under share in the profits of limited partnerships	Other	Total
Financial assets						
Financial assets measured at amortised cost	7 252	(961)	9 914	(29 125)	1 876	**(11 044)**
Financial liabilities						
Financial liabilities measured at amortised cost	(14 070)	565	–	–	(9 400)	**(22 905)**
Total	**(6 818)**	**(396)**	**9 914**	**(29 125)**	**(7 524)**	**(33 949)**

Year ended 31 December 2017

	Revenues / (expenses) under interest	Profits / (loss) under FX differences	Establishment / (dissolution) of impairment write-offs	Revenues under participation in limited partnerships profits	Other	Total
Financial assets						
Loans and receivables	13 987	(943)	11 193	59 215	700	**84 152**
Financial liabilities						
Financial liabilities measured at amortised cost	(14 248)	796	–	–	(9 121)	**(22 573)**
Total	**(261)**	**(147)**	**11 193**	**59 215**	**(8 421)**	**61 579**

The effect of MSSF 9 Financial instruments' implementation has been presented in the note number 3.4.

34. 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 are shaped 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.

(in PLN thousand)

35. 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 Company has externally imposed capital requirements regarding the value of equity.

In accordance with the provisions of the Agreement on Financial Debt Servicing Principles ("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 ZOZF Agreement. The effect of the occurrence and duration of the violation may be the termination of the ZOZF Agreement.

The Company had the addition of capitals throughout the whole 2018 period.

The Company monitors the state of capital using the leverage ratio, which is calculated as the ratio of net debt to the sum of capitals increased by net debt. The Company includes in the net debt interest-bearing bank credits and loans, trade and other liabilities decreased by the cash and cash equivalents.

	As at 31 December 2018	**As at 31 December 2017**
Credits, loans and bonds	343 008	334 258
Trade and other payables	141 627	405 790
Less: cash and cash equivalents	(183 623)	(162 763)
Net debt	**301 012**	**577 285**
Equity	567 211	549 695
Net capital and debt	**868 223**	**1 126 980**
Leverage ratio (net debt / net capital and debt)	35%	51%

36. Litigation regarding receivables and liabilities

As at 31 December 2018 not any litigation has been pending the value of which would constitute at least 2 per cent. of consolidated sales revenues of Polimex-Mostostal Capital Group for the last four quarters, i.e. PLN 32.7 million.

The Company held litigations cases with the General Directorate of National Roads and Motorways, which in the current period have ended with the settlement.

- On 21 September 2018, the Management Board of the Company with registered office in Warsaw (the "Company") announced final decisions and furnishing the execution clauses to them regarding discontinuation of litigations referring to the Contracts (as defined below) the subject matter of which were:

(i) Design and construction of A1 motorway Stryków – "Tuszyn" node in the section of from km 295 + 850 (from Stryków 1 node without the node to km 335+937.65,
(ii) Construction of A-4 motorways, Rzeszów section (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450 and
(iii) Construction of express road S-69 Bielsko-Biała – Żywiec – Zwardoń, "Mikuszowice" node section ("Żywiecka/Bystrzańska") – Żywiec (jointly the "Contracts").

Along with discontinuation of the litigations, the settlements entered into force, described in the Regulatory Announcement Number 40/2018 dated 21 September 2018, as described below.

- On 21 September 2018, the Management Board of the Company, announced the delayed confidential information dated 17 July 2018 on the resolution for the conditions of ending litigations between the Company and the remaining parties to the below listed infrastructural contracts: State Treasury – General Directorate of National Roads and Motorways ("GDDKiA"), Doprastav AS, MSF Engenharia S.A. and MSF Polska Sp. z o.o. (jointly the "Consortium

Members"). Settlements referred to mutual claims pursued in litigations or other potential claims which may arise under the contracts, the subject matter of which were:

(i) Design and construction of A1 motorway Stryków – "Tuszyn" node in the section from km 295 + 850 (from Stryków 1 node without a node up to km 335+937.65 ("A1 Contract"),

(ii) A-4 motorway construction, Rzeszów section (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450 ("A4 Contract") and

(iii) S-69 express road construction Bielsko-Biała – Żywiec – Zwardoń, "Mikuszowice" node section („Żywiecka/Bystrzańska") – Żywiec ("S69 Contract"), (jointly as the "Contracts").

