POLIMEX MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON 31 DECEMBER 2019
WITH THE OPINION BY AN INDEPENDENT STATUTORY AUDITOR

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(in thousands of PLN)

Consolidated profit and loss account

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018
Sales revenues	7.1	1 589 430	1 636 869
Cost of goods sold	7.9	(1 482 107)	(1 555 626)
Gross profit / (loss) on sales		**107 323**	**81 243**
Cost of sales		(22 970)	(25 281)
General administration expenses		(67 886)	(66 725)
Profit / (loss) on impairment of financial assets		18 280	4 226
Other operating revenues	7.5	30 554	50 778
Other operating costs	7.6	(4 882)	(8 777)
Profit / (loss) on operating activities		**60 419**	**35 464**
Financial income	7.7	25 240	13 734
Financial costs	7.8	(32 585)	(34 103)
Share in the profit of an associated entity		687	141
Gross profit / (loss)		**53 761**	**15 236**
Income tax	8	(3 107)	932
Net profit / (loss)		**50 654**	**16 168**
Net profit / (loss) attributable to:			
– shareholders of the parent company		50 744	16 168
– non-controlling interests		(90)	–
Profit / (loss) per share attributable to the shareholders of the parent company (in PLN per share)			
– basic and diluted profit per share		0.214	0.068

Consolidated comprehensive income statement

	Year ended on 31 December 2019	Year ended on 31 December 2018
Net profit / (loss)	**50 654**	**16 168**
Items that will not be allocated in the later periods to the profit and loss account:		
Change from the valuation of tangible fixed assets	2 949	–
Actuarial profit / (loss)	(1 900)	(751)
Items that can be allocated in the later periods to the profit and loss account:		
Foreign exchange differences on translation of foreign entity	2 984	698
Other net comprehensive income	**4 033**	**(53)**
Total comprehensive income	**54 687**	**16 115**
Attributable to:		
– shareholders of the parent company	54 777	16 115
– non-controlling interests	(90)	–

(in thousands of PLN)

Consolidated balance sheet

	Note	As at 31 December 2019	As at 31 December 2018*
Assets			
Fixed assets			
Tangible fixed assets	11	407 862	384 196
Investment property		14 576	14 576
Goodwill from consolidation	13	91 220	91 220
Intangible asset		1 985	2 017
Investments in associated entities measured in accordance with the equity method	14	2 419	5 954
Financial assets		2 643	2 423
Long-term receivables		1 146	1 714
Deposits due to the construction contracts		117 838	111 094
Deferred tax assets	8.2	179 829	175 973
Other fixed assets		3 161	–
Total fixed assets		**822 679**	**789 167**
Current assets			
Inventories	15	104 921	98 496
Trade receivables	16	288 401	362 506
Deposits due to the construction contracts		40 458	64 853
Construction contracts assets	18	145 349	60 058
Other receivables	16	22 184	38 131
Financial assets		661	750
Cash	19	285 013	417 808
Other assets		4 452	2 869
Total current assets		**891 439**	**1 045 471**
Assets held for sale	21	**42 192**	**36 225**
Total assets		**1 756 310**	**1 870 863**

** Restated data, see note 3.4*

(in thousands of PLN)

Consolidated balance sheet (continued)

	Note	As at 31 December 2019	As at 31 December 2018*
Liabilities and equity			
Share capital	21.1	473 238	473 238
Reserve capital	22.2	157 746	157 746
Other capitals	22.3	227 466	209 938
Reserve capital from surplus of bonds convertible into shares	22.4	31 552	31 552
Accumulated other comprehensive income	22.5	97 745	94 625
Retained earnings / Uncovered losses		(255 651)	(289 780)
Non-controlling interests		354	354
Total equity		**732 450**	**677 673**
Long-term liabilities			
Bank loans, borrowings and other sources of financing	23	83 456	139 582
Long-term bonds	25	86 857	163 630
Provisions	26	31 977	59 199
Employee benefit liabilities	27	20 233	17 487
Other liabilities		14 047	15 988
Deposits due to the construction contracts		25 983	29 354
Deferred tax liabilities	8.2	1 587	1 367
Total long-term liabilities		**264 140**	**426 607**
Short-term liabilities			
Bank loans, borrowings and other sources of financing	23	76 323	93 852
Short-term bonds	25	86 721	12 839
Trade liabilities	28	350 360	347 089
Deposits due to the construction contracts		33 811	29 661
Construction contracts liabilities	18	54 092	63 939
Other liabilities	28	34 164	52 305
Income tax liabilities		812	170
Provisions	26	60 185	107 846
Employee benefit liabilities	27	61 570	55 951
Deferred income		1 682	2 931
Total short-term liabilities		**759 720**	**766 583**
Total liabilities		**1 023 860**	**1 193 190**
Total liabilities and equity		**1 756 310**	**1 870 863**

** Restated data, see note 3.4*

(in thousands of PLN)

Consolidated cash flow statement

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018
Cash flows from operating activities			
Gross profit / (loss)		**53 761**	**15 236**
Adjustment items:		**(44 461)**	**(116 700)**
Share in the results of associates measured with the equity method		(687)	(141)
Depreciation		35 218	26 684
Net interests and dividends		27 921	25 614
Profit / (loss) on investing activities		(9 594)	(18 424)
Change in receivables	20	20 292	387 681
Change in inventories		(9 587)	(1 596)
Change in liabilities, excluding bank loans and borrowings	20	(27 460)	(434 776)
Change in other assets and deferred income		(2 831)	1 265
Change in provisions		(74 883)	(100 036)
Income tax paid		(2 835)	(4 523)
Other		(15)	1 552
Net cash from operating activities		**9 300**	**(101 464)**
Cash flows from investing activities			
Disposal of tangible and intangible fixed assets		8 925	10 021
Purchase of tangible and intangible fixed assets		(15 101)	(35 001)
Expenses related to the acquisition of control over a subsidiary	4.5	(3 696)	–
Expenses for the purchase of investment property		–	1 040
Net cash from investing activities		**(9 872)**	**(23 940)**
Cash flows from financing activities			
Lease payments		(9 782)	(784)
Proceeds from borrowings / bank loans		1 104	2 627
Repayment of borrowings / bank loans		(69 486)	(22 057)
Redemption of bonds		(11 210)	–
Interests paid		(42 849)	(15 714)
Net cash from financing activities		**(132 223)**	**(35 928)**
Increase / (decrease) in net cash and cash equivalents		(132 795)	(161 332)
Cash at the beginning of the period	19	**417 808**	**579 140**
Cash at the end of the period	19	**285 013**	**417 808**
Cash recognized in the consolidated cash flow statement		**285 013**	**417 808**
– including restricted cash		59 634	180 219

(in thousands of PLN)

Consolidated statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income: Revaluation reserve	Accumulated other comprehensive income: Actuarial profit / (loss)	Accumulated other comprehensive income: Foreign exchange differences on translation of foreign entity	Retained earnings / Uncovered losses	Total	Non-controlling interests	Total equity
As at 1 January 2019	**473 238**	**157 746**	**209 938**	**31 552**	**117 235**	**(2 148)**	**(20 462)**	**(289 780)**	**677 319**	**354**	**677 673**
Profit / (loss) for the period	–	–	–	–	–	–	–	50 744	50 744	(90)	50 654
Other net comprehensive income	–	–	–	–	2 949	(1 900)	2 984	–	4 033	–	4 033
Total comprehensive income	**–**	**–**	**–**	**–**	**2 949**	**(1 900)**	**2 984**	**50 744**	**54 777**	**(90)**	**54 687**
Distribution of net profit / (loss)	–	–	17 528	–	–	–	–	(17 528)	–	–	–
Obtaining control	–	–	–	–	–	–	–	–	–	9 459	9 459
Recognition of the valuation held by minority shareholders of put options *	–	–	–	–	–	–	–	–	–	(9 369)	(9 369)
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(913)	–	–	913	–	–	–
As at 31 December 2019	**473 238**	**157 746**	**227 466**	**31 552**	**119 271**	**(4 048)**	**(17 478)**	**(255 651)**	**732 096**	**354**	**732 450**

** Accounting policy relevant for this transaction has been outlined under point 4.5*

(in thousands of PLN)

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income			Retained earnings / Uncovered losses	Total	Non-controlling interests	Total equity
					Revaluation reserve	Actuarial profit / (loss)	Foreign exchange differences on translation of foreign entity				
As at 1 January 2018	**473 238**	**157 746**	**127 368**	**31 552**	**117 333**	**(1 397)**	**(21 471)**	**(220 166)**	**664 203**	**382**	**664 585**
Implementation of new accounting standards	–	–	–	–	–	–	–	(3 310)	(3 310)	–	(3 310)
As at 1 January 2018 after change	**473 238**	**157 746**	**127 368**	**31 552**	**117 333**	**(1 397)**	**(21 471)**	**(223 476)**	**660 893**	**382**	**661 275**
Profit / (loss) for the period	–	–	–	–	–	–	–	16 168	16 168	–	16 168
Actuarial profit / (loss)	–	–	–	–	–	(751)	–	–	(751)	–	(751)
Other net comprehensive income	–	–	–	–	–	–	698		698	–	698
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(751)**	**698**	**16 168**	**16 115**	**–**	**16 115**
Distribution of net profit / (loss)	–	–	82 558	–	–	–	–	(82 558)	–	–	–
Transfer to other capitals			12					(12)	–	–	–
Deconsolidation of subsidiaries	–	–	–	–	–	–	311	–	311	–	311
Transfer of surplus from revaluation of tangible fixed assets due to their liquidation	–	–	–	–	(98)	–	–	98	–	–	–
Other	–		–	–	–	–	–	–	–	(28)	(28)
As at 31 December 2018	**473 238**	**157 746**	**209 938**	**31 552**	**117 235**	**(2 148)**	**(20 462)**	**(289 780)**	**677 319**	**354**	**677 673**

(in thousands of PLN)

Explanatory notes to the consolidated financial statements as at 31 December 2019

1. General information

Polimex Mostostal Capital Group (the "Group", the "Capital Group") consists of the parent company Polimex Mostostal S.A. (the "Parent Company", the "Company", the "Issuer") and its subsidiaries and associates. The consolidated financial statements of the Group cover the year ended on 31 December 2019 and contain comparative data for the year ended on 31 December 2018.

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

The Parent Company and the entities within the Capital Group have been established for an indefinite period. The financial statements of all consolidated subsidiaries have been prepared for the same reporting period as the financial statements of the Parent Company and with the application of consistent accounting policies. In case an associate or a subsidiary applies other accounting policies, for the purpose of consolidation the financial data have been transformed to comply with the accounting policies implemented by the Capital Group.

The financial year of the Parent Company and the entities within the Group is the same as the calendar year.

The primary business activity of the Parent Company involves a wide range of construction and assembly services provided in the formula of a general contractor, both in Poland and abroad, as well as administrative support for the companies within the Group. The Group's activity focuses on construction and assembly works, assembly and installation of industrial devices and equipment and production. Polimex Mostostal S.A. and the Group operate in the following segments: Production, Industrial Construction, the Power Sector, Infrastructure Construction, as well as Oil, Gas and Chemicals.

The shares of the Parent Company: the shares of the Parent Company Polimex Mostostal S.A. are listed on the Warsaw Stock Exchange.

1.1. Composition of the Capital Group and an overview of changes in its structure

As at 31 December 2019 and 31 December 2018 the following subsidiaries and associates were subject to consolidation:

No	Entity	Registered office	Scope of business activity	Percentage share As at 31 December 2019 (%)	Percentage share As at 31 December 2018 (%)
Subsidiaries					
1	Polimex Energetyka Sp. z o.o.	Warsaw	Construction works	100	100
2	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Construction works	100	100
3	Polimex Opole Sp. z o.o. Sp.k.	Warsaw	Construction works	100	100
4	Mostostal Siedlce Sp. z o.o. Sp.k.	Siedlce	Manufacturing of metal products	100	100
5	Stalfa Sp. z o.o.	Sokołów Podlaski	Manufacturing of metal products	100	100
6	Polimex Mostostal ZUT Sp. z o.o.	Siedlce	Technical services	100	100
7	Polimex Mostostal Ukraina	Zhytomyr – Ukraine	Production of metal structures	100	100
8	Czerwonogradzki Zakład Konstrukcji Stalowych	Chervonograd – Ukraine	Production of metal structures	100	100
9	Polimex Mostostal Wschód	Moscow, Russia	Distribution of metal products	100	100

(in thousands of PLN)

10	Polimex Centrum Usług Wspólnych Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
11	Polimex Budownictwo Sp. z o.o.	Siedlce	Industrial construction	100	100
12	Polimex Budownictwo Sp. z o.o. Sp.k.	Siedlce	Industrial construction	100	100
13	Polimex Operator Sp. z o.o. Sp.k.	Warsaw	Rental and leasing services of construction machinery and equipment	100	100
14	Polimex Infrastruktura Sp. z o.o.	Warsaw	Construction works related to the construction of roads and highways	100	100
15	BR Development Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
16	Polimex-Development Inwestycje Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
17	Polimex-Development Inwestycje Sp. z o.o. Apartamenty Tatarska S.K.A. in liquidation	Cracow	Does not conduct any business activity	100	100
18	Energomontaż-Północ Bełchatów Sp. z o.o.	Rogowiec	Specialized construction and assembly services	54.95	32.82
Associates					
19	Finow Polska Sp. z o.o.	Ostrowiec Świętokrzyski	Specialized construction and assembly services	26.4	–

The Parent Company has control over the subsidiaries under full consolidation; this results from the fact that the Parent Company has the majority ownership of shares in the subsidiaries and it is in a position to manage the operations of these entities. The subsidiaries excluded from the consolidation are entities in liquidation or restructuring, over which the Parent Company does not have control, or entities that are considered insignificant from the point of view of consolidation within the Group. The materiality threshold for excluding a subsidiary from the consolidation is determined by the ratio of the assets of a given entity to the total balance sheet of the Group and by the share of the sales revenues of an entity in the Group's sales revenues.

