“POLIMEX MOSTOSTAL” CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 ROKU

WITH OPINION OF INDEPENDENT AUDITOR

Polimex Mostostal

GRUPA KAPITAŁOWA

Warsaw, 11 April 2019

CONTENTS

(in PLN thousand)

Consolidated Profit and Loss Account

	Note	Year ended 31 December 2018	Year ended 31 December 2017 *
Sales revenues	7.1	1 636 869	2 421 078
Cost of goods sold	7.9	(1 555 626)	(2 254 046)
Gross profit / (loss) on sales		**81 243**	**167 032**
Cost of sales		(25 281)	(25 537)
General administration expenses		(66 725)	(63 261)
Profit / (loss) on impairment of financial assets		4 226	(2 724)
Other operating revenue	7.5	50 778	48 523
Other operating costs	7.6	(8 777)	(6 729)
Goodwill impairment		–	(191 474)
Profit /(loss) on operating activities		**35 464**	**(74 170)**
Financial income	7.7	13 734	18 545
Financial costs	7.8	(34 103)	(41 701)
Share in the profit of an associated entity		141	(9 892)
Gross profit / (loss)		**15 236**	**(107 218)**
Income tax	8	932	(29 826)
Net profit / (loss)		**16 168**	**(137 044)**
Net profit /(loss) attributable to /:			
– shareholders of the parent company		16 168	(137 406)
– Non-controlling interests		–	362
Earnings per share (expressed in PLN per share)			
– basic and diluted earnings per share		0,068	(0,579)

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

The consolidated comprehensive income statement

	Year ended 31 December 2018	Year ended 31 December 2017
Net profit /(loss)	**16 168**	**(137 044)**
Items that will not be allocated in the later periods to the profit and loss account:		
Change in status resulting from revaluation of tangible assets	–	22 946
Actuarial profit / loss	(751)	(2 215)
Items that can be allocated to profit and loss in the subsequent periods:		
Foreign exchange differences on translation of foreign entity	698	(3 116)
Other total net income	**(53)**	**17 615**
Total comprehensive income	**16 115**	**(119 429)**
Applicable to:		
– shareholders of the parent company	16 115	(119 791)
– non-controlling interest	–	362

(in PLN thousand)

Consolidated balance sheet

	Note	As at 31 December 2018	As at 31 December 2017
Assets			
Fixed assets			
Tangible fixed assets	11	384 196	384 064
Investment property		14 576	4 376
Goodwill from consolidation	12	91 220	91 220
Intangible assets		2 017	1 212
Investments in affiliates measured with equity method	13	5 954	5 813
Financial assets		2 423	581
Long-term receivables		1 714	10 162
Deposits due to the construction contracts		111 094	120 784
Deferred tax assets	8.2	175 973	169 275
Other fixed assets		-	296
Total fixed assets		**789 167**	**787 783**
Current assets			
Inventories	15	98 496	96 900
Trade and other receivables	16	400 637	550 969
Deposits due to the construction contracts		64 853	54 594
Construction contracts assets	18	60 058	78 007
Financial assets	14	750	220 084
Cash	19	417 808	579 140
Other assets		2 869	3 954
Assets held for sale	21	36 225	30 487
Total current assets		**1 081 696**	**1 614 135**
Total assets		**1 870 863**	**2 401 918**

(in PLN thousand)

Consolidated balance sheet

	Note	As at 31 December 2018	As at 31 December 2017
Liabilities and equity			
Equity			
Share capital	22.1	473 238	473 238
Reserve capital	22.2	157 746	157 746
Other capitals	22.3	209 938	127 368
Reserve capital from surplus of bonds convertible into shares	22.4	31 552	31 552
Accumulated other comprehensive income	22.5	94 625	94 465
Retained earnings / Uncovered losses		(289 780)	(220 166)
Non-controlling interests		354	382
Total equity		**677 673**	**664 585**
Long-term liabilities			
Bank loans and borrowings	23	139 582	226 118
Long-term bonds	25	163 630	169 034
Provisions	27	59 199	190 912
Liabilities due to employee benefits	28	17 487	17 985
Other liabilities	26	15 988	80 177
Deposits due to the construction contracts		29 354	35 276
Deferred tax liabilities	8.2	1 367	–
Total long-term liabilities		**426 607**	**719 502**
Short-term liabilities			
Bank loans and borrowings	23	93 852	24 383
Short-term bonds	25	12 839	–
Trade and other payables	29	399 394	743 041
Deposits due to construction contracts		29 661	40 932
Construction contracts liabilities	18	63 939	72 542
Income tax liabilities		170	–
Provisions	27	107 846	76 169
Liabilities due to employee benefits		55 951	57 717
Deferred income		2 931	3 047
Total short-term liabilities		**766 583**	**1 017 831**
Total liabilities		**1 193 190**	**1 737 333**
Total liabilities and equity		**1 870 863**	**2 401 918**

(in PLN thousand)

Consolidated cash flow statements

	Note	Year ended 31.12.2018	Year ended 31.12.2017
Cash flows from operating activities			
Gross profit / (loss)		**15 236**	**(107 218)**
Adjustment items:		**(116 699)**	**(278 273)**
Share in the results of associates measured with the equity method		(141)	9 892
Depreciation	7.9	26 684	28 596
Net interests and dividends		25 614	19 220
Profit/ (loss) on investing activities		(18 424)	(15 217)
Change in receivables	20	387 681	(233 643)
Change in inventories	20	(1 596)	(12 761)
Change in liabilities except bank loans and borrowings	20	(434 776)	(223 413)
Change in other assets and deferred income	20	1 265	2 494
Changes in provisions	20	(100 036)	(42 801)
Income tax paid		(4 523)	(3 839)
Impairment losses on goodwill		-	191 474
Others		1 552	1 725
Net cash from operating activities		**(101 464)**	**(385 491)**
Net cash flows from investing activities			
Disposal of tangible and intangible fixed assets		10 021	7 152
Purchase of tangible and intangible fixed assets		(35 001)	(22 496)
Disposal of financial assets		1 040	-
Interests received		-	7 181
Net cash from investing activities		**(23 940)**	**(8 163)**
Cash flows from financing activities			
Lease payments		(784)	(315)
Proceeds from issuance of shares		-	300 000
Proceeds from borrowings / loans		2 627	198
Repayment of borrowings/loans		(22 057)	(21 190)
Interests paid		(15 714)	(16 712)
Net cash from financing activities		**(35 928)**	**261 981**
Increase / (decrease) in net cash and cash equivalents		(161 332)	(131 673)
Cash at the beginnig of the period	19	**579 140**	**710 813**
Cash at the end of the period	19	**417 808**	**579 140**
Cash recognized in consolidated cash flow statements		**417 808**	**579 140**
Including restricted funds		180 219	399 855

(in PLN thousand)

Consolidated statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital on surplus from convertible bonds	Accumulated other comprehensive income from			Retained earnings / Uncovered losses	Total	Non-controlling interests	Total shareholders' equity
					Equity from revaluation	Actuarial profit / (loss)	Foreign exchange differences from translation of foreign unit				
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**
Profit division	–	–	82 558	–	–	–	–	(82 558)	–	–	–
Transfer to other capitals			12					(12)	–	–	–
Deconsolidation of associates	–	–	–	–	–	–	311	–	311	–	311
Transfer of surplus form fixed assets revaluation 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 PLN thousand)

Consolidated statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus on convertible bonds	Accumulated other comprehensive income			Retained earnings / Uncovered losses	Total	Non-controlling interests	Total shareholders' equity
					Revaluation capital	Actuarial loss / profit	Foreign exchange difference on translation of foreign entity				
As at 1 January 2017	**173 238**	**309 710**	**(85 254)**	**29 734**	**94 387**	**1 256**	**(18 355)**	**(22 540)**	**482 176**	**20**	**482 196**
Profit/(loss) for the period	–	–	–	–	–	–	–	(137 406)	(137 406)	362	(137 044)
Other total comprehensive net income	–	–	–	–	22 946	(2 215)	(3 116)		17 615	–	17 615
Total comprehensive income	**–**	**–**	**–**	**–**	**22 946**	**(2 215)**	**(3 116)**	**(137 406)**	**(119 791)**	**362**	**(119 429)**
Increase of share capital	300 000								300 000		300 000
Division of profit	–	–	1 018	–	–	–	–	(1 018)	–	–	–
Transfer to other capitals	–	(151 964)	211 604	–	–	–	–	(59 640)	–	–	–
In-kind contribution settlement	–	–	–	–	–	(438)	–	438	–	–	–
Equity element of bonds convertible into shares	–	–	–	1 818	–	–	–	–	1 818	–	1 818
As at 31 December 2017	**473 238**	**157 746**	**127 368**	**31 552**	**117 333**	**(1 397)**	**(21 471)**	**(220 166)**	**664 203**	**382**	**664 585**

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

1. General

Polimex-Mostostal Capital Group (the "**Group**", the "**Capital Group**") consists of the parent company Polimex-Mostostal S.A. ("**Parent Company**", the "**Company**"', the "**Issuer**") and its subsidiaries and associates. The Group's consolidated financial statements covers the year ended on 31 December 2018 and includes comparative data for the year ended on 31 December 2017.

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

Duration of the parent and member companies of the Capital Group is unlimited. The financial statements of all consolidated subsidiaries were prepared for the same reporting period as the financial statements of the Parent Entity, using coherent accounting principles. In the case of affiliates and subsidiaries that apply other accounting principles, for the purposes of consolidation, the financial data was transformed to comply with the principles applied by the Capital Group.