Consequently, due to the settlements between the parties, which became final on 21 September 2018, *inter alia*:

(i) The Parties shall confirm the completion of Contracts' implementation on 14 January 2014 in reference to A1 Contract and A4 Contract and on 31 December 2013 in reference to S69 Contract,

(ii) The Parties shall not raise any claims referring to the implementation of the Contracts, thus litigations regarding the Contracts shall be discontinued and in particular the Company shall withdraw the statements of claims in the litigations pending before the courts in Slovakia, against Doprastav AS,

(iii) The Company has taken over liability for the potential claims of sub-contractors, service providers and suppliers and also other entities which were executing works, rendered services, provided supplies or fulfilled other benefits in relation to the Contracts' implementation. To protect these claims, the Company shall submit to GDDKiA bank guarantees of the total amount of PLN 20 million. Bank Guarantees shall be issued for the period of 6 years with the possibility to reduce them to the joint level of PLN 12.5 mln after 3 years from their issuance,

(iv) GDDKiA shall release the bank guarantee issued upon the commission of the Company as a collateral of claims under A1 Contract for the amount of PLN 29.21 mln and bank guarantee issued upon the commission of the Company as a collateral of the claims under A4 Contract for the amount of PLN 56 mln and withdraws the statement of claims for the payment of these guarantees,

(v) The Company shall take over the guarantee operations in the scope of specified works referring to Wierzbno node constructed under A4 Contract (until 2024) and guarantee operations in A4 Szarów – Brzesko contract (until January 2019) and settlements under the replacement workmanship within the scope of guarantee service of another infrastructural contract,

(vi) The Company shall contribute cash deposit amounting to PLN 6.58 mln for the period not longer than until 4 July 2019 for the collateral of the absence of payment of the funds from the re-guarantee issued by Doprastav AS for the benefit of the collateral for the removal of defects and failures during the period of guarantee of quality and warranty referring to A4 Contract,

(vii) Total liability of the Company under the concluded settlements and agreements according to the Company's estimates shall amount to not more than PLN 48.80 mln and this amount is included in the provisions for expenses established in the preceding year, therefore the settlements made between the parties should not adversely affect EBIDTA result of the Company (Regulatory Announcement 40/2018).

Due to the concluded settlement, the Group has recognised other operating revenues in the amount equal to PLN 8.5 mln. The provisions recognised until the present moment for the costs of contract settlement in the amount equal to PLN 110.2 mln have been used and the impairment write-offs of payables amounting to PLN 94.7 mln related to the ended litigations have also been used.

Presentation of provisions within the scope of an additional explanatory note to the financial statements has also been subject to change. Reserves related to the implementation of contracts for GDDKiA prior to signing the settlement were presented as the provisions under the contract settlement. Within the scope of recognition of the accounting effects of the settlement signed, the provisions referring to pending litigations were presented in an additional explanatory note to the financial statements as provisions for litigations.

According to the Company's estimates, as at 31 December 2018, value of risks related to the implementation of the settlement amounts to PLN 36.9 mln.

37. The most significant events after the balance sheet date

- On 30 January 2019, the Management Board of the Company announced that PGNiG TERMIKA S.A. with the registered office in Warsaw (the "Ordering Party") and Mitsubishi Hitachi Power Systems Europe GmbH with the registered office in Germany as the consortium leader, Mitsubishi Hitachi Power Systems Ltd. with the registered office in Japan, Mitsubishi Hitachi Power Systems Europe Ltd. with the registered office in London and the Company as the consortium members, (collectively the "Contractor") the annex was concluded to the agreement for the supply and assembly of gas and vapour unit in Żerań Heat and Power Plant in Warsaw (the "Contract").

  The Annex was concluded due to the extension of the subject matter of the Contract and consequently, inter alia, increased the Contract Price (in compliance with the definition included in the Regulatory Announcement number 61/2017 dated 29 June 2017) with the amount of PLN 29 715 200 and EUR 67 700, and the amount of PLN 5 426 300 falls to the Company. Additionally, the Annex extended the period to sign the protocol of taking over the unit for the operations. According to the Annex the Contract Price amounts to PLN 1 018 831 648.84 and EUR 112 022 030.89.

  The Contractor shall have the protocol signed for taking the unit for operations within 37 months from the conclusion of the Contract.

Warszawa, 11 April 2019

SIGNATURES OF ALL BOARD MEMBERS		
First and last name	Position/Role	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 DRAFTING THE FINANCIAL STATEMENTS		
First and last name	Position/Role	Signature
Sławomir Czech	Chief Financial Officer / Chief Accountant	