On 29 October 2019 Polimex Mostostal S.A. acquired an additional packet of shares in Energomontaż-Północ Bełchatów Sp. z o.o. corresponding to 22.13% of shares with voting rights. The value of the transaction was PLN 3 696 thousand (the total amount was entirely paid in cash and was equal to the fair value). As a result of this transaction Polimex Mostostal S.A. is in possession of 54.95% of the company's share capital and it has consequently acquired control over the company. The Group recognized the result of the acquisition of control over the new entity in the amount of PLN 2 670 thousand (this amount was calculated as a difference between the value of investment in Energomontaż-Północ Bełchatów recognized in accordance with the equity method and the fair value of the packet of shares held before obtaining control). The result is presented under “Financial income” and under “Profit on bargain purchase” in the amount of PLN 951 thousand (presented under “Other operating revenues”). As at the date of the acquisition of control, the minority capital was recognized in the amount of PLN 9 296 thousand. The method of recognizing minority shares for subsequent balance sheet days after the date of the acquisition of control has been outlined in note 4.5. The settlement of the transaction for the acquisition of control has been completed and fully recognized in the consolidated financial statements for 2019. The value of tangible fixed assets under the audit was determined at fair value based on the assessment report. For buildings and structures the valuation was prepared with the application of the income approach, the investment method and the direct capitalization method. In case of land the comparative approach was used, as well as the average price adjustment method. No significant differences were identified in the remaining assets over which the Company has acquired control. The gross value of purchased trade receivables is PLN 12 862 thousand and the value of write-offs on these receivables is PLN 4 138 thousand. The value of revenues and profits generated by the acquired entity from the date of the acquisition of control, as recognized in the consolidated financial statements amounted respectively to PLN 7 202 thousand (revenues) and PLN 198 thousand (net loss). Disclosure of information regarding revenues and profit of the Group if the acquisition of control took place on 1 January 2019 was not performed due to the fact that Energomontaż-Północ Bełchatów maintains its statutory books in accordance with the Accounting Act and not with the IAS/IFRS regulations applicable in the Group.

As a result of the transaction, the Group has acquired control over assets and liabilities in the amounts outlined below:

Fixed assets		**Long-term liabilities**	
Tangible fixed assets	21 264	Provisions	3 111
Intangible asset	31	**Total long-term liabilities**	**3 111**
Deposits due to the construction contracts	2 291		
Deferred tax assets	2 648	**Short-term liabilities**	
Total fixed assets	**26 234**	Lease liabilities	830
		Trade liabilities	14 754
Current assets		Construction contracts liabilities	975
Inventories	1 284	Income tax liabilities	923
Trade receivables	9 272	Provisions	2 900
Construction contracts assets	4 775	Employee benefit liabilities	2 486
Cash	5 323	**Total short-term liabilities**	**22 868**
Other assets	89		
Total current assets	**20 743**		
Total assets	**46 977**	**Total liabilities**	**25 979**
		Net assets	**20 998**

On 29 October 2019 Polimex Mostostal S.A. acquired shares in the company Finow Polska Sp. z o.o. in the amount of PLN 2 394 thousand. Following the transaction Polimex Mostostal S.A. is in possession of 26.4% of the company's share capital and has a significant influence over this company. The financial results of Finow Polska Sp. z o.o. are recognized in the consolidated financial statements using the equity method. The fair value of the payment transferred in exchange for the shares in Finow Polska Sp. z o.o. corresponds to the fair value of the net assets allocated to the Group. The value of the company was not recognized as a result of the transaction.

1.2. Functional and reporting currency

The items included in the financial statements of individual entities of the Group are measured in the currency of the primary economic environment in which a given entity operates. The consolidated financial statements are presented in the Polish zloty, which is the presentation currency of the Group. The amounts in the consolidated financial statements are presented in thousands of PLN, except for specific situations where the data is provided with greater accuracy.

2. Approval of the financial statements

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

The consolidated financial statements of Polimex Mostostal Capital Group and the financial statements of the Parent Company are under review by an independent statutory auditor – Ernst & Young Audyt Polska Sp. z o.o. Sp. k.

3. Platform of the applied International Financial Reporting Standards

3.1. Statement on compliance

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

Some of the Group's entities maintain their accounting books in compliance with the policy (rules) stipulated in the Accounting Act of 29 September 1994 (the “Act"), as amended, and with the regulations issued on the basis of this Act. The consolidated financial statements include adjustments that were excluded from the accounting books of the Group’s entities. These adjustments were introduced in order to render those financial statements compliant with the IFRS.

3.2. Going concern

These consolidated financial statements have been prepared with the assumption that the companies within the Group under consolidation in the foreseeable future will continue as a going concern. As at the day of the approval of these financial statements for publication there were no circumstances which would indicate a threat to the going concern of the Group's companies under consolidation. With regards to the subsidiary of the Group Polimex Mostostal Ukraina SAZ, whose equity as at 31 December 2019 was negative, the Management Board is planning to continue the activity of this company in the foreseeable future.

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

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

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

recovery once the economic situation is stable. In the segment of steel structures there is a noticeable trend for the transfer of orders by international entities from Asia to the European market, which may create a business opportunity for the Group's production segment.

- The Group's liquidity is fully secured. At the moment there are no premises to adjust the expected cash flows. The Group is continuously working towards best solutions for the debt refinancing on favourable terms and on applying further tools supporting liquidity. These steps have been initiated before the pandemic and they are currently being continued. In addition, the Group is presently looking into new financing options that have become available after the Polish government adopted a package of laws to support business activity during the epidemic.
- The Capital Group operates on numerous markets and it is active on diverse segments of the market. This reduces the risk of over-concentration in areas that may be particularly affected by the epidemic. The Group has a secure order portfolio that is diversified in terms of geographies and industries.

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

3.3. Effect of new and amended standards and interpretations

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

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

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

(in thousands of PLN)

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

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

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

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

In the period covered by the financial statements, the Group applied the following new standards for the first time. The standards in question have had a significant impact on the financial statements:

- **IFRS 16 “Leasing”**

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

	Carrying amounts as at 1.01.2019
Right-of-use assets	22 827
Lease liabilities	22 827

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

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

<u>Exemptions and practical solutions</u>

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

<u>Initial implementation</u>

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

<u>Identification of the lease</u>

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

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

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

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

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

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

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

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

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

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

Presentation of the financial statements

The Group has decided to include the right-of-use assets as part of the same balance sheet positions they would be presented in if the Group owned these assets. The right-of-use assets have been presented in the line item "Tangible fixed assets". Lease liabilities have been presented in the line item "Bank loans, borrowings and other sources of financing" in the long-term or short-term part of the balance sheet – depending on the settlement date. In the statement of cash flows the Group presents outflows related to leases recognized in the balance sheet. Cash flows related to short-term or low-value leases are presented under "Operating cash flows". Additional disclosures regarding leasing are presented in notes 7.9, 11 and in the Statement on cash flows.

- **Change in the comparative data**

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

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

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

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

	As at	**As at**

(in thousands of PLN)

	31 December 2018 (before change)	Changes in presentation	31 December 2018 (after change)
Current assets			
Inventories	98 496	–	98 496
Trade and other receivables	400 637	(400 637)	–
Trade receivables	–	362 506	362 506
Deposits due to the construction contracts	64 853	–	64 853
Construction contracts assets	60 058	–	60 058
Other receivables	–	38 131	38 131
Financial assets	750	–	750
Cash	417 808	–	417 808
Other assets	2 869	–	2 869
Assets held for sale	36 225	(36 225)	–
Total current assets	**1 081 696**	**(36 225)**	**1 045 471**
Assets held for sale	**–**	**36 225**	**36 225**

	As at 31 December 2018 (before change)	Changes in presentation	As at 31 December 2018 (after change)
Short-term liabilities			
Bank loans and borrowings	93 852	–	93 852
Short-term bonds	12 839	–	12 839
Trade and other liabilities	399 394	(399 394)	–
Trade liabilities	–	347 089	347 089
Deposits due to the construction contracts	29 661	–	29 661
Construction contracts liabilities	63 939	–	63 939
Other liabilities	–	52 305	52 305
Income tax liabilities	170	–	170
Provisions	107 846	–	107 846
Employee benefit liabilities	55 951	–	55 951
Deferred income	2 931	–	2 931
Total short-term liabilities	**766 583**	**–**	**766 583**

4. Adopted accounting principles (policy)

The grounds for preparing the consolidated financial statements

These financial statements have been prepared in accordance with the historical cost concept, with the exception of certain tangible fixed assets which are recognized at the re-evaluated amounts or at fair values and financial instruments recognized 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 the fair value of the payment made for goods or services.

The most important accounting principles applied by the Company have been presented below. In terms of the accounting principles related to IFRS 16 applied for the first time, these principles have been described in note 3.4.

4.1. Principles of consolidation

These consolidated financial statements include the financial statements of Polimex Mostostal S.A. and the financial statements of its subsidiaries prepared for the year ended on 31 December 2019. The financial statements of the subsidiaries, after accounting for the adjustments to render them compliant with the IFRS, are prepared for the same reporting period as the financial statements of the Parent

Company, based on the uniform accounting principles applied for transactions and economic events of a similar nature. Adjustments are made to eliminate any discrepancies in the adopted accounting policies.

All significant balances and transactions between the Group's entities, including unrealized gains arising from transactions within the Group, have been completely eliminated. Unrealized losses are eliminated, unless they prove impairment.

Subsidiaries are subject to consolidation in the period from the date of the acquisition of control over them by the Group and they cease to be consolidated from the date such control ends. The control of the parent company occurs when the parent company has power over a given entity, when due to its involvement it is exposed to variable financial results or when it has the right to variable financial results and has the ability to influence the amount of these results by exercising authority over a subsidiary.

Changes in the parent company's ownership interest that do not result in a loss of control over a subsidiary are accounted for as equity transactions. In such cases, in order to reflect changes in relative shares in a subsidiary, the Group adjusts the carrying amount of controlling and non-controlling interests. Any differences between the amount of the non-controlling interest adjustment and the fair value of the amount paid or received are recognized under equity and attributed to the owners of the parent company.

4.2. Investments in associated entities

Investments in associated entities are measured in accordance with the equity method. These are the entities over which the parent company exerts significant influence, directly or through subsidiaries, and which are neither its subsidiaries nor joint ventures. The financial statements of the associates are used for the valuation of shares held by the parent company with the equity method. The financial year of the associates is equivalent with the financial year of the parent company. Prior to calculating the share in the net assets of the associates, appropriate adjustments are made to render the financial data of those entities compliant with the IFRS applied within the Group. Investments in the associates are recognized in the balance sheet at the purchase price increased by the subsequent changes in the parent company's share in the net assets of these entities, less any impairment losses. The share in the profits or losses of the associates is reflected in the consolidated profit or loss. An adjustment to the carrying amount may also be necessary due to changes in the proportion of interest in an associate resulting from changes in other comprehensive income of that entity. The Group's share in these changes is recognized under other comprehensive income of the Group.

An assessment of the investments in the associates for impairment occurs when there are indications that the impairment has occurred or an impairment loss made in previous years is no longer required.

4.3. Changes in the Group's share in the equity of subsidiaries

Changes in the Group's share in the equity of subsidiaries that do not result in the loss of control over these entities are accounted for as equity transactions. The carrying amount of the Group's shares and non-controlling interests are adjusted to reflect the changes in the share in the subsidiaries. Differences between the amount of adjustment of non-controlling interests and the fair value of the payment made or received are recognised directly in equity and attributed to the owners of the Company. If the Group loses control over a subsidiary, the profit or loss is included in the profit and loss account calculated as the difference between the aggregate amount of the received payment, the fair value of retained shares and the original carrying amount of assets (including goodwill) and liabilities of this subsidiary and non-controlling interests. All amounts related to this subsidiary, initially recognised under other comprehensive income, are accounted for as if the Group directly sold the corresponding assets or liabilities of the subsidiary (i.e. these amounts are transferred to the financial result or to another category of equity in accordance with the provisions of the relevant IFRS). The fair value of investments held in the former subsidiary as of the date of the loss of control is treated as the fair value at the time of the initial recognition in order to enable a possible settlement of the cost incurred at the time of the initial recognition of the investment in the associate or joint venture.

4.4. Acquisition of control in stages

In case of the acquisition of control in stages, for instance in an event of an acquisition of control over a former associate, the Group re-evaluates its previously held equity interests at fair value as at the acquisition date and recognizes the resulting gain or loss, if any, under the profit or loss on financing activities.

(in thousands of PLN)

4.5. Minority capital and put option held by minority shareholders

The Group presents as minority shares the equity of subsidiaries that cannot be allocated to the parent company. Minority shares are recognized as part of settlement transactions on the equity instruments of subsidiaries and are measured in accordance with their share in the net asset value as at the date of the acquisition of control. In the subsequent periods the value of the minority capital is adjusted by the appropriate share they hold in the result of the subsidiary.

The subsidiary's minority shareholders have the option of selling their shares after fulfilling certain conditions. At the end of each period during which the above option will not be exercised, the Group will proceed as follows:

- it will exclude from the balance sheet the value of the minority capital calculated with the method indicated above,
- it will recognize financial liability (presented in the balance sheet under other liabilities) in the present value of the expected payment for exercising the option,
- a change in the value of the liability will be recognized through retained earnings.

If the option is used, the value of the liability will be settled with the value of the payment for the realization of the option. If the option remains unsettled, the Group will recognize the minority equity in the amount corresponding to the amount that would have been calculated if the put option had not been recognized and will exclude the relevant financial liabilities from the balance sheet.

4.6. Participation in a joint venture

The Group's participation in joint ventures is accounted for using the equity method.

4.7. Conversion of amounts expressed in foreign currencies

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

The functional currencies of the foreign subsidiaries are UAH and RUB. As at the balance sheet date, the assets and liabilities of these foreign subsidiaries are converted into the currency of the presentation of financial statements using the exchange rate on the balance sheet date. Their financial statements of comprehensive income are converted at the weighted average exchange rate for the given financial period. The exchange differences arising from this conversion are recognized under other comprehensive income and they are accumulated under the balance sheet item: “Accumulated other comprehensive income” and in the statement of changes in equity under “Accumulated other comprehensive income due to exchange differences from the translation of a foreign entity”. At the time of the disposal of a foreign entity, the deferred exchange differences relating to a given foreign entity and accumulated in the equity are recognized under the profit and loss account.

The weighted average exchange rates for the respective periods were as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018
UAH	0.1502	0.1330
RUB	0.0596	0.0576
EUR	4.3018	4.2669

4.8. Tangible fixed assets

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

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

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

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

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

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

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

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

4.9. Investment property

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

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

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

4.10. Intangible assets

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

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

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

Goodwill

Goodwill due to the acquisition of an entity is initially recognised at the purchase price constituting the amount of the surplus

- on the total of:
  - (i) the transferred payment,
  - (ii) the amounts of any non-controlling interest in the entity subject to acquisition, and
  - (iii) in case of the merger of entities in stages, the fair value as at the acquisition date of the capital of the acquired company, previously held by the the acquiring company.
- over the net amount determined as at the date of acquisition of the values of identifiable assets acquired and liabilities assumed.

After the initial recognition, the goodwill is reported at the cost of acquisition, less any accumulated impairment losses. The value impairment test is performed once a year or more often if there are premises to do so. The goodwill is not subject to depreciation.