The financial year of the Parent Company and the companies comprising the Group is the calendar year.

The primary scope of activities of the Parent Entity is broadly understood construction and also assembly services provided in the general contracting system at home and abroad as well as provision of administrative services to the companies of the Group. The subject of the Group's activity is the performance of construction and assembly works, assembly of industrial equipment and installations, manufacturing. "Polimex-Mostostal" SA and the Group operate in the following segments: Production, Industrial Construction, Power Engineering and Oil, Gas, and Chemicals.

Shares of the parent company: "Polimex-Mostostal" SA are listed at the Warsaw Stock Exchange.

1.1. Composition of the Group and description of the changes in the structure of the Group

As at December 31, 2018 and December 31, 2017, the following subsidiaries and associates were subject to consolidation:

(in PLN thousand)

No.	Unit	Registered office	Scope of activities	Shareholding in the Group's capital / share in profit in the case of limited partnership	
				As at 31.12.2018	As at 31.12.2017
Subsidiaries				(%)	(%)
1	Polimex Energetyka Sp. z o. o (limited liability company)	Warsaw	Execution of construction works	100	100
2	Naftoremont-Naftobudowa Sp. z o.o. (limited liability company)	Płock	Execution of construction works	100	100
3	Polimex Opole Sp. z o.o. Sp. k. (limited liability company, limited partnership)	Warsaw	Execution of construction works	100	100
4	Mostostal Siedlce Sp. z o.o. Sp. k. (limited liability company, limited partnership)	Siedlce	Execution of metal products	100	100
5	Stalfa Sp. z o. o (limited liability company)	Sokołów Podlaski	Production of metal products	100	100
6	Polimex-Mostostal ZUT Sp. z o. o. (limited liability company)	Siedlce	Technical services	100	100
7	Polimex-Mostostal Ukraina Spółka z dodatkową odpowiedzialnością (additional liability company)	Zhytomyr-Ukraine	Residential construction	100	100
8	Czerwonogradzki Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością (additional liability company)	Chervonohrad Ukraine	Production of metal structures	100	100
9	Polimex-Mostostal Wschód Sp. z o. o (limited liability company)	Moscow, Russia	Specialist and general construction	100	100
10	Polimex Centrum Usług Wspólnych Sp. z o. o in liquidation (limited liability company)	Warsaw	Consulting in the field of business and management, tax, accounting services accounting, administrative	100	100
11	Polimex Budownictwo Sp. z o. o. (limited liability company)	Siedlce	Industrial construction	100	100
12	Polimex Budownictwo Sp. z o. o. Sp. k. (limited liability company, limited partnership)	Siedlce	Industrial construction	100	100
13	Pracownia Wodno-Chemiczna Ekonomia Sp. z o. o. (limited liability company)	Bielsko-Biała	Service activities in the field of water and sewage treatment, technical and economic analyses in the field of new installations modernisation and construction	-	100
14	Polimex Operator Sp. z o.o. Sp. k. (limited liability company, limited partnership)	Warsaw	Rental of construction machinery and equipment,	100	100
15	Infrastruktura Drogowa Sp. z o. o. (limited liability company)	Warsaw	Construction of roads and motorways	100	100
16	Polimex GmbH in liquidation	Ratingen-Germany	Deliveries and technical services on an agency basis	-	100
17	BR Development Sp. z o. o in liquidation (limited liability company)	Warsaw	Buying and selling real estate. consulting in the field of running a business	100	100
18	Polimex-Development Inwestycje Sp. z o.o. in liquidation (limited liability company)	Warsaw	Construction works	100	100
19	Polimex-Development Inwestycje Sp. z o.o. Apartments Tatarska S.K.A. (partnership limited by shares) in liquidation (limited liability company)	Cracow	Construction works	100	100
Associates					
20	Energomontaż-Północ BełchatówSp. z o.o. (Capital Group) (limited liability company)	Rogowiec	Specialist construction and assembly services	32.82	32.82

On 23 February 2018, the process of Polimex GmbH subsidiary finished, the company was deleted from the commercial register in Germany. The influence of conducted deconsolidation of

this entity on the consolidated financial result amounted to PLN 338 thousand (loss), presented as other operating expenses.

On 1 October 2018, the following companies have been put into liquidation: BR Development Sp. z o.o. Polimex-Development Inwestycje Sp. z o.o. Apartamenty Tatarska S.K.A. oraz Polimex Centrum Usług Wspólnych Sp. z o.o.

On 7 November 2018, “Polimex-Mostostal” S.A. sold all shares in the subsidiary Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. The result on deconsolidation of this company amounted to PLN 438 ths (profit), represented as other operating revenues.

As at 31 December 2018, share in the total number of votes held by the parent Company in subsidiaries is equal to the Company’s share in equities of these units.

Parent company controls subsidiaries included in the complete consolidation; this control results from the fact that Parent Company holds more than 95% of shares in the subsidiaries and capacity to manage the activities of these entities. Subsidiaries excluded from the consolidation are entities in liquidation, recomposition, in which at the same time the Parent Company holds no control or entities irrelevant from the point of view of consolidation in the Group. The materiality threshold for excluding a subsidiary from consolidation is determined by the ratio of assets of the analysed entity to the balance sheet total of the Group and by the share of sales revenues of the analysed entity in the Group's sales revenues. The Company has significant influence in the associated company Energomontaż - Północ Bełchatów Sp. z o. o. due to the shareholding of more than 30% of shares and the possibility to appoint one member of the Supervisory Board.

1.2. Functional and reporting currency

Items included in the financial statements of individual entities of the Group are measured in the currency of the primary economic environment, in which the entity operates. The consolidated financial statements have been prepared in Polish zlotys (PLN), which is the presentation currency of the Group. The data in the consolidated financial statements has been shown in PLN thousand, unless in specific situations they were expressed in greater accuracy.

2. Approval of the financial statements

On April 11, 2019, the Management Board of Parent Entity approved the consolidated financial statements of the Polimex-Mostostal Capital Group for the year ended on December 31, 2018 for the publication.

The consolidated financial statements of Polimex-Mostostal Capital Group and the financial statements of the Parent Company have been audited by the certified auditor, Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa.

3. Platform of the applied International Financial Reporting Standards

3.1. Compliance statement

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

Some of the Group's entities keep their books of account in accordance with the policy (principles) specified in the Act of 29 September 1994 on accounting ("the Act"), as amended, and the regulations issued thereunder. The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group’s entities, introduced in order to make their financial statements comply with IFRS.

3.2. Going concern

These consolidated financial statements were developed with the assumption of continuing business activity by the Group's companies in the foreseeable future. As of the date of authorisation of these financial statements, there are no reported circumstances indicating any risk to the continuation of activity the Group's companies included in the consolidation. In the case of a subsidiary Polimex-Mostostal Ukraina SAZ, the shareholders' equity of which is negative as at December 31, 2018, the Management Board plans to continue the company's operations in the foreseeable future.

3.3. Impact of new and amended standards and interpretations

IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following interpretations and standards, which as at April 11, 2019 have not yet been adopted for use: •

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016) - The European Commission has decided not to start the approval process of this temporary standard for use within the EU until the final version of IFRS 14 has been issued,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on January 1, 2021 or after that date),
- Amendments to IFRS 9 "Financial Instruments" - Characteristics of the prepayment option with negative offset (effective for annual periods beginning with January 1, 2019 or after that date),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" (published on 11 September 2014) – works leading to the approval of these amendments UE has postponed without the time limit,
- Amendments to IAS 19 "Employee benefits" - Change, limitation or settlement of the plan (effective for annual periods beginning on January 1, 2019 or after that date),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term shares in associates and joint ventures (effective for annual periods beginning on January 1, 2019 or after that date),
- Changes to various standards "Amendments to IFRS (cycle 2015-2017)" – amendments made as part of the procedure of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (effective for annual periods beginning on January 1, 2019 or after that date),
- Change to IFRS 3 "Business combinations" (published on 22 October 2018) – effective for annual periods beginning on January 1, 2020 or after that date)
- Changes to Reference to Framework included in the International Financial Reporting Standards (published on 29 March 2018) – effective to the annual periods beginning on 1 January 2020 or after that date,
- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" (effective for annual periods beginning on January 1, 2019 or after that date).
- Amendments to IAS 1 and IAS 8: Materiality definition (published on 31 October 2018) – effective for annual periods commencing on 1 January 2020 or after that date.

According to the Group's estimates, the aforementioned new standards and amendments to existing standards would not have materially impacted the consolidated financial statements if they had been applied by the Group as at the balance sheet date.

When approving these financial statements, the following new standards have been issued by the IASB and approved for use in the EU, but have not yet entered into force:

(in PLN thousand)

- IFRS 16 "Leasing" - approved in the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),

According to IFRS 16, the lessee recognises the right to use the asset and obligations under lease. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of the lease payments payable during the lease term, a discounted rate contained in the lease, if it is not difficult to determine. If the rate cannot be easily determined, the lessee applies the marginal interest rate. Regarding the classification of leasing with the lessors, it is carried out in the same way as in accordance with IAS 17, i.e. as an operating or financial leasing. At the lessor, the leasing is classified as a finance lease, if substantially all of the risks and rewards of ownership of the assets in question are transferred. Otherwise, leasing is classified as an operating lease. In a financial lease, the lessor recognises financial income over the lease term, based on a fixed periodic rate of return on the net investment. Lessor recognises operating lease payments in the income linearly or other systematic way better reflects the pattern if you receive benefits from the use of the assets concerned. The Group is a lessee in such contracts as: car rental, computers and other IT equipment, office real estate. These contracts are currently recognized in accordance with the principles of operating lease. After the entry into force of the new standard, the Group will change the method of recognition in the books and present agreements in accordance with the requirements of the new standard. The effect of the changes will be recognising in the balance sheet assets and liabilities of significant amounts related to these contracts.