As at the acquisition date the goodwill acquired is allocated to each of the cash-generating units that can benefit from the synergy. Each unit or group of units to which the goodwill is allocated:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and
- is not larger than one operating segment determined in accordance with IFRS 8 “Operating Segments”.

An impairment loss is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill was allocated. If the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognised. If the goodwill is part of the cash-generating unit and part of the operations within this unit is sold, the goodwill associated with the sold business is included in the carrying amount when determining profits or losses from the sale of such service. In such circumstances the sold goodwill is determined based on the relative value of the operations sold and the value of the part of the cash-generating unit retained. A cash generating centre is not larger than one operating segment before aggregation.

Impairment of non-financial fixed assets

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

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

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

4.11. Borrowing costs

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

4.12. Inventories

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

The costs are recognised as follows:

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

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

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

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

4.13. Trade receivables

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

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

4.14. Other receivables

Other receivables include, in particular, advance payments forwarded for future purchases of tangible fixed assets, intangible assets and inventories.

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

4.15. Deposits transferred under construction contracts

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

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

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

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

4.16. Cash and cash equivalents

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

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

Cash and cash equivalents are measured at their nominal value.

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

4.17. Financial instruments

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

Financial assets are classified into the following valuation categories:

- assets measured at amortized cost,
- assets measured at fair value through profit or loss,
- assets measured at fair value through other comprehensive income.

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

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

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

All financial assets held by the Group are measured at amortized cost.

Interest income is calculated using the effective interest method and it is recognized in the profit and loss account under financial income.

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

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

In the case of trade receivables, deposits and assets due to the valuation of contracts the Group applies a simplified approach and measures the write-off on expected credit losses in the amount equal to the expected credit losses in the entire lifetime using the reserve matrix. The Group uses its historical data on credit losses, as well as information on individual assessment of impairment risk and takes into account the information regarding the future. Write-offs for expected credit losses recognized in the reporting period are presented in note 17.

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

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

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

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

The Companies within the Group do not use hedge accounting.

4.18. Credits, borrowings and debt securities (bonds)

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

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

4.19. Asset (or disposal groups) held for sale

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

4.20. Other assets

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

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

4.21. Deferred income

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

4.22. Trade receivables

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

4.23. Other liabilities

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

4.24. Deposits received under construction contracts

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

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

4.25. Employee benefit liabilities

Short-term employee benefits paid by the Group include:

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

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

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

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

In accordance with the Company remuneration systems, the employees of the Companies within the Group have the right to retirement benefits. Retirement benefits are paid once at the time of retirement. The amount of a retirement benefit depends on the length of service and the average remuneration of the employee. The Group has a provision for future liabilities related to retirement benefits in order to allocate costs to the periods to which they relate. According to IAS 19, retirement benefits belong to the specified post-employment benefits programs. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data.

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

Post-employment benefits in the form of defined benefit plans (retirement benefits) 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 under other comprehensive income. However, profits and losses related to other long-term employee benefits are recognised in the current income statement of the reporting period.

4.26. Provisions

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

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

4.27. Profit distribution for employee purposes and special funds

In accordance with the Polish economic practice, the stockholders/shareholders of entities can distribute the profits for employee purposes by making a contribution to a social fund or other special funds. In the financial statements compliant with IFRS this part of the profit distribution is included in the operating costs of the period to which the profit distribution relates.

4.28. Reserve capital from surplus of bonds convertible into shares

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

4.29. Revenues from contracts with Customers

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

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

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

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

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

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

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

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

the customer may benefit from goods or services either directly or by connection to other resources that are readily available (i.e. the goods or services may be separate); and

an entity's obligation to provide goods or services to a customer can be identified as separate from other obligations specified in the contract (i.e. the goods or service is separate within the contract).

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

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

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

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

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

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

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

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

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

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

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

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

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

4.30. Taxes

Current tax

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

Deferred tax

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

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

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and

- in the case of positive temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

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

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

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

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

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

4.31. The most significant accounting principles applied by the Group until 31 December 2018

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

The Group as a lessee

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

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

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

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

The Group as a lessor

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

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

5. Significant values based on professional judgement and estimates

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

Periods of economic use of tangible fixed assets

As described in note 4.8, the Group verifies the anticipated economic useful lives of items under tangible fixed assets at the end of each annual reporting period.

Fair value measurement and the valuation procedures

Investment property is measured by the Group at fair value for the purpose of financial reporting. The valuation has been carried out by external qualified property appraisers. The valuations are prepared with the application of income or comparative methods. The Group applies the revaluation model for the following class of assets: real estate and structures. In case the revaluation needs to be performed, the Group obtains a fair value measurement for particular locations of real estate and structures. The revaluation is performed for the entire class of assets when the fair value differs significantly from the carrying amount. The valuations are prepared with the application of income or comparative methods. Details on the performed valuations are described in note 11 and 21.

Impairment of assets

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

Impairment of goodwill

Pursuant to IAS 36, the Management Board of the Parent Company as at the balance sheet date performs annual impairment tests of cash-generating units to which goodwill has been allocated. Assumptions and significant information about the performed tests are provided in note 13 in the section Additional information and explanations. As a result of the performed test, goodwill was not impaired in the financial year ended on 31 December 2019.

Asset due to deferred tax, note 8.2

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

Revenue recognition, note 18

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

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

Valuation of employee benefits liabilities – retirement and pension payments

Provisions for employee benefits have been measured with the application of actuarial methods. Assumptions adopted for this purpose are presented in note 27.

Provision for warranty repairs, note 26

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

Provisions for court cases, note 26

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

Provision for penalties, note 26

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

Provision for the settlement price of contracts, note 26

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

Provisions for projected losses on construction contracts, note 26

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

Provision for sureties, note 26

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

Revaluation write-off of materials (note 15) and receivables (notes 16 and 17)

As at each balance sheet date, the Group analyses individual conditions for the impairment of trade receivables such as disputable receivables, receivables under court proceedings, receivables from companies in bankruptcy or liquidation and others. Based on this, the Group makes individual write-offs of receivables and the remaining receivables are included in the write-off of anticipated credit losses. The method for calculating write-offs is described in note 17 - Financial instruments - impairment.

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

6. Reporting segments

For the management purposes the Group has been divided into four segments based on the manufactured products and the services rendered:

Production	production and delivery of steel structures, platform gratings, shelving systems, pallets or road barriers. Services in corrosion protection of steel structures using the hot galvanizing method, the Duplex system or hydraulic painting.
Industrial construction	construction and assembly services. General contractor in the construction industry (including property development). Implementation of large-scale industrial and general construction projects. Assembly of steel structures, specialized devices, halls and special constructions.
Power sector	Services related to the power sector. General contractor in the construction of facilities in the power sector, design, production and sales of power boilers, maintenance services for the permanent and comprehensive operation of power plants, combined heat and power plants and industrial facilities.
Oil, gas and chemicals	General contractor in the construction of facilities in the chemical sector. Assembly of equipment for the chemical and petrochemical industries, prefabrication and assembly of steel structures, technological pipelines, storage tanks and pipelines, prefabrication and assembly of furnaces for the refinery industry. Implementation of environmental protection projects. Our customers are chemical plants, refineries, petrochemicals and companies from the gas industry.

For the reporting purposes the Group presents two additional segments due to the historical legacy and for a better understanding of the report:

Infrastructure construction	General contractor in the construction of facilities for the roads and railways. In this segment the Group presents the results of the settlements of road contracts with the main customer the General Directorate for National Roads and Highways.
Other activity	transportation and equipment services, renting, leasing, laboratory tests, equipment service, other services not included in other segments.

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

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

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

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

(in thousands of PLN)

Year ended on 31 December 2019	Production	Industrial construction	Power Sector */	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Total activity
Revenues								
Sales to external clients	593 380	43 667	652 205	289 225	2 108	8 845	–	1 589 430
Sales between the segments	64 481	72 871	5 715	3 990	1 894	27 346	(176 297)	–
Total segment sales revenues	657 861	116 538	657 920	293 215	4 002	36 191	(176 297)	1 589 430
Results								
Profit / (loss) on operating activities of the segment	25 567	28 741	(1 691)	13 558	15 479	(20 548)	–	61 106
Financial income and costs balance	(10 620)	13 273	37	99	(5)	(10 129)	–	(7 345)
Gross profit / loss from the segment	14 947	42 014	(1 654)	13 657	15 474	(30 677)	–	53 761

The income from transactions between the segments has been excluded.

* / The operating profit includes the share in the profit of an associated entity in the amount of PLN 687 thousand.

(in thousands of PLN)

Year ended on 31 December 2018	**Production**	**Industrial construction**	**Power Sector */**	**Oil, gas and chemicals**	**Infrastructure construction**	**Other activity**	**Exclusions**	**Total activity**
Revenues								
Sales to external clients	678 883	65 748	639 675	246 669	21	5 873	–	1 636 869
Sales between the segments	18 254	26 479	10 277	553	120	46 497	(102 180)	–
Total segment sales revenues	697 137	92 227	649 952	247 222	141	52 370	(102 180)	1 636 869
Results								
Profit / (loss) on operating activities of the segment	31 109	12 193	(36 170)	17 162	15 761	(4 450)	–	35 605
Financial income and costs balance	(6 096)	(1 403)	(711)	(212)	1 057	(13 004)	–	(20 369)
Gross profit / (loss) from the segment	25 013	10 790	(36 881)	16 950	16 818	(17 454)	–	15 236

The income from transactions between the segments has been excluded.

*/ The loss in the operating activity in the Power Sector includes the share in the profit of an associated entity in the amount of PLN 141 thousand.

(in thousands of PLN)

7. Revenues and costs

7.1. Sales revenues by categories

Year ended on 31 December 2019	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Revenues from the sales of construction and other services	633 936	116 529	657 734	293 003	4 001	17 902	(168 433)	**1 554 672**
Revenues from the sales of goods and materials	19 815	9	185	212	–	8 844	(3)	**29 062**
Revenues from rental	4 110	–	1	–	1	9 445	(7 861)	**5 696**
Total sales revenues	**657 861**	**116 538**	**657 920**	**293 215**	**4 002**	**36 191**	**(176 297)**	**1 589 430**

Year ended on 31 December 2018	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Revenues from the sales of construction and other services	575 852	92 206	649 839	247 030	120	24 869	(77 705)	**1 512 211**
Revenues from the sales of goods, materials and products	117 636	21	95	192	–	6 124	(5 077)	**118 991**
Revenues from rental	3 649	–	18	–	21	21 377	(19 398)	**5 667**
Total sales revenues	**697 137**	**92 227**	**649 952**	**247 222**	**141**	**52 370**	**(102 180)**	**1 636 869**

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

The revenues of the Production segment are in large part generated at a point in time. Revenues generated at a point in time involve revenues from sales of goods and materials in all segments. Revenues from sales of construction and other services are generated at a point in time in all segments except for Production.

(in thousands of PLN)

7.2. Geographical information

The below tables present data on revenues regarding specific geographical areas of the Group for the year ended on 31 December 2019 and on 31 December 2018. The geographical areas are classified by the location of the rendered service or delivery.

Year ended on 31 December 2019	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Poland	299 390	116 538	641 747	180 859	4 002	27 410	(169 293)	**1 100 653**
Abroad	358 471	–	16 173	112 356	–	8 781	(7 004)	**488 777**
Total sales revenues	**657 861**	**116 538**	**657 920**	**293 215**	**4 002**	**36 191**	**(176 297)**	**1 589 430**

Year ended on 31 December 2018	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Poland	287 211	87 258	649 952	149 348	141	46 310	(98 511)	**1 121 709**
Abroad	409 926	4 969	–	97 874	–	6 060	(3 669)	**515 160**
Total sales revenues	**697 137**	**92 227**	**649 952**	**247 222**	**141**	**52 370**	**(102 180)**	**1 636 869**

7.3. Key recipients of the Group

In 2019 the Group had one recipient who generated over 10% of sales revenues. The sales to this recipient amounted to PLN 464 million and are presented in the Power Sector segment.

7.4. Other significant events regarding ongoing contracts

Opole Power Plant

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

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

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

On 30 September 2019 the consortium comprising the Company, Mostostal Warszawa S.A. and Rafako S.A. received a certificate of completion for unit 6 at the Opole Power Plant from PGE Górnictwo i Energetyka Konwencjonalna S.A. The receipt of the certificate marks a successful finalization of the implementation of the mentioned unit and its final acceptance by the Ordering Party. This marked a completion of the entire project for the construction of the new power units at the Opole Power Plant. The project is currently under a 2-year warranty period. The Company is finalizing settlements with its subcontractors. The gross margin generated cumulatively by the Group amounted to PLN 151 897 thousand.

On 9 December 2019 Polimex Opole Sp. z o.o Sp.k. concluded an Annex to the Agreement with PKO BP S.A. for the guarantee of the contract. Pursuant to the Annex, the validity period for the guarantee of proper performance was extended until 30 September 2021 and the amount of the guarantee was reduced to PLN 59 571 thousand with the automatic reduction of the guarantee on 1 June 2021 to the amount of PLN 23 347 thousand. The extended guarantee will secure the proper performance of contractual obligations during the quality warranty period and the warranty period for faults and defects.

The Żerań CHP Plant

Since June 2017 the Company (within a consortium with Mitsubishi Hitachi Power Systems Europe GmbH) has been involved in a project for the delivery and assembly of a gas and steam power unit at the Żerań CHP Plant in Warsaw with the electricity generation capacity of 497 MW and the thermal input at the level of 326 MW, together with the installations and auxiliary equipment. The total value of the contract on the day of its conclusion was approximately PLN 982.28 million and EUR 111.93 million, of which approximately 26% is the Company's share. During the financial year 2018 it was necessary to create an additional provision for costs in the amount of approximately PLN 57.6 million. Percentage of completion (PoC) of the contract as at 31 December 2019 was 50.9%. With the progress in the implementation of the contract, the provision for losses is gradually deployed. As at 31 December 2019 it amounted to PLN 26 590 thousand. The total expected loss on the implementation of this contract decreased and as at 31 December 2019 it was PLN 54.1 million.