The Group shall apply new standard retrospectively with the joint effect of the first application on the day of the first application, i.e. the day of 1 January 2019. The Company shall apply exemptions referred to in the standard referring to recognition of low value leases (not exceeding the amount of PLN 15.000) and short-term leases (not exceeding 12 months). In the cases it is not possible to determine the lease interest rate, the Group shall apply the final interest rate of the lessee. The Group estimates that the recognition of the standard shall materially affect the financial statements by recognition of assets under the usufruct rights and lease liabilities and by the change of the presentation in the profit and loss account. The table below presents the estimated influence of the application of the new standard as at 1 January 2019:

	Carrying amount as at 1.01.2019
Assets under the usufruct right	22 626
Lease liabilities	22 626
	For the of 12 months from 1.01.2019 until 31.12.2019
Estimated annual depreciation cost	7 297
Estimated annual interest cost	797

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

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

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

- IFRS 9 “Financial Instruments”,
- IFRS 15 "Revenue from contracts with customers” and later amendments and explanations,
- Amendments to IFRS 2 “Share based payment”,

(in PLN thousand)

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

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

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

- **IFRS 9 "Financial Instruments",**

  The Group decided not to convert the data relating to earlier periods and to recognise the influence of the first application in the initial balance of results from previous years. The impact of the first application of the standard as at 1 January 2018 on the financial statements amounted to PLN 3 310 thousand - included as a reduction of retained earnings. The value adjustment results from the recognition of additional write-offs for expected credit losses. The table below presents the impact of implementing the new standard on selected items of the financial statements:

	Carrying amounts		
Balance sheet	**As at 1.01.2018 acc. to IAS 39**	**As at 1.01.2018 acc. to IFRS 9**	**Change due to IFRS 9 implementation**
Fixed assets			
Deposits under the construction contracts	120 784	120 442	(342)
Assets under deferred tax	169 275	170 609	1 334
Current assets			
Trade and other payables	550 969	548 483	(2 486)
Deposits under the construction contracts	54 594	52 778	(1 816)
Total			**(3 310)**

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

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

Classification and valuation

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

After the initial recognition, the Group measures a financial asset:

- at amortised cost;
- at fair value through other comprehensive income; or
- at fair value through profit or loss.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is maintained in accordance with the business model, which aims to maintain financial assets to receive cash flows under the contract;
- terms of the contract relating to the financial asset cause cash flows to occur at specific times, which are only the repayment of the principal and interest from principal amount remaining to be repaid.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is maintained in accordance with the business model, which aims to maintain financial assets to receive cash flows under the contract;
- terms of the contract relating to the financial asset cause cash flows to occur at specific times, which are only the repayment of the principal and interest from principal amount remaining to be repaid.

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

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

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

The Companies of the Group do not apply hedge accounting.

<u>Impairment of financial assets</u>
The Group recognises allowances for expected credit losses due to a financial asset.

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

In the case of financial assets other than trade receivables and assets recognised in accordance with IFRS 15, the Group measures a write-down for expected credit losses for a financial instrument in the amount equal to 12 months' expected credit losses.

In the case of trade receivables and assets recognised under IFRS 15, the Group always measures write-off for the expected credit losses in the amount equal to expected lifetime credit losses.

The Group recognises in the financial result, as an impairment gain or loss, the amount of expected credit losses (or the amount of the released provision), which is required to adjust the write-off for expected credit losses as at the reporting date. Write-offs for the expected credit loss, recognised in the period have been presented in the note number 17.

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

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

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

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

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

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

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

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

Trade receivables are included to Step 2 or Step 3:
Step 2 includes trade receivables for which a simplified approach has been applied for the expected credit loss valuation in the entire life-cycle of receivables except certain trade and other receivables classified to the Step 3;
Step 3 – includes trade and other receivables outdated for more than90 days or in the case of which individual impairment has been identified;

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

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

(in PLN thousand)

	Data acc. to IFRS 15	Amendment	Data acc. to IAS 18 and IAS 11
		As at 31.12.2018	
Contract valuation payables	60 058	(310)	59 748
Short-term provisions	107 846	215	108 061
	For the period of 12 months from 01.01.2018 until 31.12.2018		
Sales revenues	1 636 869	(310)	1 636 559
Own cost of sales	(1 555 626)	(215)	(1 555 841)
Profit / (loss) on sales	81 243	(525)	80 718

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

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

The Group recognises the contract with the client only if all of the following criteria have been met:

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

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

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

The Group recognises the change of contract as a separate agreement if at the same time: the scope of the contract increases due to the addition of promised goods or services that are considered separate, and the price specified in the contract increases by the amount of remuneration, reflecting the sales prices of additional promised units' goods or services and any appropriate adjustments to that price made to consider the circumstances of the specific contract.

At the time of concluding the contract, the Group evaluates the goods or services promised in the contract with the client and identifies as a commitment to carry out the performance each promise to transfer to the client:

- goods or services (or a bundle of goods or services) that can be extracted; or
- groups of separate goods or services that are basically the same and for which the transfer to the client is of the same nature.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Changes in the presentation**,

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

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

(in PLN thousand)

- stock revaluation write-offs recognized in the period have been presented within the remaining operating activities (previously presented in the cost of sales).

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

	Year ended 31 December 2017 Prior to change	Change	**Year ended 31 December 2017** After the change
Sales revenues	2 421 078	–	2 421 078
Cost of sales	(2 260 144)	6 098	(2 254 046)
Gross profit / (loss) on sales	**160 934**	**6 098**	**167 032**
Cost of sales	(25 537)	–	(25 537)
General administration costs	(63 261)	–	(63 261)
Profit /(loss) due to impairment of financial assets	-	(2 724)	(2 724)
Other operating revenues	48 655	(132)	48 523
Other operating expenses	(7 147)	418	(6 729)
Impairment of goodwill	(191 474)	–	(191 474)
Profit /(loss) on operating activities	**(77 830)**	**3 660**	**(74 170)**
Financial revenues	18 419	126	18 545
Financial expenses	(37 915)	(3 786)	(41 701)
Share in the profit of an associate	(9 892)	–	(9 892)
Gross profit /(loss)	**(107 218)**	**–**	**(107 218)**

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

4. Adopted accounting principles (policy)

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

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

The most significant accounting principles applied by the Group:

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

4.2. Consolidation rules

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 December 31, 2018. Financial statements of subsidiaries, adjusted for compliance with IFRS, are prepared for the same reporting period as the parent company's report, based on uniform accounting principles applied to transactions and economic events of similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the occurrence of impairment.

Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and cease to be consolidated from the date on which such a control ended. The parent company exercises control when the parent company has power over a given entity when it is subject to exposure to changing financial results due to its involvement, or when it has the right to variable financial results and has the possibility to influence the amount of these financial results by exercising control over a subsidiary.

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

4.3. Investments in associates

Investments in associates are recognised with the equity method. The associates are entities, which are influenced directly by the parent company or through its subsidiaries, and which are neither its subsidiaries nor joint ventures. Financial statements of associates are the basis for the valuation of shares held by the parent company using the equity method. The financial year of associates and the parent company is the same. Before calculating the share of associates and joint ventures in net assets, the relevant adjustments to lead the financial data of these entities to the compliance with IFRS applied by the Group.

Investments in associates are recognised in the balance sheet at purchase price increased by subsequent changes in the parent company's share in the net assets of these entities, less any impairment losses. The share in profits or losses of associated entities is reflected in the consolidated profit or loss. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investee arising from changes in the investee’s other comprehensive income. The Group's share in these changes is recognised in other comprehensive income of the Group.

The assessment of investments in associates in terms of impairment occurs when there are indications of impairment or an impairment loss made in previous years is no longer required.

4.4. Changes in the Group’s holding in the share capitals of subsidiaries

Changes in the Group's share in the capital of subsidiaries that do not cause the Group to lose 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 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 received payment and 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 in other comprehensive income, are accounted as if the Group directly sold the corresponding assets or liabilities of the subsidiary (i.e. 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 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 affiliate or joint venture.

(in PLN thousand)

4.5. Participation in a joint venture

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

4.6. Calculation of items denominated in foreign currency

Transactions denominated in currencies other than PLN are calculated into PLN using the exchange rate applicable on the date of conclusion of the transaction.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than the Polish zloty are translated into Polish zlotys using the average exchange rate set for a given currency by the National Bank of Poland in force at the end of the reporting period. 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, respectively. Assets and non-monetary liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate of the transaction date. Assets and non-monetary liabilities recognised as per the fair value expressed in a foreign currency are converted to the fair value at the rate of the evaluation date.

The functional currency of foreign subsidiaries is UAH and RUB. At the balance sheet date, assets and liabilities of the branch are calculated into the Group's presentation currency at the exchange rate applicable at the balance sheet date, and their statements of comprehensive income are calculated at the weighted average exchange rate in a given period. The foreign exchange differences arising from this calculation are recognised in other comprehensive income and accumulated in a separate component of the equity. Other comprehensive income and in the statement of changes in equity in the item Other comprehensive income due to o exchange differrences from translation of foreign unit. At the moment foreign entity is sold deferred currency differences accumulated in equity referring to the foreign currency concerned are recognised in the profit and loss account.

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

	Year ended 31 December 2018	Year ended 31 December 2017
UAH	0.1330	0.1402
RUB	0.0576	0.0644
EUR	4.2669	4.2447

4.7. Tangible fixed assets

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. land, production plants and real estate developed with a warehouse, industrial and office building complex. The above asset class is presented in the "Land and buildings" category and is valued according to the revalued value model.

The initial value of fixed assets includes their acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to a condition for its intended use. The cost also includes the cost of replacing 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, encumber the profit or loss when incurred.

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

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.

(in PLN thousand)

The redemption 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
Machinery and technical equipment	2-40 years
Office equipment	3-10 years
Means of transport	2-30 years
Computers	2-8 years
Investments in fixed assets	10-25 years

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

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

4.8. 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 carried at fair value. Profits or losses arising from changes in the fair value of investment property are recognised in profit or loss under other income or other operating expenses in the period in which they arose.

The transfer of assets to investment 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 described in part Property, plant and equipment 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 Property, plant and equipment 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.

4.9. 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 redemption and impairment write-downs 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 used:

Type	**Period**
Patents and licenses	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 costs	5 years
Computer software	2-15 years

Goodwill

Goodwill on account of the acquisition of an entity is initially recognised at the purchase price constituting the amount of the surplus

- the total of:
  - (i) transferred payment,
  - (ii) the amounts of any non-controlling interest in the entity subject to acquisition and
  - (iii) in case of businesses merger achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the entity subject to acquisition.
- over the net amount determined as at the date of acquisition of the values of identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is reported at cost less any accumulated impairment losses. The value impairment test it is carried out once a year or more often if there are indications to do so. 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 of the combination. Each unit or group of units to which the goodwill is so allocated shall:

- 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 goodwill is part of a 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 activity. In such circumstances, 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.

4.10. Lease

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 two 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 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 in profit or loss, unless the capitalisation requirements are met.

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 in 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.

Group as a lessor

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. Initial operating fees and subsequent lease instalments are recognised as operating income in the income statement on a straight-line basis over the period of the lease.

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

4.11. Impairment of non-financial fixed assets

As at each balance sheet date, the Group evaluates whether there are any prerequisites indicating that loss in value of the component 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, which 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 of effecting the sale of the given component of assets 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 the write-down 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-down 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.

4.12. Borrowing costs

Borrowing costs are capitalised as part of the cost of producing 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 arisen in connection with borrowing up to the amount corresponding to the adjustment of the interest cost.

4.13. Inventories

Inventories are measured at the lower of the two values: the acquisition price/production cost and the net sale price possible to achieve.

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 the 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 net sale price, which is possible to achieve, is an estimated sale price in the ordinary course of business, decreased by the costs of completion as well as the estimated costs necessary to complete the sale.

4.14. Trade and other receivables

Trade receivables are recognised and stated according to initially invoiced amounts, including the write-down against doubtful receivables. The write-down against receivables is estimated when the recovery of the full amount of receivables is no longer probable.

When the impact of the time 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 time 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.

Other receivables include, in particular, advances forwarded for future purchases of property, plant and equipment, 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.

4.15. Deposits transferred under the construction contracts

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

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

When the impact of the time value of money is significant, the deposit value is determined by discounting the predicted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible customer's credit risk. The write-off for deposits transferred under construction contracts is estimated when it is no longer possible to recover the full amount of the deposit.

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

4.16. Cash and cash equivalents

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

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

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

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

4.18. Asset (or disposal groups) held for sale

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

4.19. Other assets

Prepayments are recognised in the amount of expenses already incurred, which relate to the next reporting periods after the balance sheet date. These costs are shown at face value after having made sure that these costs will benefit the entity in the future. Prepayments include mainly:

- insurance
- subscriptions,
- rents paid in advance.

4.20. Deferred income

Deferred income is recognised taking into account the principle of prudent valuation. These include primarily the equivalent of received or due funds for benefits that will be performed in the next reporting periods. The amounts recognised as deferred income gradually increase the operating revenues. Item includes also the amounts reflecting the invoiced amount in the case, the recognition of revenues takes place in the subsequent periods.

4.21. Trade and other payables

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

Other non-financial liabilities include, in particular, liabilities related to the purchase of fixed assets and accruals. Other non-financial liabilities are recognised in the amount that requires payment.

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

4.22. Deposits received due to the construction contracts

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

The deposits under the construction contracts are recognised and reported according to the amounts originally invoiced or paid by the suppliers.

In the subsequent periods, deposits are recognised in the amortised cost. Influence of the measurement in the depreciated cost is recognised as financial revenues / expenses.

4.23. Liabilities under employee benefits

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, employees of the Group companies have the right to jubilee awards and retirement benefits. The jubilee bonuses are paid to employees after having worked a certain number of years. Retirement bonuses are paid once at the time of retirement. The amount of retirement benefits and jubilee bonuses depends on the length of service and the average remuneration of the employee. The Group creates a provision for future liabilities related to retirement benefits and jubilee bonuses in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee bonuses are other long-term employee benefits, while retirement benefits are programs of specified post-employment benefits. 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 and jubilee bonuses are presented in the item of liabilities due to employee benefits.

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

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

4.24. Provisions

Provisions are created when the Group is burdened with the existing liability (legal or customary expected one) 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 costs that the costs covered by the provision are reimbursed, for example under the insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is virtually certain that the reimbursement of this 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 time 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 time value of money as well as the possible risk related to a given liability. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

4.25. Sharing profits 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 in the form of 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.

4.26. Reserve capital from the surplus under convertible bonds

The Group recognises separate elements of financial instruments which establish its financial liability and provide their holders with an option to convert into parent Company's equity instrument. As at the date of issuing bonds, the parent Company measured the equity element and the liability element of bonds issued. The liability element was measured at fair value. The equity element was determined as the final (residua) 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 element depending on the change of probability of executing the conversion option.

4.27. Taxes

Current tax

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

Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.
Assets / Provisions for deferred tax are recognised in relation to all negative / positive temporary differences:
- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

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

The 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.

The most significant accounting principles applied by the Group until 31 December 2017.

Description below contains the most important accounting principles applied by the Group for the period prior to the implementation of new IFRS 9 and IFRS 15 standards, i.e. until 31 December 2017.

4.28. Financial assets

Financial assets are classified into the following categories:
- Financial assets maintained to the maturity date,
- Financial assets evaluated in the fair value by the financial result,
- Loans and receivables,
- Available-for-sale financial assets

Financial assets maintained to the maturity date

Financial assets maintained to the maturity date are the financial assets quoted in the active market, and which are not derivative instruments with definite or possible to define payments as well as with the fixed maturity date, which the Group intends and has the possibility to hold to that time, other than:

- determined at the initial recognition as measured at the fair value by the financial result,
- meeting the definition of loans and receivables,
- determined as available-for-sale.

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

Financial assets measured at the fair value by the financial result

The component of financial assets measured at the fair value by the financial result is a component that meets one of the following conditions:

a) It is classified as held for trading.

The components of financial assets are classified as held for trading, if they are:

i. principally acquired for the purpose of selling in a short period of time,
ii. part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
iii. derivatives, except for the derivatives that are part of hedge accounting and financial guarantee contracts,

b) Was, in accordance with IAS 39, classified into this category upon the initial recognition.

The financial assets measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets measured at the fair value by the financial result. This does not apply to cases where the embedded derivative does not significantly affect the cash flows from the contract, or the separation of embedded derivatives is clearly prohibited. Financial assets at the initial recognition can be classified to the category measured at the fair value by the financial result if the following criteria are met:

(i) such a qualification eliminates or significantly reduces the inconsistency of treatment, when both the valuation and the rules for recognising losses or profits are subject to other regulations; or
(ii) assets are part of a group of financial assets that are managed and assessed based on fair value, in accordance with a documented risk management strategy; or
(iii) financial assets contain embedded derivatives, which should be recognised separately.

Loans and receivables

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

Available for sales financial assets

The available-for-sale financial assets are the financial assets which are not derivatives, and which were classified as available for sale or those that do not belong to any of the three previously mentioned categories. Available-for-sale financial assets are recognised at fair value, without deducting transaction costs, taking into account the market value as at the balance sheet date. In the event of a lack of exchange quotations on the active market and if it is not possible to reliably determine their fair value using alternative methods, the available-for-sale financial assets are measured at the acquisition price adjusted by the impairment writ-down for the loss in value. The positive and negative difference between the fair value of the available-for-sale assets (if there is a market price established on the active market or if their fair value can be determined by some other reliable method), and their acquisition price, after deduction of the deferred tax, are included in other comprehensive income. The decrease in value of the available-for-sale assets caused by the loss in value is recognised as financial cost.

The acquisition and sale of the financial assets are recognised at the transaction date. At the time of the initial recognition, a component of financial assets is measured at the fair value, increased, in case of the component of assets not classified as the measured at the fair value by the financial result, with the transaction costs, which can be directly attributed to the acquisition.

The component of financial assets is removed from the balance sheet when the Group loses control of the contractual rights that comprise a given financial instrument; it usually occurs when the instrument is sold or when all the cash flows attributed to the given instrument are transferred to an independent third party

Interests in unconsolidated subsidiaries

Shares in unconsolidated subsidiaries are measured at cost.

4.29. Impairment of financial assets

As at each balance sheet date, the Group evaluates whether there are objective prerequisites of the loss in value of the component of financial assets or the group of financial assets.