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

(in thousands of PLN)

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

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

Puławy CHP Plant

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

7.5. Other operating revenues

	Year ended on 31 December 2019	Year ended on 31 December 2018
Profit from the sale of tangible fixed assets	221	2 752
Dissolution of revaluation write-offs on tangible fixed assets	2 324	5 824
Dissolution of the provision for litigations	11 179	13 081
Dissolution of other provisions	3 690	–
Dissolution of write-offs on inventory	–	1 358
Gain from bargain purchase	952	–
Revaluation of investment property and tangible fixed assets to fair value	2 347	8 464
Result from exclusion of the consolidation of a subsidiary	–	438
Result from the liquidation of a subsidiary	–	3 013
Penalties and compensations received	2 737	3 720
Court settlement	259	333

(in thousands of PLN)

Waiver on trade liabilities	4 901	8 913
Other	1 944	2 882
Total other operating revenues	**30 554**	**50 778**

7.6. Other operating costs

	Year ended on 31 December 2019	Year ended on 31 December 2018
Establishment of a provision for litigations and employee-related matters	–	1 873
Establishment of revaluation write-offs for non-financial fixed assets	–	532
Establishment of write-offs on inventory	277	690
Costs of the liquidation of fixed and current assets	823	1 964
Result from the deconsolidation of a subsidiary	–	338
Penalties and compensations	1 373	821
Legal costs	1 094	1 174
Other	1 315	1 385
Total other operating costs	**4 882**	**8 777**

7.7. Financial income

	Year ended on 31 December 2019	Year ended on 31 December 2018
Revenues from bank interests	3 625	4 452
Income due to the interest on late payment of receivables	361	1 436
Profit due to modification of financial instruments related to a successful lawsuit	14 774	–
Foreign exchange profits	–	1 899
Adjustment for discounting settlements	3 325	4 334
Fair value assessment of an investment in an entity under control	2 671	–
Dissolution of provisions for the financial costs	297	1 000
Other	187	613
Total financial income	**25 240**	**13 734**

7.8. Financial costs

	Year ended on 31 December 2019	Year ended on 31 December 2018
Interest on bank loans and borrowings	10 348	10 809
Interest and commissions on bonds	16 602	15 589
Interest on other liabilities	622	2 248
Financial costs due to lease agreements	543	64
Foreign exchange losses	1 773	–
Bank charges on guarantees and loans	2 037	2 843
Valuation of long-term settlements with amortized costs	318	1 518
Other	342	1 032
Total financial costs	**32 585**	**34 103**

(in thousands of PLN)

7.9. Costs classified by type

	Year ended on 31 December 2019	Year ended on 31 December 2018
Depreciation	35 218	26 683
Use of materials and energy	497 503	483 676
External services including construction	607 441	730 647
Taxes and payments	14 067	12 486
Costs of employee benefits	378 202	361 860
Other classified costs	15 259	10 921
Total costs classified by type	**1 547 690**	**1 626 273**
Items included in the costs of sales	(22 970)	(25 281)
Items included in the general administration expenses	(67 886)	(66 725)
Value of goods and materials sold	23 607	23 647
Change in finished goods	2 809	3 918
Cost of producing services for own needs of the entity	(1 143)	(6 206)
Cost of goods sold	**1 482 107**	**1 555 626**

The costs of short-term leasing and leasing of low-value assets incurred in 2019 amounted to PLN 43 928 thousand. These costs are presented as a component of costs of external services.

7.10. Depreciation costs included in the profit and loss account

	Year ended on 31 December 2019	Year ended on 31 December 2018
Items presented as cost of goods sold	32 877	24 971
Depreciation of tangible fixed assets	32 548	24 459
Depreciation of intangible assets	329	512
Items included in the costs of sales	726	682
Depreciation of tangible fixed assets	726	682
Items included in the general administration expenses	1 615	1 030
Depreciation of tangible fixed assets	1 523	945
Depreciation of intangible assets	92	85
Total depreciation and write-offs	**35 218**	**26 683**

7.11. Costs of employee benefits

	Year ended on 31 December 2019	Year ended on 31 December 2018
Remuneration	301 089	291 404
Social insurance costs	55 795	52 773
Retirement benefit costs	1 161	1 010
Jubilee bonuses	81	56
Other post-employment benefits	976	(950)
Write-offs for the Company Social Benefits Fund	4 954	4 752
Other (including working clothes, cleaning products)	14 146	12 815
Total costs of employee benefits	**378 202**	**361 860**

8. Income tax

8.1. Current income tax

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

(in thousands of PLN)

	Year ended on 31 December 2019	Year ended on 31 December 2018
Consolidated profit and loss account		
Current income tax liabilities	3 296	2 050
Foreign income tax for the previous years	1 033	781
Deferred income tax	(1 222)	(3 763)
Tax burden due to continued business activity recognized in the consolidated profit and loss account	**3 107**	**(932)**
Consolidated comprehensive income statement		
Deferred income tax due to revaluation of land and buildings	(692)	–
Deferred income tax from valuation of liabilities due to post-employment benefits	446	176
Tax burden due to continued business activity recognized in the consolidated statement of comprehensive income	**(246)**	**176**

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

	Year ended on 31 December 2019	Year ended on 31 December 2018
Profit / (loss) before tax	**53 761**	**15 236**
Tax at the statutory income tax rate applicable in Poland, which in 2019 was 19% (2008: 19%)	10 215	2 895
Tax effects from the following items:		
– Non-taxable income	(9 440)	(12 910)
– Expenses not deductible for tax purposes	14 554	9 104
– Adjustments regarding current income tax from previous years	765	198
– Adjustment of tax depreciation for previous years	–	(21 180)
– Recognition of assets due to deferred tax not recognized in the previous years	(12 431)	–
– Tax losses and negative temporary differences due to which the deferred tax assets were not recognized	–	26 532
– Tax deductible costs not included in the financial result	(450)	(833)
– Differences in the tax rate of foreign entities and small taxpayers	(16)	(53)
– Tax loss incurred due to the expiry of the settlement period	–	105
– Other	(90)	(4 790)
Income tax expense	**3 107**	**(932)**

(in thousands of PLN)

8.2. Deferred income tax

The changes in assets and reserves due to deferred income tax during the year (before including their compensation within one tax jurisdiction) are as follows:

Deferred tax liabilities	Temporary differences regarding tangible fixed assets	Valuation of contracts	Foreign exchange rate differences	Other	Total
Status as at 1 January 2018	**22 376**	**14 463**	–	**1 845**	**38 684**
Charge / (recognition) of the financial result	(23 753)	2 918	59	(448)	(21 224)
Reclassification to assets	1 377	–	–	–	1 377
Status as at 31 December 2018	–	**17 381**	**59**	**1 397**	**18 837**
Charge / (recognition) of the financial result	–	9 147	(25)	2 280	11 402
Status as at 31 December 2019	–	**26 528**	**34**	**3 677**	**30 239**
Presentation of net deferred tax assets and liabilities, including compensation within one tax jurisdiction					(28 652)
Deferred tax liabilities in the balance sheet					1 587

(in thousands of PLN)

Deferred tax assets	Temporary differences regarding tangible fixed assets	Employee benefit liabilities	Foreign exchange rate differences	Write-offs on inventory	Write-offs on receivables	Valuation of contracts	Provisions	Tax losses	Debt financing limit	Other	Total
Status as at 1 January 2018	**–**	**10 289**	**233**	**1 101**	**20 769**	**24 250**	**86 635**	**45 828**	**–**	**18 854**	**207 959**
Assets presented as held for sale	–	–	–	–	1 392	–	–	–	–	–	1 392
Recognition / (charge) of the financial result	–	(84)	(217)	108	(4 097)	3 312	(37 979)	25 407	–	(3 911)	(17 461)
Recognition / (charge) of other comprehensive income	–	176	–	–	–	–	–	–	–	–	176
Reclassification from provisions	1 377	–	–	–	–	–	–	–	–	–	1 377
Status as at 31 December 2018	**1 377**	**10 381**	**16**	**1 209**	**18 064**	**27 562**	**48 656**	**71 235**	**–**	**14 943**	**193 443**
Recognition / (charge) of the financial result	3 843	405	48	213	(5 962)	6 110	(24 214)	24 356	8 033	(208)	12 624
Recognition / (charge) of other comprehensive income	(692)	446	–	–	–	–	–	–	–	–	(246)
Acquisition of control over a new entity	(3 041)	–	–	80	–	221	84	5 255	–	61	2 660
Status as at 31 December 2019	**1 487**	**11 232**	**64**	**1 502**	**12 102**	**33 893**	**24 526**	**100 846**	**8 033**	**14 796**	**208 481**
Presentation of net deferred tax assets and liabilities, including compensation within one tax jurisdiction											(28 652)
Deferred tax assets in the balance sheet											**179 829**

(in thousands of PLN)

Deferred income tax assets and liabilities are presented as follows:

	As at 31 December 2019	As at 31 December 2018
Deferred income tax assets before compensation		
– to be implemented after 12 months	90 902	91 399
– to be implemented within 12 months	117 579	102 044
	208 481	**193 443**
Deferred income tax liabilities before compensation		
– to be implemented after 12 months	–	339
– to be implemented within 12 months	30 239	1 898
	30 239	**18 837**

As at 31 December 2019 the Group incurred PLN 530 768 thousand of unsettled tax losses (which mostly pertained to losses in the amount of PLN 392 223 thousand at Polimex Mostostal S.A and PLN 121 464 thousand at Polimex Energetyka Sp.z o.o. The value of deferred tax assets due to unsettled tax losses amounted to PLN 100 846 thousand. As at 31 December 2019 there are no unrecognised assets due to tax loss). The Group carried out an analysis of the recoverability of assets due to tax loss based on the anticipated tax results and additional one-off events fostering the recovery of tax losses incurred in the previous reporting periods. The analysis was prepared using the best estimates and under the most probable scenario. A change in individual assumptions and elimination of one-off events fostering the recovery of tax losses from the analysis could lead to other conclusions regarding the amount of recoverable losses. The performed analysis is particularly sensitive to changes in the amount of expected tax revenues and costs obtained from operating activities. The main limitation in the possibility of settling tax losses is the 5-year period indicated in the regulations when tax losses can be settled. In accordance with the conducted analysis, the Group will use tax loss assets in the periods of: 2020 (in the amount of PLN 131 308 thousand), 2021 (in the amount of PLN 87 597 thousand), 2022 (in the amount of PLN 162 957 thousand), 2023 (in the amount of PLN 99 397 thousand) and 2024 (in the amount of PLN 30 126 thousand). One-off events supporting the recovery of tax losses in particular relate to the achievement of additional tax income due to: (i) the disposal of real estate held for sale (expected tax income of PLN 16 352 thousand in 2021), (ii) the sale of shares in a subsidiary (PLN 54 707 thousand in 2020), (iii) transforming a subsidiary into a limited partnership whose tax revenues will be settled by the Company (expected additional tax revenues at the level of PLN 128 359 thousand between 2021-2024), and (iv) acquiring new contracts (in the amount of PLN 78 550 thousand between 2020-2024). The Management Board of the Parent Company estimates that the occurrence of the above one-off events is highly probable.

9. Profit per share

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

The Group has financial liabilities arising from convertible bonds. These bonds have an anti-dilutive effect when calculating earnings per share. Therefore, they are not included in the calculation of diluted profit. Basic earnings per share coincide with diluted earnings per share. The data on profit and shares which were used to calculate the profit per share is presented below:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Net profit / (loss)	**50 744**	**16 168**
Basic and diluted profit 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 to calculate ordinary loss per share	236 618 802	236 618 802
basic profit / (loss) per share	**0.214**	**0.068**

10. Dividends paid and proposed for payment

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

(in thousands of PLN)

11. Tangible fixed assets

11.1. Tables of tangible fixed assets flows

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

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Own tangible fixed assets	253 086	113 603	11 980	3 046	6 207	387 922
Right-of-use assets	11 342	3 745	3 999	854	–	19 940
Total tangible fixed assets	**264 428**	**117 348**	**15 979**	**3 900**	**6 207**	**407 862**

The table below presents own tangible fixed assets

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Advance payments for tangible fixed assets under construction	Total
Net value as at 1 January 2019	**249 398**	**111 273**	**11 633**	**2 618**	**6 011**	**–**	**380 933**
Purchase of tangible fixed assets	2 336	9 519	1 064	1 366	3 023	472	**17 780**
Disclosure	70	398	–	–	–	–	**468**
Decrease / increase due to the settlement of assets under construction	4 004	1 063	86	20	(4 701)	(472)	**–**
Sale and liquidation of tangible fixed assets	–	(171)	(7)	(42)	(6)	–	**(226)**
Impairment write-off	–	74	–	–	2 252	–	**2 326**
Acquisition of control over a subsidiary	14 979	4 704	525	241			**20 449**
Reclassification to / from assets held for sale	(12 476)	(285)	–	1	(664)	–	**(13 424)**
Fair value measurement	4 903	–	–	–	–	–	**4 903**
Foreign exchange rate differences	85	509	44	35	292	–	**965**
Depreciation charge for the financial period	(10 213)	(13 481)	(1 365)	(1 193)	–	–	**(26 252)**
Net value as at 31 December 2019	**253 086**	**113 603**	**11 980**	**3 046**	**6 207**	**–**	**387 922**
As at 1 January 2019							
Gross value	277 851	317 513	36 947	26 607	18 780	**–**	**677 698**
Depreciation and impairment write-off	(28 453)	(206 240)	(25 314)	(23 989)	(12 769)	**–**	**(296 765)**

(in thousands of PLN)

Net value	**249 398**	**111 273**	**11 633**	**2 618**	**6 011**	**–**	**380 933**
As at 31 December 2019							
Gross value	275 619	329 588	36 296	26 510	20 421	–	**688 434**
Depreciation and impairment write-off	(22 533)	(215 985)	(24 316)	(23 464)	(14 214)	**–**	**(300 512)**
Net value	**253 086**	**113 603**	**11 980**	**3 046**	**6 207**	**–**	**387 922**

As at 31 December 2019 the Group conducted a test for the impairment of tangible fixed assets related to some of the assets of the Production segment. The conducted test did not indicate any impairment of value.