Assets recognised in accordance with the depreciated cost

If there are objective prerequisites that a loss in value of the granted loans and receivables, measured in accordance with the depreciated cost, occurred, then the cost of the impairment write-down for the loss in value equals to the difference between the balance sheet value of the component of financial assets (excluding future credit losses that have not been incurred yet), discounted using the initial (i.e. determined at the initial recognition) effective interest rate method. The carrying amount of an asset is reduced through a revaluation write-down. The amount of the loss shall be recognised in profit or loss.

The Group firstly evaluates whether there are objective prerequisites of the loss in value of the individual financial assets which are individually significant, as well as prerequisites of the loss in value of the financial assets that individually are not significant. If the conducted analysis shows that there are no objective prerequisites of the loss in value, regardless of whether it is significant or not, the Group includes this component to the group of financial assets with similar credit risk characteristics and jointly assesses in terms of the loss in value. The assets that are individually assessed for the loss in value, and for which the impairment write-down for the loss in value was recognised, or it was considered that the current write-down will not change, are not taken into account in the total assessment of the group of assets in terms of the loss in value.

If the impairment write-down for the loss in value decreased in the next period, and the decrease can be objectively associated with an event occurred after the impairment write-down recognition, then the previously recognised impairment write-down is reversed. The subsequent reversal of the impairment write-down for the loss in value is recognised in profit or loss to the extent, in which as of the date of reversal, the balance sheet value of the component of assets does not exceed its depreciated cost.

Financial assets stated at cost

If there are the objective prerequisites that the loss in value of the unquoted equity instrument, which is not stated in accordance with the fair value, because its fair value cannot be reliably determined, of the derivative instrument, which is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment write-down for the loss in value is determined as the difference between the balance sheet value of the component of financial assets and the current value of the estimated future cash flows, which are discounted using the current market rate of return for similar financial assets.

Impairment losses on financial assets measured at cost are not reversed.

4.30. Revenues

Revenues are recognised to the extent that it is probable that the Group will obtain the economic benefits associated with the transaction, and the amount of revenues can be reliably measured. Revenues are recognised net of value added tax (VAT) and excise tax as well as rebates. Revenues are also recognised according to the below criteria.

Construction contracts

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

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

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

The costs of production of an unfinished service include costs incurred from the date of conclusion of the relevant contract until the balance sheet date. The production costs incurred before the conclusion of the contract related to the implementation of its subject are counted into assets if it is probable that these costs will be covered in the future with revenues obtained from the ordering party. Then they are included in the costs of producing the unfinished construction service.If the incurred costs decreased by expected losses increased by profits included in the profit and loss account exceed percentage advances of invoiced sales resulting from the above difference, the amount of invoiced sales is presented in the balance sheet assets in receivables from the valuation of long-term contracts in correspondence with revenues from services.

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

Revenues from sales of goods and products

Revenues are recognised if the significant risk and benefits of the equity related to goods and products were transferred to the buyer and the amount of revenues can be reliably measured.

Rental income

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

Interest

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

Dividends

Dividends are recognised at the time of establishment of the shareholders' rights to these dividends.

5. Significant values based on professional judgement and estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring on a balance sheet date, to which vital risk of the significant adjustment of balance value of assets and liabilities in the next financial year are related, are discussed below.

Useful lives of property, plant and equipment

As described in note 4.7, the Group verifies the expected useful lives of the items of property, plant and equipment at the end of each annual reporting period.

Fair value measurement and procedures related to the valuation

Investment properties are valued by the Company at fair value for the purposes of financial reporting. The valuation is carried out by external qualified property appraisers. Valuations are prepared using income methods or comparative methods. The Group applies a revalued value model for the asset class: real estate and structures. When revaluations are carried out, the Group acquires valuations at fair value for individual locations of real estate and structures. Revaluation is carried out for the entire asset class when the fair value differs significantly from the carrying amount. Valuations are prepared using income methods or comparative methods. Details of the valuations carried out are described in note 11.

Impairment of assets

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

Impairment losses on goodwill

In accordance with IAS 36, the Management Board of the Parent Company performs annual impairment tests of cash generating units to which goodwill has been allocated as at the balance sheet date. Assumptions and relevant information regarding the tests carried out are provided in note 12 of Additional information and explanations. As a result of the test, in the financial year ended December 31, 2018, the Management Board of the Parent Entity recorded in the Group's financial statements a permanent impairment of goodwill has not occurred.

Asset component due to deferred tax, note No. 8.2

The Group recognises the component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deteriorations of the achieved tax results in the future, could lead to a situation, in which this assumption would become unjustified.

Recognition of revenues, note No. 18

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

The Group uses the percentage of work completion method at settlement of long-term contracts. Use of this method requires from the Group estimation of proportions of completed works to all services to be performed. Based on the updated budgets of contracts and the progress of construction contracts, the Group recognises the effects of changes in estimates as a result of the next period.

Valuation of liabilities under employee benefits - retirement and pension severance pays

Provisions due to employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in the note 27.

(in PLN thousand)

Provision for warranty repairs, note No. 27

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

Restructuring provision, note No. 27

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

Provisions for litigations, note No. 27

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

Provisions for penalties, note No. 27

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

Provision for contract settlement costs, note number 27

Provisions for contract costs relate to the final settlement of road contracts.

Provision for expected losses on construction contracts, note number 27

On every balance sheet date, the Group revaluates budgeted estimates of total revenues and costs of realised projects. The projected contract-related loss is recognised as costs of the period, when it was recognised.

Provision for sureties, note No. 27

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

Write-off revaluating unnecessary materials (note No. 15) and receivables (note No. 16)

At each balance sheet date, the Group analyses individual indications of impairment of trade receivables such as disputable receivables, receivables pursued at court, receivables from companies in bankruptcy or liquidation, and others. On this basis, the Group makes individual receivables' value write-offs and the remaining receivables are included in the write-off for the expected credit losses. Calculation technique of the write-offs has been described in the note number 17 Financial Instruments – impairment.

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

6. Reportable segments

For the purpose of management, the Group was divided into parts on the basis of manufactured products and provided services.

Production	production and delivery of steel structures, platform grates, shelving systems, pallets, road barriers. Services in the field of anticorrosive protection of steel constructions by hot dip galvanizing, Duplex system, painting by hydraulic method.

Industrial construction	construction and assembly services. General contracting of buildings in the construction industry (including property development). Realisation of large industrial and general construction buildings. Installation of steel constructions, specialist equipment, halls and special constructions.
Power industry	services related to the energy industry. General contracting of facilities in the energy sector, design, production and sale of power boilers, maintenance services for the permanent and comprehensive service of power plants, combined heat and power plants and industrial plants.
Oil, gas, chemicals	general contracting of facilities in the chemical industry. Assembly of process equipment for the chemical and petrochemical industry, prefabrication and assembly of steel structures, technological pipelines, storage tanks and pipelines, prefabrication and assembly of furnaces for the refining industry. Implementation of environment-friendly projects. Recipients of services are chemical plants, refineries, petrochemical and gas industry.

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

Infrastructural construction	general contracting of buildings in the road and railway construction industry. In the segment, the Group presents the effects of settlements of road contracts, where the main recipient of services was the General Directorate of National Roads and Motorways.
Other Operations	hardware and transport services, rental services, laboratory tests, equipment service, other services not included in other segments

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. To assess operating results of segments, the Management Board uses the segment's result achieved on operating activities and the segment's gross result. Income tax is monitored at the Group level and is not allocated to segments.

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with unrelated entities.

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

Data regarding segments are presented according to identical rules that serve to prepare financial statements.

(in PLN thousand)

Year ended 31 December 2018	Production	Industrial construction	Power industry */	Oil, gas, chemicals	Infrastructural construction	Other operations	Exceptions	Activities overall
Revenues								
Sales to external customers	678 883	65 748	639 675	246 669	21	5 873	–	1 636 869
Sales between segments	18 254	26 479	10 277	553	120	46 497	(102 180)	–
Total segment revenues	697 137	92 227	649 952	247 222	141	52 370	(102 180)	1 636 869
Results								
Depreciation; including:	20 429	51	263	331	88	5 521	–	26 683
- depreciation of tangible fixed assets	20 343	51	222	331	88	5 050	–	26 085
- depreciation of intangible assets	86	–	41	–	–	471	–	598
Profit / (loss) on operating activities segment	31 109	12 193	(36 170)	17 162	15 761	(4 450)	–	35 605
Balance of financial income and expenses	(6 096)	(1 403)	(711)	(212)	1 057	(13 004)	–	(20 369)
Gross profit (loss) of the segment	25 013	10 790	(36 881)	16 950	16 818	(17 454)	–	15 236

Revenues from transactions between segments shall be subject to elimination.

*/ The loss from the operating activity of the energy sector includes the share in the profit of an associate in the amount of PLN 141 ths.

(in PLN thousand)

Year ended 31 December 2017	Production	Industrial construction	Power industry*/	Oil, gas, chemicals	Infrastructural construction	Other operations	Exceptions	Overall activities
Revenues								
Sales to external customers	657 304	23 470	1 517 222	205 905	8	17 169	–	2 421 078
Sales between segments	20 021	33 601	8 926	970	–	44 566	(108 084)	–
Total segment revenues	677 325	57 071	1 526 148	206 875	8	61 735	(108 084)	2 421 078
Results								
Depreciation; including:	20 290	71	1 895	79	37	6 224	–	28 596
- depreciation of tangible fixed assets	20 224	58	1 805	79	37	5 686	–	27 889
- depreciation of intangible assets	65	13	90	–	1	539	–	708
Profit (loss) from operating activities *	53 764	33 466	(157 994)	8 702	(2 370)	(23 290)	–	(87 722)
Balance of financial income and expenses	(11 500)	1 156	132	(2 177)	6 238	(13 345)	–	(19 496)
Gross profit (loss) of the segment	42 264	34 622	(157 862)	6 525	3 868	(36 635)	–	(107 218)

Revenues from transactions between segments shall be subject to elimination.