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

	Lands, buildings and structures	**Machines and equipment**	**Means of transportation**	**Other tangible fixed assets**	**Total**
Net value as at 1 January 2019	**–**	**3 263**	**–**	**–**	**3 263**
Recognized assets in accordance with IFRS 16 as at 01.01.2019	**14 725**	**434**	**7 004**	**664**	**22 827**
Purchase of tangible fixed assets	4	262	164	1 535	**1 965**
Sale and liquidation of tangible fixed assets	(254)	(83)	(40)	(9)	**(386)**
Acquisition of control over a subsidiary	–	540	275	–	**815**
Depreciation charge for the financial period	(3 133)	(671)	(3 404)	(1 336)	**(8 544)**
Net value as at 31 December 2019	**11 342**	**3 745**	**3 999**	**854**	**19 940**
As at 1 January 2019					
Gross value	**–**	**3 900**	**–**	**–**	**3 900**
Depreciation and impairment write-off	**–**	**(637)**	**–**	**–**	**(637)**
Net value	**–**	**3 263**	**–**	**–**	**3 263**
As at 31 December 2019					
Gross value	**14 474**	**4 727**	**7 338**	**2 191**	**28 730**
Depreciation and impairment write-off	**(3 132)**	**(982)**	**(3 339)**	**(1 337)**	**(8 790)**
Net value	**11 342**	**3 745**	**3 999**	**854**	**19 940**

(in thousands of PLN)

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Advance payments for tangible fixed assets under construction	Total
Net value as at 1 January 2018	**264 497**	**84 496**	**12 459**	**2 501**	**11 342**	**8 769**	**384 064**
Purchase of tangible fixed assets	269	8 034	521	1 136	19 018	11 981	**40 959**
Decrease / increase due to the settlement of a tangible fixed asset under construction	579	32 371	355	215	(33 520)	–	**–**
Decrease / increase due to advance payments	–	1 169	–	–	19 581	(20 750)	**–**
Sale and liquidation of tangible fixed assets	(1 072)	(484)	–	(17)	(3 744)	–	**(5 317)**
Impairment write-off	–	2 821	–	–	3 004	–	**5 825**
Sale of a subsidiary	–	(27)	(208)	(19)	–	–	**(254)**
Reclassification from assets held for sale	–	40	–	11	–	–	**51**
Reclassification to assets held for sale	(2 379)	(806)	(47)	(150)	(12)	–	**(3 394)**
Other reclassification	(2 202)	–	–	–	(9 658)		**(11 860)**
Foreign exchange rate differences	52	130	5	21	–	–	**208**
Depreciation charge for the financial period	(10 346)	(13 208)	(1 452)	(1 080)	–	–	**(26 086)**
Net value as at 31 December 2018	**249 398**	**114 536**	**11 633**	**2 618**	**6 011**	**–**	**384 196**
As at 1 January 2018							
Gross value	272 257	302 366	42 550	31 691	25 813	8 769	**683 446**
Depreciation and impairment write-off	(7 760)	(217 870)	(30 091)	(29 190)	(14 471)	–	**(299 382)**
Net value	**264 497**	**84 496**	**12 459**	**2 501**	**11 342**	**8 769**	**384 064**
As at 31 December 2018							
Gross value	277 851	321 412	36 947	26 607	18 780	–	**681 597**
Depreciation and impairment write-off	(28 453)	(206 876)	(25 314)	(23 989)	(12 769)	–	**(297 401)**
Net value	**249 398**	**114 536**	**11 633**	**2 618**	**6 011**	**–**	**384 196**

(in thousands of PLN)

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

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

The valuation of tangible fixed assets was performed as at 31 December 2019. As a result of the revaluation, the Group recognized in the income statement other operating revenues in the amount of PLN 1 263 thousand and in the statement of other income an income in the amount of PLN 3 640 thousand. The value of tangible fixed assets subject to the revaluation model if the Group did not perform a valuation would amount to PLN 162 258 thousand as at 31 December 2019.

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

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

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

The entire fair value measurement for tangible fixed assets has been categorized in the fair value hierarchy at level 3. Fair values estimated on the basis of appraisals have not been determined for real estate in the company Czerwonogradzki Zakład Konstrukcji Stalowych and the table below does not include the fair values of real estate for this unit.

	Fair value as at 31 December 2019
Undeveloped land	70
Properties developed with a complex of warehouse, industrial and office buildings	62 398
Properties developed with a complex of production, warehouse, industrial and office buildings	186 404
Total	**248 872**

The net value of land, buildings and structures as at 31 December 2019 was PLN 253 086 thousand.

(in thousands of PLN)

Information on the fair value measurement performed during the reporting period using significant unobservable data:

	Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of undeveloped land				**70**
1	Comparative approach, average price correction method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 2.44 (the Łuków county), correction factor W = 0.925	An increase in the average price per square meter increases the value of real estate (and vice versa)
Fair value of real estate developed with a complex of warehouse, industrial and office buildings, including land				**62 398**
1	Comparative approach, average price correction method (land)	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 42.24 (the Jasło county), correction factor W = 0.882 - average price per square meter of comparable property PLN 83.03 (the Płock county), correction factor W=0,735, K=0,92 - average price per square meter of comparable property PLN 89.03 (the Płock county), correction factor W=0,948, K=0,97 - average price per square meter of comparable property PLN 42.24 (the Krosno county), correction factor W=0,975, K=0,90 - average price per square meter of comparable property PLN 36.71 (the Bełchatów county), correction factor W=0,975, K=0,90	An increase in the average price per square meter increases the value of real estate (and vice versa)

(in thousands of PLN)

(continued) Information on the fair value measurement carried out during the period using significant unobservable input data:

	Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
2	Comparative approach, pair comparison method (lands)	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 96.68 (the Siedlce county). - average price per square meter of comparable property PLN 91.36 (the Siedlce county). - average price per square meter of comparable property PLN 86.00 (the Siedlce county).	An increase in the average price per square meter increases the value of real estate (and vice versa)
3	Income approach, investment method, simple capitalization technique	Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 8.4%-13.5%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
		The rate of rent	The market-price monthly rent was used taking into account the purpose of the property (administrative and office purposes, warehouse), differences in location, as well as individual factors such as the size of the property, comparison to other properties - at an average value: - PLN 12-16 per square meter for production, office and warehouse facilities (the Jasło county) - PLN 15-23 per square meter per month for office and warehouse facilities (the Płock county) - PLN 8.50-20.50 per square meter per month for office and warehouse facilities (the Krosno county) - PLN 20-32 per square meter per month for industrial and warehouse facilities (the Siedlce county) - PLN 150-190 per square meter per month for garage facilities (the Siedlce county) - PLN 11-15 per square meter per month for administrative, office and warehouse facilities (the Bełchatów county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).

(in thousands of PLN)

(continued) Information on the fair value measurement carried out during the period using significant unobservable input data:

Description	Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of real estate developed with a complex of production, office and warehouse buildings				**186 404**
1	Income approach, investment method, simple capitalization technique	Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 9.4%-12%.	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
		The rate of rent	- PLN 6-14 per square meter per month for office and warehouse facilities (the Krosno county) - PLN 15-21 per square meter per month for production, office and warehouse facilities (the Siedlce county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).
2	Cost approach, replacement method, indicator technique, comparative approach, pair comparison method and comparative approach, adjusted average price method	Unit price from integrated price lists, regional ratio, expenditure on design works and investor's supervision; average price per square meter of real estate being compared	- R (regional coefficient for Sokołów) = 0.90; P (expenditure on design works and investor's supervision) = 4%, I (connection factor) = 5%, average price per meter of developed property 1895.91 (the Sokołów county) and PLN 2071.74 (the Sokołów county) correction factor = 0.978	An increase in prices from merged price lists would cause a significant increase in fair value (and vice versa); an increase in the average price per square meter increases the value of real estate (and vice versa)
3	Comparative approach, pair comparison method (lands)	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable properties PLN 77.79 (the Sokołów county), correction factor 0.90; - average price per square meter of comparable real property PLN 114.20 (the Siedlce county) correction factor K = 0.90, average price per square meter of land with perpetual usufruct right PLN 91.36 (the Siedlce county) and PLN 96.68 (the Siedlce county) correction factor K = 0.90	An increase in the average price per square meter increases the value of real estate (and vice versa)
4	Comparative approach, average price correction method (land)	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 71.89 (the Nisko county); correction coefficient {ui} = 0.464, correction coefficient K = 0.90	An increase in the average price per square meter increases the value of real estate (and vice versa)

(in thousands of PLN)

12. Investment property

The rental income generated by investment property amounted to PLN 2 981 thousand in 2019 and PLN 2 980 thousand in 2018. Direct operating costs related to investment property that generated the rent income amounted to PLN 854 thousand in 2019 and PLN 861 thousand in 2018.

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

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

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

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

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

The table below presents the information on the fair value measurement carried out during the period using significant unobservable input data.

Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of real estate developed with a complex of production, office and warehouse buildings			**14 576**
Income approach, investment method, simple capitalization technique	Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 11%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
	The rate of rent	- PLN 15-19 per square meter per month for production, office and warehouse facilities	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).
Comparative approach, pair comparison method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable properties PLN 96.68 (the Siendlce county), correction factor K=0.90	An increase in the average price per square meter increases the value of real estate (and vice versa)

(in thousands of PLN)

13. Goodwill from consolidation

	As at 31 December 2019	As at 31 December 2018
Power Sector	91 220	91 220
Total	**91 220**	**91 220**

As at 31 December 2019 in accordance with the principles of IAS 36, the Management Board of Polimex Mostostal S.A. conducted tests for the permanent impairment of goodwill on consolidation that occured in previous periods. The level of the operating segment is the level at which the Management Board of the Group monitors goodwill. Goodwill for 2019 has been fully allocated to the power sector segment.

The table below presents the main financial data, assumptions adopted during the test and the test results:

	Financial data and test results			
Segment	Tested value	Estimated value in use	Impairment of goodwill	Value of the company
Power sector	123 088	706 136	–	91 220
	Main assumptions			
Segment	Weighted average cost of capital (WACC)	Average operating profitability over the forecast period	Average annual expected sales revenues	Constant growth rate after the forecast period
Power sector	9.07%	5.37%	869 377	1.00%

The tested value included goodwill and net assets assigned to the power sector segment (Polimex Energetyka Sp. z o.o.). The adjusted value of discounted cash flows of the energy segment (value in use) was estimated at PLN 706 136 thousand The valuation was made with the following assumptions: weighted average cost of capital (WACC): 9.07%, growth rate after the forecast period: 1.0%, average profitability at operating profit level over the forecast period: 5.37%, average annual expected revenues from sales of the energy segment: PLN 869 377 thousand.

In the opinion of the Management Board of Polimex Mostostal S.A. the changes in the key assumptions that could cause the carrying amount of the test centre to exceed the recoverable amount are unlikely.

14. Investments in associated entities measured in accordance with the equity method

On 29 October 2019 Polimex Mostostal S.A. acquired additional packet of shares in the company Energomontaż-Północ Bełchatów Sp. z o.o. in the amount of PLN 3 695 thousand. As a result of this transaction Polimex Mostostal S.A. is in possession of 54.95% of the company's share capital and it has consequently acquired control over the company. The Group recognized the result of the acquisition of control in the amount of PLN 2 552 thousand (presented under financial income) and profit on bargain purchase in the amount of PLN 871 thousand (presented under other operating revenues). As at the date of the acquisition of control, the minority capital was recognized in the amount of PLN 9 296 thousand. The settlement of the transaction for the acquisition of control has been completed and fully recognized in the consolidated financial statements for 2019. Additional disclosures regarding the settlement of the acquisition of control are included in note 1.1.

On 29 October 2019 Polimex Mostostal S.A. acquired shares in the company Finow Polska Sp. z o.o. in the amount of PLN 2 394 thousand. Following the transaction Polimex Mostostal S.A. is in possession of 26.4% of the company's share capital and has a significant influence over this company. The financial results of Finow Polska Sp. z o.o. are recognized in the consolidated financial statements using the equity method.

The table below presents the balance sheet of the entity consolidated using the equity method as at 31 December 2019 for the company Finow Polska Sp. z o.o.

As at

(in thousands of PLN)

	31 December 2019
Current assets	13 118
Fixed assets	6 442
Short-term liabilities	5 007
Long-term liabilities and provisions	1 932
Net assets	12 621
	Year ended on 31 December 2019
Sales revenues	27 873
Net profit from continuing operations	1 040
Total income	1 040
Share in the profit of an associated entity*	24

** result for the period starting from the consolidation of the entity using the equity method*

The table below presents the balance sheet of the entity consolidated using the equity method as at 31 December 2018 for the company Energomontaż-Północ Bełchatów Sp. z o.o.

	As at 31 December 2018
Current assets	41 936
Fixed assets	20 912
Short-term liabilities	29 416
Long-term liabilities and provisions	12 283
Minority equity	2 408
Net assets	18 741
	Year ended on 31 December 2018
Sales revenues	91 054
Net profit from continuing operations	430
Total income	430
Share in the profit of an associated entity	141

15. Inventories

	As at 31 December 2019	**As at 31 December 2018**
Materials	38 913	31 744
Advance payments on materials	1 694	658
Goods	723	145
Production in progress	45 472	43 944
Ready products	18 119	22 005
Total provisions	**104 921**	**98 496**

	As at 31 December 2019	**As at 31 December 2018**
Change in write-offs on inventories		
Status as at the beginning of the reporting period	6 256	5 755
a) increase	1 130	1 161
b) decrease	(818)	(660)
Inventory write-offs	**6 568**	**6 256**

16. Trade and other receivables

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

The terms of transactions with related entities are presented in note 31.

(in thousands of PLN)

	As at 31 December 2019	As at 31 December 2018
Trade receivables:	**288 401**	**362 506**
- from associated entities	18 698	140 571
- from other entities	269 703	221 935
Other receivables:	**22 184**	**38 131**
Budget receivables:	17 821	30 539
- due to VAT	17 679	30 460
- other	142	79
Other receivables	4 363	7 592
Total receivables (net)	**310 585**	**400 637**
Write-downs on receivables	71 259	97 297
Total receivables (gross)	**381 844**	**497 934**

Changes in write-offs on trade receivables	As at 31 December 2019	As at 31 December 2018
Write-down at the beginning of the reporting period	93 945	196 135
Increase including:	**5 814**	**7 012**
- establishment of write-offs on receivables	1 676	7 010
- changes in the structure of the capital group	4 138	2
Decrease including	**27 999**	**109 992**
- use	6 559	99 130
- repayment of liabilities	21 440	11 186
- reclassification of write-offs on deposits	–	(324)
Conversion due to recognition of a write-off on expected credit losses	**(1 202)**	790
Write-down at the end of the reporting period	**70 558**	**93 945**

17. Financial instruments – impairment

Ratios applied to calculate expected credit losses on non-production operations:

	Current and 30 days after the payment date	Overdue from 31 to 90 days	Overdue from 91 to 180 days	Overdue over 180 days	**Total**
Ratio	0.05%	0.08%	0.51%	8.78%	
Value of the write-offs on expected credit losses	**99**	**8**	**25**	**612**	**744**

Ratios applied to calculate expected credit losses on production operations:

	Current and 30 days after the payment date	Overdue from 31 to 90 days	Overdue from 91 to 180 days	Overdue over 180 days	**Total**
Ratio	0.00%	0.57%	46.04%	0.07%	
Value of the write-offs on expected credit losses	**–**	**163**	**37**	**17**	**217**

(in thousands of PLN)

The low write-off ratio for expected credit losses for receivables overdue over 180 days is due to the fact that these balances are covered by individual impairment write-offs. The expected credit losses for financial assets past due over 180 days are recognized as assets with an identified impairment.

The value of individual impairment losses on trade receivables was PLN 70 460 thousand, while the value of the deposit was PLN 5 338 thousand.

The below table presents the gross value, revaluation write-offs and net value for individual categories of financial instruments.

	12-month ECL	Status as at 31 Dec 2019 Lifetime ECL – without impairment	Lifetime ECL – with impairment
Gross carrying amount	**285 013**	**432 291**	**95 399**
Trade receivables	–	273 457	85 502
Other receivables	–	661	4 403
Deposits due to the construction contracts	–	158 173	5 494
Cash and cash equivalents	285 013	–	–
Revaluation write-offs	**–**	**(332)**	**(76 298)**
Trade receivables	–	(299)	(70 259)
Other receivables	–	–	(701)
Deposits due to the construction contracts	–	(33)	(5 338)
Cash and cash equivalents	–	–	–
Carrying amount	**285 013**	**431 959**	**19 101**
Trade receivables	–	273 158	15 243
Other receivables	–	661	3 702
Deposits due to the construction contracts	–	158 140	156
Cash and cash equivalents	285 013	–	–

	12-month ECL	Status as at 31 Dec 2019 Lifetime ECL – without impairment	Lifetime ECL – with impairment
Gross carrying amount	**418 558**	**574 768**	**116 057**
Trade receivables	–	359 251	95 594
Other receivables	–	38 117	4 972
Deposits due to the construction contracts	–	177 400	15 491
Bank guarantee deposits	750	–	–
Cash and cash equivalents	417 808	–	–
Revaluation write-offs	**–**	**(2 965)**	**(111 276)**
Trade receivables	–	(1 128)	(91 211)
Other receivables	–	(135)	(4 823)
Deposits due to the construction contracts	–	(1 702)	(15 242)
Carrying amount	**418 558**	**571 803**	**4 781**
Trade receivables	–	358 123	4 383
Other receivables	–	37 982	149
Deposits due to the construction contracts	–	175 698	249
Bank guarantee deposits	750	–	–
Cash and cash equivalents	417 808	–	–

(in thousands of PLN)

18. Long-term construction contracts

The table below provides the clarification on the balance changes regarding the valuation of contracts for the current period.

	Status as at 1 January 2019	Changes in valuation of contracts	Revenues recognized in 2019 included in the balance of liabilities as at 1 January 2019	Change in the period during which the right to remuneration becomes unconditional	Change in advances received	Status as at 31 December 2019
Construction contracts assets	60 058	189 896	–	(71 837)	(32 768)	145 349
Construction contracts liabilities	(63 939)	(23 091)	12 762	(32 288)	52 464	(54 092)
Total	**(3 881)**	**166 805**	**12 762**	**(104 125)**	**19 696**	**91 257**

The value of revenues generated in 2019 regarding obligations on benefits recognized in the previous periods was PLN 8 623 thousand.

The table below provides the clarification on the balance changes regarding the valuation of contracts for the previous period.

	Status as at 1 January 2018	Changes in valuation of contracts	Revenues recognized in 2018 included in the balance of liabilities as at 1 January 2018	Change in the period during which the right to remuneration becomes unconditional	Change in advances received	Status as at 31 December 2018
Construction contracts assets	78 007	104 921	–	(117 360)	(5 510)	60 058
Construction contracts liabilities	(72 542)	(12 926)	72 445	39 752	(90 668)	(63 939)
Total	**5 465**	**91 995**	**(12 926)**	**(44 915)**	**(96 178)**	**(3 881)**

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

	As at 31 December 2019	As at 31 December 2018
a) up to 1 year	1 135 571	880 835
b) over 1 year	957 240	198 571
Total	**2 092 811**	**1 079 406**

19. Cash and cash equivalents

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	142 193	201 431
Short-term deposits	142 820	216 377
Total	**285 013**	**417 808**
Restricted cash	*59 634*	*180 219*

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

(in thousands of PLN)

Cash in the bank bears interest at variable interest rates, the amount of which depends on the interest rate on overnight bank deposits. Short-term deposits are made for various periods, from one day to one month, depending on the Group's current demand for cash and they bear interest according to the interest rates determined for them.

Restricted funds include funds related to the construction of power units 5 and 6 at the Opole Power Plant. These funds will be released after the post-implementation warranty has expired.

20. Cash flow statement

The below tables present the reconciliation of the change in the balance sheet items in the reporting period to the changes shown in the cash flow statement.

	Year ended on 31 December 2019	Year ended on 31 December 2018
Change in receivables in the balance sheet	**22 495**	**176 160**
Adjustment due to the acquisition of an associated company Finow Polska Sp. z o.o.	(2 394)	–
Adjustment for receivables from deposits	–	216 570
Adjustment for receivables from sales of tangible fixed assets	(246)	(1 739)
Adjustment of changes in receivables from the implementation of IFRS 9 (as at 01.01.2018)	–	(3 310)
Other	437	–
Change in receivables in the cash flow statement	**20 292**	**387 681**

Change in liabilities in the balance sheet	**(17 514)**	**(435 897)**
Adjustment for the reclassification of liabilities from assets held for sale		–
Adjustment for liabilities due to investment purchases	(3 069)	1 088
Adjustment for lease liabilities	2 134	784
Adjustment for a change in tax liabilities	(936)	–
Adjustment for liabilities due to the valuation of actuarial reserves recognized in comprehensive income	1 294	(751)
Correction due to reclassification from minority capital of liabilities due to the valuation of the put option held by the minority shareholders of Energomontaż-Północ Bełchatów	(9 369)	–
Change in liabilities in the cash flow statement	**(27 460)**	**(434 776)**

21. Assets held for sale

	As at 31 December 2019	As at 31 December 2018
Tangible fixed assets	14 396	1 465
Investment property	27 796	34 760
Assets held for sale	**42 192**	**36 225**

In compliance with the Agreement on the Management of Financial Debt of 21 December 2012 the Issuer has undertaken to divest certain assets. The assets to be disposed are presented as assets held for sale. The table above presents the balance of assets held for sale as at 31 December 2019. The change in the value of tangible fixed assets held for sale results mainly from the classification under this item of the property in Kozienice worth PLN 13 140 thousand. The change in investment property results mainly from the sale of real estate in Krakow on the ISEP street (worth PLN 5 612 thousand) and the sale of real estate in Warsaw on the Chełmżyńska street (worth PLN 2 100 thousand).

(in thousands of PLN)

The Group employs external independent appraisers to determine the fair value of land, buildings and structures belonging to the Group companies.

The most favourable approach was used in estimating the fair value of the property and the best use of the property (which is the current use of the property). External valuation of land, buildings and structures under level 3 was carried out using the income approach. In the case of land the valuation technique has changed moving from a comparative approach to an income approach. The property appraiser stated that after taking into account the purpose and scope of the valuation, purpose of the property, its legal status and development status, as well as the market information about similar properties, the proper procedure for determining the market value of the property will be an income approach, an investment method and a simple capitalization technique.

As at 31 December 2019 the valuations were performed for the value of investment properties.

The table below presents the investment properties presented as held for sale, which were measured at fair value as at 31 December 2019. The individual levels are defined as follows:

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

	Level 1	**Level 3**	**Fair value as at 31 December 2019**
Properties developed with a complex of warehouse, industrial and office buildings	25 580	2 216	27 796
	25,580	**2 216**	**27 796**
Total			

	Level 1	**Level 3**	**Fair value at 31 December 2018**
Properties developed with a complex of warehouse, industrial and office buildings	30 112	4 648	34 760
Total	**30 112**	**4 648**	**34 760**

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

Valuation method	Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Fair value of real estate developed with a complex of production, office and warehouse buildings			**2 216**
Income approach, investment method, simple capitalization technique	Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 9.5%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
	The rate of rent	- PLN 10-18 per square meter per month for industrial, warehouse and office facilities (the Stalowa Wola county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).
Comparative approach, average price correction method	Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable properties PLN 74.21 (the Stalowa Wola county), correction factor W = 1.66	An increase in the average price per square meter increases the value of real estate (and vice versa)
Comparative approach, pair comparison method	Average price per square meter of comparable objects, depending on the purpose	- average price per square meter of comparable objects PLN 17 400 (the Kozienice county)	An increase in the average price per square meter increases the value of real estate (and vice versa)

(in thousands of PLN)

22. Equity capital

22.1. Share capital

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

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

Shareholders' rights

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

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

* each Investor holds 16.48% of the shares

22.2. Reserve capital

Pursuant to Art. 396 § 1 of the code of commercial companies and partnerships to cover the loss, a reserve fund must be established, to which at least 8% of the profit for the financial year shall be assigned, as long as this capital does not reach at least one-third of the share capital. The reserve capital created in this way shall not be divided. As at 31 December 2018 supplementary capital of the Group reflects reserve capital of the Parent Company and amounts to PLN 157 746 thousand.

22.3. Other capitals

Other Groups' equity refers to the effect of the settlement of a merger with subsidiaries in 2010: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o.o. with the registered office in in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o.o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with with the registered office in Zielona Góra (the acquired companies) carried out pursuant to art. 492 § 1 paragraph 1 of the code of commercial companies and partnerships through the transfer of all assets of these companies to "Polimex-Mostostal" S.A. On 31 December 2016 remaining reserves amounted to PLN (85 254) thousand. According to the Resolutions No 8 and 9 of the Extraordinary General Meeting of the Company of 27 June 2017, the negative value of the remaining capital was covered with retained earnings in the amount of PLN 59 640 thousand and spare capital amounting to PLN 151 964 thousand. In addition, according to the Resolution No 7 the Extraordinary General Meeting of the Company of 27 June 2017 contributed the company's profit for the year 2016 in the amount of PLN 1 018 thousand to cover the negative value of the remaining capital. The change in the amount of other capitals in 2018 results from the Resolution No 6 of the Ordinary General Meeting of 21 June 2018 on the allocation of the Parent Company's net profit in the amount of PLN 82 558 thousand to other capitals. The change in the amount of other capital in 2019 results from Resolution No 7 of the Ordinary General Meeting of Shareholders regarding the allocation of PLN 17 528 thousand. from the profit for 2018 to other capital. The value of other capital as at 31 December 2019 amounted to PLN 227 466 thousand.

(in thousands of PLN)

22.4. Equity component of issued bonds convertible into shares

The equity component of issued convertible bonds as at 31 December 2018 amounted to PLN 31 552 thousand and as at 31 December 2017 it amounted to PLN 31 552 thousand. The bonds are presented in detail in note 25.

22.5. Accumulated other comprehensive income

Accumulated other comprehensive income consists of revaluation capital, actuarial gains/losses and foreign exchange differences on the translation of a foreign entity.

23. Bank loans, borrowings and other sources of financing

	As at 31 December 2019	As at 31 December 2018
Short-term including	**76 323**	**93 852**
Bank loans	67 916	93 852
Lease liabilities	8 407	–
Long-term including	**83 456**	**139 582**
Bank loans	72 272	139 582
Lease liabilities	11 184	–
Total bank loans and lease liabilities	**159 779**	**233 434**

Financing under the Parent Company's loans bears interest based on the Warsaw Interbank Offered Rate 3M increased by 1.25 pp (both in 2019 and 2018). Financing based on loans for other entities included in the Capital Group is based on the Warsaw Interbank Offered Rate 1M + 2.5 pp. The Group has loans bearing unchanged rates. The interest rate weighted on these loans as at 31 December 2019 was 8.56% (19.1% as at 31 December 2018) and relates to the loans of CZKM Czerwonograd.

	As at 31 December 2019	As at 31 December 2018
The value of bank loan liabilities at the beginning of the period	**233 434**	**250 501**
Decrease due to deconsolidation of the subsidiary	–	(101)
Bank loans incurred	1 104	2 626
Accrued interest calculated at the effective interest rate	9 702	10 025
Interest payments	(34 566)	(7 560)
Capital payments	(69 486)	(22 057)
The value of bank loan liabilities at the end of the period	**140 188**	**233 434**

On 31 December 2019 the Parent Company repaid the first instalment of the debt under the Agreement on the Management of Financial Debt in the total amount of PLN 72 148 thousand (of which PLN 30 183 thousand falls on the accrued interest and PLN 41 965 thousand falls on the capital). The next planned debt repayment falls on 31 December 2020. In addition, on 31 December 2019, the Parent Company redeemed part of series E and F bonds - this is presented in note 25.

As at

(in thousands of PLN)

The value of lease liabilities at the beginning of the period (in accordance with IAS 17)	**2 134**
Recognition of lease liabilities in connection with the implementation of IFRS 16 as at 1 January 2019	**22 827**
Incurring leasing commitments	1 965
Acquisition of control over a new entity	830
Accrued interest calculated at the effective interest rate	1 617
Repayment of liabilities due to lease	(9 782)
The value of bank loans, lease and borrowings liabilities at the end of the period	**19 591**

24. Assets pledged as collateral

	As at 31 December 2019	**As at 31 December 2018**
Tangible fixed assets	347 678	355 379
Inventories	94 104	88 454
Investment property	14 576	14 576
Other	47 627	18 868
Assets held for sale	42 192	36 225
Total	**546 177**	**513 502**

25. Bonds

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

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

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

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

The table below shows the valuation of the series bonds at amortized cost:

	As at 31 December 2019	**As at 31 December 2018**
The value of the liability at the beginning of the period	**176 469**	**169 034**

(in thousands of PLN)

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

On 31 December 2019, the Parent Company repaid the first instalment of the debt arising from the Agreement on the Management of Financial Debt. In the part concerning the bonds, certain E and F series bonds with a value of PLN 11 209 thousand were redeemed.