*/ * / The loss from the operating activity of the energy sector includes the share in the loss of an associate in the amount of PLN 9 892 thousand and a write-off revaluating goodwill in the amount of PLN 191 474 thousand

(in PLN thousand)

7. Revenues and expenses

7.1. Sales revenues in division into categories

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

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

Year ended 31 December 2017	Production	Industrial construction	Power industry	Oil, gas, chemicals	Infrastructural construction	Other operations	Exceptions	Consolidated financial data
Revenues from the sales of the construction and other services	78 229	57 010	1 525 693	206 725	–	13 900	(74 357)	**1 807 200**
Revenues from the sales of goods, materials and products	595 584	61	314	150	–	25 205	(15 756)	**605 558**
Rental income	3 512	–	141	–	8	22 630	(17 971)	**8 320**
Total sales revenues	**677 325**	**57 071**	**1 526 148**	**206 875**	8	**61 735**	**(108 084)**	**2 421 078**

(in PLN thousand)

7.2. Geographical information

The tables below present data on revenues for individual geographical areas of the Group for the year ended on December 31, 2018 and December 31, 2017. The Group classifies based on the place of rendered service or realised delivery.

Year ended 31 December 2018	Production	Industrial construction	Power sector	Oil, gas, chemistry	Infrastructural construction	Other operations	Exceptions	Consolidated financial data
Domestic	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**

Year ended 31 December 2017	Production	Industrial construction	Power sector	Oil, gas, chemicals	Infrastructural construction	Other operations	Exceptions	Consolidated financial data
Domestic	236 351	57 387	1 526 137	121 314	8	30 583	(96 835)	**1 874 945**
Abroad	440 974	(316)	11	85 561	–	31 152	(11 249)	**546 133**
Total sales revenues	**677 325**	**57 071**	**1 526 148**	**206 875**	8	**61 735**	**(108 084)**	**2 421 078**

7.3. Key recipients of the Group

In 2018, the Group had two recipients, for whom sales exceeded 10% of sales revenues. Sales for these recipients amounted to PLN 565 million and are presented in the Power sector.

7.4. Significant events regarding contracts performed

From January 2014, the Group carries out within the consortium, the contract for the construction of two new power units in Opole Power Plant. Polimex Opole limited liability company limited partnership, an SPV company has been established for the purposes of this project implementation and at the level of this company the basic part of the margin is being realized. This contract is a significant contract of the Group in the Company's strategic Power sector. Historically, the largest and having key significance investment in the Polish power sector. Its value amounts to gross PLN 11.6 billion of which 42%, i.e. 4.8 billion, is attributable to the Group. Within the scope of contract, the turbine islands shall be made and chimney freezers with the cooling water system. The electricity systems including control and measurement appliances and automatics shall also be executed. The Group also participated in the design works. Planned transfer for operations of the unit number 5 shall take place on 31 May 2019 and unit number 6 on 30 September 2019 that is confirmed by the Annex number 9 signed on 10 October 2018 concluded between the Consortium (Polimex Mostostal, Mostostal Warszawa, Rafako and GE Power Sp. z o.o. which is the general designer and performs the function of the consortium leader managing Project realization). Additionally, to the confirmation of the change to the time limit for the delivery of particular units, the annex resolves also the following issues including but not limited to:

(i) Settlement of technical issues referring to project implementation,

(ii) The Parties confirmed the amount of remuneration due to the General Contractor provided the time limits for delivery of units for operations have been kept.

(iii) In the light of the Annex signed, General Contractor and GE Power Sp. z o.o. agreed internal agreement, which including but not limited to confirms the entries in the Annex and regulates the reciprocal claims issues.

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

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

(in PLN thousand)

7.5. Other operating revenues

	Year ended 31 December 2018	Year ended 31 December 2017*
Revenues from the sales of assets		
Profit on sales of fixed assets	2 752	1 464
Profit on sales of current assets	–	1 250
Dissolved impairment write-offs and provisions		
Dissolved impairment write-offs for fixed assets	5 825	–
Dissolved reserve for litigations	13 081	16 310
Dissolved impairment write-offs for provisions	1 359	–
Dissolved provisions for assets held for sales	–	2 025
Other operation revenues		
Profit from revaluation of fixed assets to fair value	–	8 398
Profit from revaluation of investment properties to fair value	8 464	–
Result on subsidiary deconsolidation	438	–
Result on subsidiary liquidation	3 013	–
Damages and penalties obtained	3 720	2 068
Court settlement – reimbursed litigation costs	333	12 535
Deletion of trade liabilities	8 913	1 633
Other	2 880	2 840
Total operating revenues	**50 778**	**48 523**

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

7.6. Other operating costs

	Year ended 31 December 2018	Year ended 31 December 2017*
Write-downs and provisions created		
Creation of provisions for litigations and labour cases	1 873	2 232
Creation of impairment losses on non-financial fixed assets	532	–
Creation of inventories' impairment write-offs	690	–
Other operating expenses		
Fixed and current assets liquidation expenses	1 964	–
Result on the subsidiary deconsolidation	338	–
Loss on revaluation of investment properties to fair value	–	(579)
Damages and penalties	821	1 891
Court costs	1 174	1 256
Other	1 385	1 929
Other total operating expenses	**8 777**	**6 729**

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

7.7. Financial revenues

	Year ended 31 December 2018	Year ended 31 December 2017 *
Revenues from bank interests	4 452	3 084
Revenues from interests on arrears in the payment of payables	1 436	7 311
Positive foreign exchange differences	1 899	–
Long term settlements depreciated by cost measurement	4 334	125
Dissolution of provisions for financial costs	1 000	2 105
Financial liabilities measurement in amortised cost	–	5 803
Other	613	117
Total financial revenues	**13 734**	**18 545**

(in PLN thousand)

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

7.8. Financial expenses

	Year ended 31 December 2018	Year ended 31 December 2017*
Interest on bank credits and loans	10 809	9 826
Interest and commissions on bonds	15 589	15 648
Interest on other liabilities	2 248	3 092
Exchange losses	–	5 933
Bank commissions on Guarantees and credits	2 843	2 612
Financial assets revaluation	–	–
Measurement of long-term settlements depreciated with cost	1 518	3 786
Other	1 096	804
Total financial expenses	**34 103**	**41 701**

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

7.9. Expenses by type

	Year ended 31 December 2018	Year ended 31 December 2017*
Depreciation	26 683	28 596
Materials and power consumption	483 676	497 746
Foreign services including the construction ones	730 647	1 423 916
Taxes and charges	12 486	14 086
Costs of employee benefits	361 860	352 411
Other expenses by type	10 921	15 696
Total expenses by type	**1 626 273**	**2 332 451**
Items recognised in the costs of sales	(25 281)	(25 537)
Items recognised in general administration expenses	(66 725)	(63 261)
Value of goods and materials sold	23 647	29 341
Change in products stock	3 918	(15 516)
Costs of benefits production for the entity’s own needs	(6 206)	(3 432)
Own costs of sales	**1 555 626**	**2 254 046**

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

7.10. Depreciation costs recognised in profit and loss account

	Year ended 31 December 2018	Year ended 31 December 2017
Items recognised in own costs of sales	24 970	27 039
Depreciation of fixed assets	24 458	26 359
Depreciation of intangible assets	512	680
Items included in the sales expenses	682	594
Depreciation of fixed assets	682	593
Depreciation of intangible assets	–	1
Items recognised in the general administration costs	1 031	963
Depreciation of fixed assets	945	936
Depreciation of intangible assets	86	27
Total depreciation and impairment write-offs	**26 683**	**28 596**

(in PLN thousand)

7.11. Expenses under employee benefits

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries	291 404	277 100
Social Insurance contributions	52 773	53 102
Pension benefits	1 010	753
Jubilee rewards	56	124
Other post-employment benefits	(950)	4 009
Social Fund write-offs	4 752	4 913
Other (including overalls, cleaning products)	12 815	12 410
Total employee benefits costs	**361 860**	**352 411**

8. Income tax

8.1. Income tax

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

	Year ended 31 December 2018	Year ended 31 December 2017
Consolidated profit and loss account		
Current encumbrance due to income tax	2 050	2 806
Adjustments referring to current tax from previous years	781	1 031
Deferred income tax	(3 763)	25 989
Tax expense from continued operations indicated in the consolidated profit and loss account	**(932)**	**29 826**
Consolidated statement of comprehensive income		
Deferred income tax due to land and buildings revaluation	–	5 382
Deferred income tax due to valuation of liabilities under post-employment benefits	176	(522)
Tax expense from the continued operations indicated in the consolidated comprehensive income	**176**	**4 860**

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit / (loss) before taxation	**15 236**	**(107 218)**
Tax according to the tax applicable in Poland amounting to 19% in 2018 (2017: 19%)	2 895	(20 371)
Tax effects of the following items:		
- Non-taxable income	(12 910)	(9 017)
- Costs not constituting costs of obtaining income	9 104	6 802
- Current previous years income tax adjustments	198	(988)
- Previous years tax depreciation adjustment	(21 180)	–
- Tax losses and negative temporary differences due to which no deferred income tax assets were recognised	26 532	15 199
- Costs constituting income obtaining costs and not recognised in the result	(833)	(599)
- Differences in the tax rate of foreign entities and small tax payers	(53)	(30)
- Tax losses due to the expiry of the time-limit for the settlement	105	–
- Goodwill impairment loss	–	36 380
- Other	(4 790)	2 450
Financial result encumbrance due to income tax	**(932)**	**29 826**