(in thousands of PLN)

26. Provisions

	Provisions for warranty repairs	Provision for litigations	Provision for penalties	Provisions for the costs of contracts	Provision for losses	Provision for sureties	Other provisions	Total
Status as at 1 January 2019	**74 778**	**26 634**	**3 100**	**9 478**	**52 536**	**110**	**409**	**167 045**
Created in the financial year	7 524	–	15	14	2 806	667	1 637	**12 663**
Consolidation of a new subsidiary	115	5 260	–	535	100	–	–	**6 010**
Used	(4 339)	(890)	(975)	(1 927)	(24 554)	(319)	(987)	**(33 991)**
Dissolved	(35 425)	(10 290)	(1 327)	(911)	(11 354)	(316)	(7)	**(59 630)**
Foreign exchange rate differences	–	–	–	–	–	–	65	**65**
As at 31 December 2019	**42 653**	**20 714**	**813**	**7 189**	**19 534**	**142**	**1 117**	**92 162**
Short-term as at 31 December 2019	20 165	11 251	813	7 189	19 534	142	1 091	**60 185**
Long-term as at 31 December 2019	22 488	9 463	–	–	–	–	26	**31 977**
Status as at 1 January 2018	**82 249**	**6 669**	**23 600**	**149 889**	**3 813**	**360**	**501**	**267 081**
Created in the financial year	12 899	6 943	663	5 934	65 939	1 058	677	**94 113**
Consolidation of a new subsidiary	–	–	–	–	–	–	–	–
Used	(7 811)	(3 115)	(248)	(110 884)	(14 643)	(288)	(806)	**(137 795)**
Dissolved	(12 559)	(6 852)	(20 915)	(12 472)	(2 573)	(1 020)	(6)	**(56 397)**
Reclassification	–	22 989	–	(22 989)	–	–	–	**–**
Foreign exchange rate differences	–	–	–	–	–	–	43	**43**
As at 31 December 2018	**74 778**	**26 634**	**3 100**	**9 478**	**52 536**	**110**	**409**	**167 045**
Short-term as at 31 December 2018	24 112	19 529	1 673	9 478	52 536	110	408	**107 846**
Long-term as at 31 December 2018	50 666	7 105	1 427	–	–	–	1	**59 199**

(in thousands of PLN)

27. Employee benefit liabilities

	As at 31 December 2019	As at 31 December 2018
Payroll liabilities	21 659	16 220
Social security liabilities	11 181	9 319
Bonuses and rewards	13 540	17 083
Unused holidays	12 481	11 905
Retirement and disability benefits	2 709	1 424
Liabilities due to employee benefits - short-term	**61 570**	**55 951**
Retirement and disability benefits	20 233	17 487
Liabilities due to employee benefits - long-term	**20 233**	**17 487**

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

27.1. The main assumptions adopted by the actuary

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

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

	Year ended on 31 December 2019	Year ended on 31 December 2018
Cost of benefits:		
Current employment costs	1 492	1 266
Past service cost and profit / (loss) on settlement	(595)	524
Net interest expense	568	607
Components of defined benefit plan costs recognized in profit or loss	**1 465**	**2 397**
Revaluation of net liabilities due to defined benefits:		
Actuarial gains and losses resulting from changes in demographic assumptions	(620)	209
Actuarial gains and losses resulting from changes in financial assumptions	3 421	271
Other	(455)	447
Components of benefit plan costs recognized in other comprehensive income	**2 346**	**927**

(in thousands of PLN)

The amount of the provision for employee benefits and the reconciliation presenting the changes in the state during the financial period are outlined below.

	As at 31 December 2019	As at 31 December 2018
Liabilities due to defined benefits as at the beginning of the period	**18 911**	**19 490**
Acquisition of control over a new subsidiary	586	–
The cost of current benefits	1 410	1 169
Interest expense	582	664
(Profits) / revaluation losses:	**2 752**	**1 388**
Actuarial gains and losses resulting from changes in demographic assumptions	(599)	261
Actuarial gains and losses resulting from changes in financial assumptions	3 351	1 127
Past employment cost, including (losses) / gains on restrictions	120	(2 217)
Benefits paid	(1 412)	(1 222)
Other	(7)	(361)
Liabilities due to defined benefits as at the end of the period	**22 942**	**18 911**

27.2. Sensitivity analysis

In accordance with IAS 19 the table below presents the sensitivity (-/+ 0.5 p. p) of liabilities to changes in the discount rate and the assumptions about the growth of salaries. The methods and assumptions used in conducting the sensitivity analysis have not changed compared to the previous reporting period.

	Liabilities due to retirement and disability benefits	Liabilities due to retirement and disability benefits
Change of assumption		
Discount rate – decrease by 0.5 p.p.	23 654	19 727
Discount rate – increase by 0.5 p.p.	23 654	17 931
Wages increase rate – decrease by 0.5 p.p	21 485	17 948
Wages increase rate – increase by 0.5 p.p	21 502	19 704

28. Trade and other liabilities

	As at 31 December 2019	As at 31 December 2018
Trade receivables	**239 274**	**239 751**
Liabilities towards associated entities	855	3 507
Liabilities towards other entities	238 419	236 244
Accrued expenses	**111 086**	**107 338**
Total liabilities due to trade receivables	**350 360**	**347 089**
Tax, customs, social insurance and other liabilities		
VAT	10 434	21 132
Personal income tax	4 279	4 274
PFRON (State Fund for Rehabilitation of Disabled People)	297	284
Social insurance liabilities	8 422	7 126
Financial guarantee expenses	8 821	13 852
Tangible fixed assets purchase liabilities	1 572	1 350
Other	339	4 287
Total other liabilities	**34 164**	**52 305**

(in thousands of PLN)

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

Terms and conditions of payment of the above financial obligations:

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

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

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

The amount resulting from the difference between the liabilities and receivables from the tax on goods and services is paid to the competent tax authorities in the periods resulting from tax regulations.

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

29. Contingent liabilities

	As at 31 December 2019	As at 31 December 2018
Contingent liabilities	**482 107**	**1 259 557**
– granted guarantees and sureties	359 584	461 098
– promissory notes	53 362	5 340
– litigations	69 161	42 889

With reference to the contracts for bank loans and guarantees (both bank and insurance), as well as in terms of bond liabilities (including series A and B bonds issued in 2014 in the amount of PLN 140 million and series C bonds issued in 2017 in the amount of PLN 14.5 million), and in particular, with reference to the Agreement of 24 July 2012 on refraining from the execution of liabilities, the Agreement of 21 December 2012 on the Management of Financial Debt, as stipulated by annex No 11 of 31 December 2019, the Agreement on the New Guarantee Line and the related revolving credit of 21 December 2012, as stipulated by annex No 4 of 31 December 2019, the Terms of Issuance of Ordinary and Convertible Bonds of 12 September 2014, as amended, the Credit Agreement on the guarantee lines and related revolving and non-revolving credit of 31 May 2017 (as amended), in the wording as of 31 December 2019, the Terms of Issuance of Series C Convertible Bonds of 27 September 2017, as amended, the Guarantee Agreement with BOŚ S.A. of 31 December 2019, the Company and the selected subsidiaries have established mortgages, pledges, transfers of ownership, assignments, they have also issued promissory notes, accepted sureties of certain subsidiaries and granted sureties to selected subsidiaries to secure receivables under the instruments in question. The total commitment of the Group in terms of the aforementioned credit instruments as at 31 December 2019 was PLN 688 million (as at 31 December 2018 it was PLN 930 million).

The total commitment of the Parent Company in terms of the aforementioned credit instruments as at 31 December 2019 was PLN 605 million (as at 31 December 2018 it was PLN 832 million).

30. Information about transactions with related parties

Transactions with related entities are concluded on an arm's length basis (typical commercial transactions). The Group does not apply collaterals to receivables from related parties. The table below presents the total values of the transactions concluded with related parties for the period of a year ended on 31 December 2019 and as at that day and on 31 December 2018 and as at that day.

	For the period of 12 months	Status as at the end of the reporting period

Group of entities		Income from related parties	Acquisitions from related parties	Receivables from related parties	Liabilities towards related parties
Other parties related through shareholders	2019	588 067	26 381	103 916	46 084
Unconsolidated subsidiaries	2019	22	15	302	436
Associates	2019	2 396	35	–	–
Total		**590 485**	**26 431**	**104 218**	**46 520**
Other parties related through shareholders	2018	619 165	18 358	229 311	97 396
Unconsolidated subsidiaries	2018	1 198	2 566	2 226	3 321
Associates	2018	–	4 497	1	958
Total		**620 363**	**25 421**	**231 538**	**101 675**

31. Transactions with parties related with the State Treasury

Polimex Mostostal Capital Group is a party in the transactions with entities related with the State Treasury. These transactions, which are also conducted with shareholders and parties related through shareholders, are presented in note 31 as transactions with parties related through shareholders. Transactions conducted with other parties related with the State Treasury are transactions concluded under market terms - these transactions are considered to be insignificant.

32. Remuneration of the Management Board and the Supervisory Board of the Parent Company

	Year ended on 31 December 2019	Year ended on 31 December 2018
Management Board		
Short-term employee benefts	2 193	2 885
Supervisory Board		
Short-term employee benefts	669	625
Total	**2 862**	**3 240**

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

33. Goals and principles of risk management

33.1. Interest rate risk

The Parent Company as well as Polimex Mostostal Capital Group'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 Group 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 companies from the Capital Group, like the Parent, have cash in bank accounts, liabilities due to bank loans and debt based on a variable interest rate. The Companies monitor the situation on the financial market and analyse trends and forecasts in the scope of shaping the reference market rates to make a decision at adequate moment in the situation of open treasure limits on concluding the agreements hedging against unfavourable increase of interest expenses on credit indebtedness. As at 31 December 2018 and 31 December 2017 the Group did not conclude any hedging transactions. During the reporting period the balance of cash of the Company was credited with funds due to the issue of series T shares in the amount of PLN 300 million and kept relatively high balance.

Analysis of sensitivity to interest rate changes

	Value exposed to risk	Increase/decrease by 0.50%	-0.50%
Status as at 31 December 2019			
Cash on bank accounts	285 013	1 425	(1 425)
Bank loans	140 188	(701)	701
Bonds	173 578	(868)	868
Other financial assets	3 304	17	(17)
Impact on the gross financial result		**(127)**	**127**
Deferred tax		24	(24)
Total		**(103)**	**103**

	Value exposed to risk	Increase/decrease by 0.50%	-0.50%
Status as at 31 December 2018			
Cash on bank accounts	417 808	2 089	(2 089)
Bank guarantee deposits	115	1	(1)
Bank loans	233 434	(1 167)	1 167
Liabilities due to financial lease	728	(4)	4
Bonds	176 469	(882)	882
Impact on the gross financial result		**37**	**(37)**
Deferred tax		(7)	7
Total		**30**	**(30)**

33.2. Foreign exchange risk

The financial flows of companies within Polimex Mostostal Capital Group are characterized by a relatively high sensitivity to fluctuations in exchange rates, which results from obtaining revenues in foreign currencies, mainly in EUR.

The preferred method of hedging against the exchange rate risk used by the Capital Group companies remains the natural hedging, that is hedging the currency risk by entering into transactions generating costs in the same currency as the currency of revenues.

The Agreement on the Management of Financial Debt does not provide for the possibility of using currency derivatives as available credit products by the Company. As at 31 December 2018 the companies within the Group did not have any active exchange rate derivatives. Under these circumstances it is also important for Segment Companies to apply natural hedging as currently it is the only tool that limits the exchange rate risk resulting from the business activity of the enterprise.

Fluctuations in the average euro exchange rate have a significant impact on the amount of revenue expressed in PLN from contracts concluded in foreign currency. On the basis of the signed and prospective contracts the Capital Group estimated the exposure to the currency risk in the period January - December 2019 as follows:

Specification	**Q1-Q4 2020**
Forecast inflows in foreign currency - equivalent in thousands of EUR	122 015
Forecast expenses in foreign currency - equivalent in thousands of EUR	23 783
Business exposure to foreign exchange risk in thousands of EUR	**98 232**

Current influence of this market parameter's fluctuations shall refer to this part of foreign exchange turnovers of the Companies (net revenues) which shall not be included in the hedging transactions.

Exposure to foreign exchange risk

	31 December 2019	31 December 2018

(in thousands of PLN)

	EUR	*USD*	*RUB*	*EUR*	*USD*
Cash	4 977	9	–	3 235	9
Trade receivables	24 582	119	31 863	17 433	1
Secured bank loans	597	–	–	470	–
Trade liabilities	3 526	131	–	2 145	14
Gross carrying amount	**25 436**	**(3)**	**31 863**	**18 053**	**(4)**
Estimated forecast of sales	122 015	–	–	119 454	–
Estimated forecast of purchase	23 783	2 666	–	15 122	17 020
Gross exposure	**98 232**	**(2 666)**	**–**	**104 332**	**(17 020)**
Net exposure	**123 668**	**(2 669)**	**31 863**	**122 385**	**(17 024)**

** the data in the above table is presented in the amounts of the respective currencies*

Foreign exchange risk sensitivity analysis as at 31 December 2019

	Carrying amount	*EUR/PLN*	
		Exchange rate (change 10 %)	*Exchange rate (change -10 %)*
Cash	21 205	2 117	(2 117)
Trade receivables	106 759	10 436	(10 436)
Trade receivables	(15 813)	(1 532)	1 532
Bank loans, borrowings and other external sources of financing	(2 535)	(254)	254
Impact on the gross financial result	**109 616**	**10 767**	**(10 767)**
Deferred tax	(20 827)	(2 046)	2 046
Impact on the net financial result	**88 789**	**8 721**	**(8 721)**

Sensitivity related to financial instruments credit risk settled in currencies other than EUR is not significant.

Foreign exchange risk sensitivity analysis as at 31 December 2018

	Carrying amount	*EUR/PLN*	
		Exchange rate (change 10 %)	*Exchange rate (change -10 %)*
Cash	13 754	1 389	(1 389)
Trade and other receivables	69 325	6 931	(6 931)
Trade and other liabilities	(11 728)	(1 167)	1 167
Bank loans, borrowings and other sources of financing	(470)	(47)	47
Impact on the gross financial result	**70 881**	**7 106**	**(7 106)**
Deferred tax	(13 467)	(1 350)	1 350
Impact on the net financial result	**57 414**	**5 756**	**(5 756)**

Sensitivity related to financial instruments credit risk settled in currencies other than EUR is not significant.

33.3. Credit risk

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

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

Credit risk management of financial transaction partners consists in controlling the financial credibility of current and potential partners of these transactions and in monitoring credit exposure in relation to the limits granted. Transaction partners should have an appropriate rating assigned by leading rating agencies or have guarantees from institutions that meet the minimum rating requirement. The Group concludes financial transactions with reputable companies with good creditworthiness and uses diversification of institutions with which it cooperates. In the area of credit risk management of business transaction partners, the Group 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 Group sets guidelines regarding the credit risk management process of business partners in order to maintain appropriate standards in the area of credit analysis and operational safety of the process across the entire Company. The measure of credit risk is the amount of maximum exposure to risk for specific classes of financial assets. The book values of financial assets represent the maximum credit exposure, in particular, trade receivables and transferred deposits. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making the revaluation write-offs. The calculation of the write-offs is presented in note 17.

The Group has a concentration of the credit risk in connection with significant receivables from the power sector 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 Group estimates that it is not significantly exposed to credit risk against those recipients. The credit risk related to liquid funds and derivative financial instruments is limited because the Group's counterparties are banks with a high credit rating assigned by international rating agencies.

Group’s receivables from part of contracts constitute subject matter of credit instruments and bank guarantees.

33.4. Liquidity risk

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

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

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

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

- making timely payments to Creditors and Bondholders,

(in thousands of PLN)

- refraining from taking a number of actions without the prior consent of the Creditors and Bondholders.

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

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

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

The current order portfolio of the Group, less the sales revenues attributable to the consortium members, is approximately PLN 4.00 billion and it only concerns contracts already concluded. The current order portfolio for particular years is as follows: 2020 PLN 1.44 billion, 2021 PLN 0.98 billion, 2022 PLN 0.94 and the subsequent years PLN 0.64 billion.

The table below presents the Group's financial liabilities as at 31 December 2019 and as at 31 December 2018 by maturity based on contractual undiscounted payments.

Liquidity risk as at 31 December 2019

	Upon request	*Less than 3 months*	*Between 3 and 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Bank loans, borrowings and other external sources of financing including:	24	8 820	68 047	76 995	26 174	180 060
- Leasing		3 571	5 300	3 685	26 174	38 730
Bonds	–	–	86 721	99 676	–	186 397
Trade liabilities, deposits due to the construction contracts and other liabilities	80 657	174 537	19 725	26 011	1 238	302 168
	80 681	**183 357**	**174 493**	**202 682**	**27 412**	**668 625**

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

(in thousands of PLN)

Liquidity risk as at 31 December 2018

	Upon request	*Less than 3 months*	*Between 3 and 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Bank loans and borrowings	1 469	3 753	87 117	144 426	–	236 765
Bonds	–	–	12 839	163 630	–	176 469
Other long-term liabilities including:	1 849	–	–	20 352	–	22 201
- Leasing	–	–	–	1 406	–	1 406
Trade and other liabilities including:	342 629	170 376	47 635	14 324	2 136	577 100
- Leasing	–	165	563		–	728
	345 947	**169 063**	**152 657**	**342 732**	**2 136**	**1 012 535**

34. Financial instruments

34.1. Classificaton of financial instruments

	As at 31 December 2019	**As at 31 December 2018**
	Financial assets measured at amortized cost	Financial assets measured at amortized cost
Financial assets		
Other financial assets	3 304	3 173
- long-term	2 643	2 423
- short-term	661	750
Trade receivables	362 506	362 550
Deposits due to the construction contracts	158 296	175 947
Cash and cash equivalents	285 013	417 808

	As at 31 December 2019	**As at 31 December 2018**
	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost
Financial liabilities		
Bonds	173 578	176 469
Bank loans and borrowings including:		
- long-term bearing variable interest rate	67 916	139 582
- short-term bearing variable interest rate	72 272	92 084
- short-term bearing fixed interest rate	1 803	1 768
Other liabilities (long-term) including:	25 020	15 242
Lease liabilities	11 184	1 406
- Other	13 836	13 836
Trade receivables	239 274	239 751
Deposits due to the construction contracts	59 794	59 015
Short-term lease liabilities	8 407	728

(in thousands of PLN)

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

Year ended on 31 December 2019

	Interest income / (expenses)	Profits / (losses) due to exchange differences	Release / (recognition) of impairment write-offs	Other	**Total**
Financial assets					
Financial assets at amortized cost through profit or loss	4 002	1 448	18 280	3 325	**27 055**
Financial liabilities					
Financial liabilities measured at amortized cost	(28 115)	(3 221)	–	(318)	**(31 654)**
Total	**(24 113)**	**(1 773)**	**18 280**	**3 007**	**(4 599)**

Year ended on 31 December 2018

	Interest income / (expenses)	Profits / (losses) due to exchange differences	Release / (recognition) of impairment write-offs	Other	**Total**
Financial assets					
Financial assets at amortized cost through profit or loss	6 051	4 105	4 226	4 334	**18 716**
Financial liabilities					
Financial liabilities measured at amortized cost	(28 646)	(2 206)	–	7 395	**(23 457)**
Total	**(22 595)**	**1 899**	**4 226**	**11 729**	**(4 741)**

35. Fair values of individual categories of financial instruments

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

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

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

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

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

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

(in thousands of PLN)

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

36. Capital management

The main goal of the management of the Group's capital is to maintain good credit rating and safe equity ratios, which would support the Group's operating activities and increased the values for its shareholders.

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

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

As at 31 December 2018 and 31 December 2019 the Parent Company had positive equity capital.

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

	As at 31 December 2019	As at 31 December 2018
Bank loans, borrowings and bonds	313 766	397 064
Trade and other liabilities	384 524	399 394
Minus cash and cash equivalents	285 013	417 808
Net debt	413 277	378 650
Equity	732 450	679 352
Equity and net debt	**1 145 727**	**1 058 002**
Leverage ratio (net debt / capital and net debt)	36%	36%

37. Employment structure

Employment in the Group as at 31 December 2019 and as at 31 December 2018 was as follows:

	As at 31 December 2019	As at 31 December 2018
Management Board of the Parent Company	3	3
Management Boards of the entities within the Group	20	17
Support division	846	573
Operations division	3 656	3 747
Total	**4 525**	**4 340**

38. Litigations regarding receivables and liabilities

As at 31 December 2019 there was an ongoing counterclaim proceeding initiated by Mostostal S.A. with the registered office in Warsaw (the "Defendant"). The counterclaim was filed against the Parent Company and Mostostal Siedlce Sp. z o.o. Sp.k. The counterclaim presents the position of the Defendant in the case filed by the Issuer and by Mostostal Siedlce Sp. z o.o. Sp.k. in June 2017 for Issuer cancellation of the sales agreement pertaining to two Mostostal trademarks: the figurative trademark “Mostostal” registered under number R 87887 and the verbal trademark “Mostostal” registered under number R 97850. The sales agreement for the trademarks was concluded in 2007 by the administrative receiver of one of the entities using the trademarks. The Defendant was the purchaser in this transaction. The value of the subject matter under dispute is PLN 96 908 719. The amount indicated by the Defendant constitutes the compensation for the violation of the protective rights with regards to the specified trademarks. The

Defendant is claiming compensation of PLN 83 717 995 from the Issuer and PLN 13 190 724 from Mostostal Siedlce Sp. z o.o. Sp.k. The position of the Management Board of the Parent Company is that the counterclaim and the value of the compensation have no legal merit and the counterclaim was filed merely in a reaction to the lawsuit initiated by the Parent Company in June 2017. As indicated by the analysis undertaken by the Company, the Company has subjective rights to Mostostal, as well as the prior user right to the trade name “Mostostal”, which take precedence over the above-mentioned Mostostal trademarks under dispute.

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

39. Events after the balance sheet date

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

  The Contractor’s remuneration for the performance of the subject of the Agreement is flat-rate and has been set at PLN 43 200 000.00 net. The Contractor will be obliged to pay contractual penalties to the Company under the circumstances outlined in the Agreement, however, the total amount of penalties will not exceed 25% of the gross remuneration. In case the aggregate amount of penalties does not cover the damage suffered by either Party, each Party to the Agreement will be entitled to seek supplementary damages under general principles to the maximum amount of 100% of the gross remuneration.
- On 30 January 2020 there was a conclusion of an agreement (the “Agreement”) between PGE Górnictwo i Energetyka Konwencjonalna S.A. with the registered office in Bełchatów (the “Ordering Party”) and the consortium (the “Contractor”) comprising General Electric Global Services GmbH with the registered office in Switzerland (“GEGS”) (the consortium leader), General Electric International Inc. (“GEII”) with the registered office in Delaware in the US and the Company (the consortium partners). The subject of the Agreement is a turnkey construction of two gas and steam power units (number 9 and 10, provision of complete sets of power generating equipment and their auxiliary installations and any other technological, mechanical, electrical and automation installations, along with associated facilities) for PGE Górnictwo i Energetyka Konwencjonalna S.A. at the Dolna Odra Power Plant Complex (the “Assignment”), involving all works, deliveries and services, as well as the preparation of the project documentation. Pursuant to the Agreement, the Contractor is obliged to start the implementation of the Agreement immediately after its conclusion and to finalize the Assignment by 11 December 2023.

  The remuneration for the performance of the Assignment is flat-rate and amounts to PLN 3 649 712 633.13 net (the “Remuneration”) of which PLN 1 515 097 248.13 net is the share of the Company. The Remuneration will be paid in instalments on the basis of the invoices issued as per the schedule outlined in the Agreement. The Agreement stipulates for the possibility by the Ordering Party to exercise the option right, namely to ask the Contractor to perform the supplies, services and works specified in the Agreement for an additional remuneration of PLN 51 380 000 net.

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

- On 31 January 2020, the following conditions precedent were fulfilled: (i) the issuance of a guarantee for the proper performance of contract in the amount of PLN 59 650 000, pursuant to the agreement of 31 December 2019 between the Company and Bank Ochrony Środowiska S.A. with the registered office in Warsaw (“BOŚ”) for the purpose of securing performance of the contract concluded with Grupa Azoty Zakłady Azotowe "Puławy" S.A. for the construction of a complete coal-fired heating and condensing power unit in Puławy (the “Pułąwy Contract”); (ii) the issuance of a guarantee for the proper performance of contract in the amount of PLN 46 340 000 for the purpose of securing performance of the Puławy Contract, pursuant to the agreement of 31 May 2017, amended by Annex No 3 of 31 December 2019, concluded between the Company, Naftoremont-Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o., Polimex Budownictwo Sp. z o.o. Sp.k. as the liable and Bank Gospodarstwa Krajowego (“BGK”).

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

  In relation to the fulfilment of conditions referred to in points i) and ii) above, on 31 January 2020 BOŚ issued, at the request of the Company, a guarantee for the proper performance (due performance) in connection with the implementation of the Puławy Contract in the amount of PLN 59 650 000 and BGK issued, at the request of the Company, a guarantee for the proper performance (due performance) in the amount of PLN 46 340 000.

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

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

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

In compliance with the Agreement, the receivables of PKO BP have been secured: (i) with the transfer to PKO BP of cash receivables the Company is entitled to under the Contract, (ii) with a registered pledge on the receivables under a bank account agreement regarding a project-specific account opened for the purpose of servicing the Contract, and (iii) with a financial pledge on cash and cash payment claims, including on deposits deployed in the financial market from the project-specific account opened for the purpose of servicing the Contract. In addition, the Company is obliged to submit within 14 days of the conclusion of the Agreement a statement of submission to enforcement, compliant with Article 777(1), point 5 of the Civil Procedure Code. The maximum amount of each of the above-mentioned collaterals is PLN 71 040 743. Pursuant to the terms of the Agreement, following the issuance of the Guarantee, the list of collaterals may be extended conditional upon the fulfilment of the provisions outlined in the Agreement.

- On 3 March 2020 there was a conclusion of an annex (the “Annex”) to the agreement for the construction of the shell of a residential complex on the Ordona street in Warsaw (the “Contract”) between the consortium comprising the Company, Polimex Infrastruktura Sp. z o.o. with the registered office in Warsaw (a subsidiary of the Company) (jointly referred to as the “Contractor”) and Projekt Echo – 136 Sp. z o.o. Sp. k. with the registered office in Kielce. The Annex stipulates: (i) an increase to the Contractor's remuneration by PLN 154 435.72 net to the amount of PLN 36 822 435.72 due to an extension of the scope of the Contract to include additional works, (ii) an extension to the deadline for the Contract execution until 31 January 2021. Other significant provisions of the Contract remain unchanged.
- On 6 March 2020 the Civil Division of the Court of Appeal in Katowice (the “Court of Appeal”) passed a judgement in the second instance in a case brought by the Issuer against the City of Katowice (the “Ordering Party") in connection with the withdrawal from the agreement concluded on 3 October 2011 for the "Construction of the multifunctional International Congress Centre in Katowice" (the "Agreement"). The details of the Agreement were published in the Issuer’s current report No 58/2011 of 4 October 2011. The withdrawal from the Agreement was disclosed in the Issuer’s current report No 75/2012 of 20 September 2012. In the first instance, the 2nd Civil Division of the District Court in Katowice (the "District Court") awarded the Issuer with a compensation in the amount of PLN 17.5 million. With today’s judgement, the Court of Appeal revised the decision of the District Court in the case at hand as follows: (i) it increased the amount of the awarded compensation from circa PLN 17.5 million to circa PLN 26.1 million and (ii) it confirmed that the interest charged from 31 December 2015 has the status of statutory interest and from 1 January 2016 it constitutes statutory interest for late payment. The Court also dismissed the appeal of the Ordering Party in its entirety and it dismissed the appeal of the Issuer in the remaining scope, as well as ordered the Issuer to cover the costs of the appeal proceeding in the amount of circa PLN 53.6 thousand. The compensation awarded by the Court of Appeal to the Issuer, including the interest, amounts to approximately PLN 40.8 million. The judgement of the Court of Appeal is final. The Group recognized the results of the finalized legal proceeding in the financial statements for 2019 as: recognition of sales revenues in the amount of PLN 8 634 thousand, reversal of write-offs on receivables in the amount of PLN 13 039 thousand and recognition of revenues due to the modification of financial instruments (in financial revenues) in the amount of PLN 14 774 thousand.
- On 27 March 2020 there was a conclusion of an agreement between PKN ORLEN S.A. with the registered office in Płock (the “Ordering Party”) and Naftoremont-Naftobudowa Sp. z o.o. with the registered office in Płock (the “Contractor”). The subject of the Agreement is the performance in the EPC formula of the infrastructural works, as well as the works related to inter-

facility pipelines within the following assignment "Visbreaking Installation in the Production Plant in Płock” (the “Assignment”).

The remuneration for the performance of the assignment is flat rate and it amounts to PLN 106 800 thousand. The agreement stipulates additional remuneration in the maximum amount of PLN 13 150 thousand in case there is a necessity to execute certain specified scopes that are contractually optional. The remuneration will be payable in instalments after the completion of each stage of the Assignment. The Contractor will be eligible to claim an advance payment of up to 10% of the net remuneration. The Contractor is obliged to finalize the performance of the Assignment within 34 months from the date of the conclusion of the Agreement. The Contractor will provide the Ordering Party with a security for the proper performance of the Agreement and a security for the removal of faults and defects in the form of bank or insurance guarantees, or in the form of deductions from the remuneration on the deposit. The Contractor will provide the Ordering Party with a security for the return of the advance payment in the form of a bank or insurance guarantee. The Agreement allows for the possibility to impose contractual penalties on the Contractor. The total amount of penalties due to delays cannot exceed 20% of the net remuneration. The Agreement stipulates a contractual penalty imposed on the Contractor in the amount of 10% of the remuneration for the withdrawal from the Agreement by the Ordering Party through the fault of the Contractor. In the event of damage inflicted upon the Ordering Party that exceeds the allowed amount of the contractual penalty, the Ordering Party reserves the right to claim compensation under general principles. Pursuant to the Agreement, the Contractor will grant the Ordering Party with a guarantee for the subject of the Agreement for the period of 36 months, as well as a guarantee for the period of 48 months for the scope of the Assignment pertaining to the protective and varnish coating. The Parties provided for a contractual entitlement for the Ordering Party to withdraw from the Agreement in specified cases.

Warsaw, 16 April 2020

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

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