(in PLN thousand)

8.2. Deferred income tax

Change to assets and provisions due to deferred income tax during the year (prior to offsetting within one tax jurisdiction), presents as follows:

Deferred tax assets provisions	Temporary differences referring to fixed assets	Long-term contracts measurement	FX differences	Lease	Others	Total
As at 1 January 2017	**19 616**	**8 805**	**260**	**9**	**1 058**	**29 748**
Financial result debiting / (crediting)	(2 622)	5 658	(260)	6	772	3 554
Other comprehensive income debiting / (crediting)	5 382	–	–	–	–	5 382
As at 31 December 2017	**22 376**	**14 463**	–	**15**	**1 830**	**38 684**
Financial result debiting / (crediting)	(23 753)	2 918	59	114	(562)	(21 224)
Reclassification to assets	1 377	–	–	–	–	1 377
As at 31 December 2018	**-**	**17 381**	**59**	**129**	**1 268**	**18 837**
Net presentation of deferred tax assets and deferred tax allowances with recognition of offsetting within one tax jurisdiction						**(17 470)**
Provisions due to deferred tax assets in the balance sheet						**1 367**

Deferred income tax assets	Temporary differences referring to fixed assets	Liabilities under employee benefits	FX differenc es	Inventories revaluation write-offs	Receivables revaluation write-offs	Long-term contracts measurement	Provisio ns	Long-term liabilities	Tax losses	Other	Total
As at 1 January 2017	–	**8 931**	**21**	**1 505**	**19 601**	**75 266**	**69 104**	**563**	**35 414**	**17 951**	**228 356**
Assets held for sales	–	534	–	**399**	–	–	387	117	–	79	1 516
Financial result crediting / (debiting)	–	302	212	(803)	1 168	(51 016)	17 144	(395)	10 414	539	(22 435)
Other comprehensive income crediting / (debiting)	–	522	–	–	–	–	–	–	–	–	522
As at 31 December 2017	–	**10 289**	**233**	**1 101**	**20 769**	**24 250**	**86 635**	**285**	**45 828**	**18 569**	**207 959**
Retained earnings crediting / (debiting)	–	–	–	–	1 392	–	–	–	–	–	1 392
Financial result crediting / (debiting)	–	(84)	(217)	108	(4 097)	3 312	(37 979)	(81)	25 407	(3 830)	(17 461)
Other comprehensive income crediting / (debiting)	–	176	–	–	–	–	–	–	–	–	176
Reclassification from the reserves	1 377	–	–	–	–	–	–	–	–	–	1 377
As at 31 December 2018	**1 377**	**10 381**	**16**	**1 209**	**18 064**	**27 562**	**48 656**	**204**	**71 235**	**14 739**	**193 443**
Net presentation of asset and provision under deferred tax with offsetting within one tax jurisdiction											(17 470)
Assets due to deferred tax in the balance sheet											**175 973**

(in PLN thousand)

Deferred income tax assets and liabilities are as follows:

	As at 31 December 2018	As at 31 December 2017
Deferred income tax assets:		
prior to offsetting		
- to be completed after 12 months	91 399	96 606
- to be completed within 12 months	102 044	111 353
	193 443	**207 959**
Provision for deferred income tax:		
prior to offsetting		
- to be completed after 12 months	339	17 501
- to be completed within 12 months	18 498	21 183
	18 837	**38 684**

As at December 31, 2018, tax losses to be settled in subsequent periods amounted to PLN 459 879 thousand. The table below presents the periods of expiration of unsettled tax losses for which the deferred tax asset was not recognised:

Year of limitation for loss settlement	**Amount of losses to be deducted in future periods**	**The amount of unrecognised assets from tax losses**
2023	45 171	8 583
2019	53 460	10 157
Total	**98 631**	**18 740**

9. Earnings per share

Basic earnings per share is calculated with division of net profit for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period.

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

The data referring to profit and shares that were used to calculate earnings per share are presented below:

	Period ended 31 December 2018	Period ended 31 December 2017
Net profit / (loss)	**16 168**	**-137 044**
Basic and diluted earnings per share		
(w PLN):		
number of shares registered as at the balance sheet date	236 618 802	236 618 802
weighted average of ordinary shares used to calculate the ordinary loss per share	236 618 802	236 618 802
profit / (loss) per share (in PLN)	**0.068**	**-0.579**

10. Dividends paid and proposed for payment

In 2018, the parent company did not declare and pay dividends.

The parent company does not provide for the payment of dividend in 2019 for the financial year ended December 31, 2018.

(in PLN thousand)

11. Property, plant and equipment

Net value as at 1 January 2018	Lands and buildings	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Advance payments for 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 property, plant and equipment	269	8 034	521	1 136	19 018	11 981	**40 959**
Decrease / increase due to the settlement of fixed assets under construction	579	32 371	355	215	(33 520)	-	**-**
Decrease / increase due to advance payment	-	1 169	-	-	19 581	(20 750)	**-**
Fixed assets sales and liquidation	(1 072)	(484)	-	(17)	(3 744)	-	**(5 317)**
Impairment write-off	-	2 821	-	-	3 004	-	**5 825**
Sale of subsidiary	-	(27)	(208)	(19)	-	-	**(254)**
Reclassification from assets held for sales	-	40	-	11	-	-	**51**
Reclassification to assets held for sales	(2 379)	(806)	(47)	(150)	(12)	-	**(3 394)**
Another reclassification	(2 202)	-	-	-	(9 658)		**(11 860)**
Fair value measurement	-	-	-	-	-	-	**-**
FX differences	52	130	5	21	-	-	**208**
Depreciation write-off 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 PLN thousand)

	Land and buildings	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Advance payments for fixed assets under construction	Total
Net value as at 1 January 2017	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**
Acquisition of fixed assets	368	1 863	884	287	8 763	11 913	**24 078**
Increase / decrease due to the settlement of fixed asset under construction	358	3 526	144	-	(4 028)	-	**-**
Increase / decrease due to advance payment settlement	-	-	-	-	4 063	(4 063)	**-**
Fixed assets sale and liquidation	(84)	(350)	(77)	(54)	(250)	-	**(815)**
Increase / decrease due to changes in the sales plan	6 545	(4 273)	(198)	(77)	-	-	**1 997**
Reclassification from assets held for sales	14 243	13 240	887	717	642	-	**29 729**
Reclassification to assets held for sales	(144)	(360)	-	(2)	-	-	**(506)**
Fair value measurement	35 606	-	-	-	-	-	**35 606**
FX differences	8	27	5	11	-	-	**51**
Depreciation write-off for the financial period	(9 546)	(14 115)	(1 752)	(2 477)	-	-	**(27 890)**
Net value as at 31 December 2017	**264 496**	**84 496**	**12 460**	**2 501**	**11 342**	**8 769**	**384 064**
As at 1 January 2017							
Gross value	**286 675**	**274 518**	**46 984**	**32 247**	**3 543**	**919**	**644 886**
Depreciation and impairment write-off	**(69 533)**	**(189 580)**	**(34 417)**	**(28 151)**	**(1 391)**	**-**	**(323 072)**
Net value	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**
As at 31 December 2017							
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**

Revaluation of land and buildings at fair value, recognized in other comprehensive income (in the amount of PLN 28 501 thousand) and other operating income (in the amount of PLN 7 105 thousand).

(in PLN thousand)

Tangible fixed assets are shown at purchase price / production cost less amortisation and impairment write-downs, except for the asset class specified as real estate and structures permanently connected with land, i.e. real estate developed with a warehouse, industrial and office buildings' complex ("Land and buildings"). The above asset class is measured at fair value starting from October 2013.

The last valuation of fixed assets was carried out in part as at August 31, 2017 and in the remaining part as at September 30, 2017.

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

The fair value measurement was categorised in the fair value hierarchy at level 3.

The Group monitors the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, structures). As at December 31, 2017, the value of fixed assets recognised in accordance with the revalued model does not differ materially from their fair value.

The consolidated financial statements for the year ended 31 December 2017, the disclosures referring to fair value of revalue assets have been recognised.

12. Goodwill from consolidation

	31 December 2018	31 December 2017
Grupa Energomontaż-Północ S.A. (the company incorporated in 2010)	91 220	91 220
Total	**91 220**	**91 220**

In accordance with the principles of IAS 36, the Management Board of "Polimex-Mostostal" S.A. conducted as at 31 December 2018 tests for permanent impairment of goodwill on consolidation created on the purchase of the Energomontaż-Północ Group. The level of the operating segment before aggregation is the lowest level at which the Group's Management monitors the goodwill. The company's value for 2018 was fully allocated to the power sector.

The table below presents the main financial data, assumptions used in the test and the results of the test:

	Financial data and test results			
Segment	Value tested	Estimated useful value	Impairment	Goodwill
Power sector	97 907	260 189	-	91 220

	Major assumptions			
Segment	Weighted Average Capital Cost (WACC)	Average operational profitability in the period of the forecast	Average annual expected sales revenues	Fixed growth rate in the period of the forecast
Power sector	9,77%	3,63%	434 070	1,00%

Tested value included goodwill before write-down and net assets attributed to the energy segment (Polimex Energetyka Sp. z o.o.). The adjusted value of discounted cash flows of the energy sector (use value) was estimated at PLN 260 189 thousand. The valuation was made with the following assumptions: weighted average cost of capital (WACC): 9.77%, growth rate after the forecast period: 1.0%, average operating profitability in the forecast period: 3.63%, average annual expected revenues from the energy sector's sales: PLN 434 070 thousand.

According to the Management Board of "Polimex-Mostostal" S.A., probability of the changes to key assumptions which could make the carrying amount of the tested centre exceed the recoverable amount are not high.

(in PLN thousand)

13. Investments in affiliates measured with equity method

The Group holds 32.82% shares in Energomontaż-Północ Bełchatów Sp. z o.o. with headquarters in Bełchatów, whose main scope of activity is specialised construction and assembly services. Spółka Energomontaż-Północ Bełchatów Sp. z o.o. is the parent company in the Energomontaż-Północ Bełchatów Capital Group. The consolidated financial data for this group is presented below

	As at 31 December 2018	As at 31 December 2017
Current assets	41 936	66 125
Fixed assets	20 912	23 474
Short-term liabilities	29 416	48 531
Long-term liabilities and provisions	12 283	18 795
Minority equity	2 408	2 524
Net assets	18 741	19 749
Sales revenues	91 054	109 286
Total comprehensive income	430	(30 140)
Share in the result of an associate	141	(9 892)

Spółka Energomontaż-Północ Bełchatów Sp. z o.o. is a private company, therefore there are no quoted market prices for its shares. The above information reflects the amounts presented in the financial statements of the capital group of the associated undertaking (and not the participation of the Capital Group in these amounts).

14. Financial assets

Short-term financial assets	**As at 31 December 2018**	**As at 31 December 2017**
Bank guarantee deposits	115	219 616
Loans	635	468
Total	**750**	**220 084**

By the end of 2017, the Company had bank guarantee deposits related to carrying out Kozienice project. This deposit has been settled in 2018 and it does not exist as at 31 December 2018.

15. Inventories

	As at 31 December 2018	**As at 31 December 2017**
Materials	31 744	28 635
Advance payments for materials	658	1 035
Goods	145	173
Production in progress	43 944	38 770
Finished products	22 005	28 287
Total inventories	**98 496**	**96 900**

	As at 31 December 2018	**As at 31 December 2017**
Increase / decrease of inventories write-offs		
Opening balance	5 755	10 362

(in PLN thousand)

a) increase	1 161	524
b) decrease	(660)	(5 131)
Balance of inventories impairment write-offs	**6 256**	**5 755**

16. Trade and other receivables

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

Terms of transactions with affiliates are presented in the note 31.

	As at 31 December 2018	**As at 31 December 2017**
Trade receivables including:	362 506	447 674
- from related entities	140 571	84 426
- from other units	221 935	363 248
Budget payables, including:	30 539	44 865
- due to VAT	30 460	44 721
- other	79	144
Other payables	7 592	58 430
Total (net) receivables	**400 637**	**550 969**
Impairment write-offs	97 297	199 232
Total (gross) receivables	**497 934**	**750 201**

Value of receivables impairment write-offs decreased in comparison to the preceding period due to the conclusion of the settlement with GDDKiA. More information in this scope has been disclosed in the note number 39.

17. Financial instruments – impairment

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

Ratios applied to calculate expected credit losses for non-productive operations:

Current and 30 days after payment date	Overdue from 31 up to 90 days	Overdue from 91 up to 180 days	Overdue for more than 180 days
0.06%	0.46%	0.48%	11.07%

Ratios applied to calculate expected credit losses for the productive operations:

Current and 30 days after the payment date	Overdue from 31 up to 90 days	Overdue from 91 up to 180 days	Overdue for more than 180 days
0.12%	4.42%	20.74%	83.96%

(in PLN thousand)

Classification of financial assets measured at amortised cost for particular stages of impairment model:

	As at 31.12.2018			As at 01.01.2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	12 months ECL	Lifetime ECL – without impairment	Lifetime ECL – with impairment	12 months ECL	Lifetime ECL – w without impairment	Lifetime ECL – with impairment
Gross carrying amount	**418 558**	**574 768**	**116 057**	**799 224**	**718 884**	**221 424**
Trade and other receivables	–	359 251	95 594	–	445 362	199 049
Other receivables	–	38 117	4 972	–	103 113	5 163
Deposits due to construction contracts	–	177 400	15 491	–	170 409	17 212
Bank guarantee commissions	750	–	–	220 084	–	–
Cash and cash equivalents	417 808	–	–	579 140	–	–
Impairment write-offs	**–**	**(2 965)**	**(111 276)**	**–**	**(8 099)**	**(215 800)**
Trade and other payables	–	(1 128)	(91 211)	–	(2 305)	(194 432)
Other payables	–	(135)	(4 823)	–	(825)	(4 156)
Deposits under construction contracts	–	(1 702)	(15 242)	–	(4 969)	(17 212)
Bank guarantee commissions	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–	–
Carrying amount	**418 558**	**571 803**	**4 781**	**799 224**	**710 785**	**5 624**
Trade and other receivables	–	358 123	4 383	–	443 057	4 617
Other receivables	–	37 982	149	–	102 288	1 007
Deposits due to the construction contracts	–	175 698	249	–	165 440	–
Bank guarantee commissions	750	–	–	220 084	–	–
Cash and cash equivalents	417 808	–	–	579 140	–	–

(in PLN thousand)

Increase / decrease of impairment write-offs for the period from 1 January 2018 until 31 January 2018 taking into accent write-offs due to the application of IFRS 9 for the first time:

	Trade and other payables			Deposits due to the construction contracts		
	Stage 2	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**
	Lifetime ECL – without impairment	**Lifetime ECL – with impairment**		**Lifetime ECL – without impairment**	**Lifetime ECL – with impairment**	
Value of impairment write-offs as at 31.12.2017 - according to IAS 39	1 257	197 975	199 232	2 811	17 212	20 023
Adjustment due to application of IFRS 9 for the first time	1 873	613	2 486	2 158	–	2 158
Opening balance as at 01.01.2018	**3 130**	**198 588**	**201 718**	**4 969**	**17 212**	**22 181**
Increases	**232**	**10 550**	**10 782**	**87**	**3 389**	**3 476**
Impairment write-offs - increases – recognised in the financial result	232	6 837	7 069	87	–	87
Reclassification	–	3 713	3 713		3 389	3 389
…						–
Decreases	**501**	**113 205**	**113 706**	**1 367**	**5 359**	**6 726**
Dissolution	432	10 779	11 211	1 367	1 470	2 837
Use	69	99 037	99 106	–	176	176
Reclassification	–	3 389	3 389		3 713	3 713
Conversion of the write-off into ECL (IFRS 9) (+) increases / (-) decreases	**(1 598)**	**101**	**(1 497)**	**(1 987)**	**–**	**(1 987)**
Closing balance according to IFRS 9 as at 31.12.2018	**1 263**	**96 034**	**97 297**	**1 702**	**15 242**	**16 944**

(in PLN thousand)

18. Long-term construction contracts

Contracts in progress by the end of the reporting period:

Contracts in progress by the end of the reporting period:	**As at 31 December 2018**	**As at 31 December 2017**
Recognised in the balance sheet as the amounts		
- from clients within the construction contracts (receivable)	60 058	78 007
- for the benefit of the clients within the construction contracts (liability)	(63 939)	(72 542)
Total	(3 881)	5 465
Deposits under the construction contracts (receivables)	111 094	120 784
Deposits due to the construction contracts (liabilities)	(29 354)	(35 276)

Revenues recognised in 2018 and taken into account in the liabilities balance as at the beginning of the period amounted to PLN 63 939 ths.,

Revenues recognised in 2018 referring to undertakings to carry out the service fulfilled in the preceding periods amounted to PLN 4 979 ths.

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

	As at 31.12.2018
a) up to 1 year	880 835
b) more than 1 year	198 571
Total	**1 079 406**

19. Cash and cash equivalents

	As at 31 December 2018	**As at 31 December 2017**
Cash at bank and in hand	201 431	449 421
Short-term deposits	216 377	129 719
Total	**417 808**	**579 140**
Restricted disposal cash	180 219	399 855

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

Cash at bank bears variable interest rates depending on one day bank deposits rates. Short-term deposits are established for various periods; from one day to one month, depending on current Company's demand for cash and bear fixed interest rates.

Cash with limited disposal concerns funds related to the implementation of strategic contracts, mainly construction of blocks 5 and 6 in the Opole Power Plant. These funds will be released upon the completion of contracts.

(in PLN thousand)

20. Cash flow statement

The reconciliation of the change in balance sheet items in the reporting period to the changes presented in the cash flow statement is presented in the tables below:

	Year ended 31 December 2018	Year ended 31 December 2017
Change in inventories in the balance sheet	**(1 596)**	**(31 609)**
Adjustment due to reclassification of inventories from assets to sale	–	**25 183**
Adjustment due to the sale of developer's inventories (recognised in investment activities)	–	**(6 335)**
Change in provisions in the cash flow statement	**(1 596)**	**(12 761)**
Change in receivables in the balance sheet	**176 160**	**-265 659**
Adjustment due to reclassification of receivables from assets for sale	–	33 214
Adjustment with receivables due to guarantee deposits	216 570	(1 198)
Adjustment with receivables due to the sale of fixed assets	(1 739)	–
Adjustment to provisions due to implementation of IFRS 9 (as at 01.01.2018)	(3 310)	–
Change in receivables in the cash flow statement	**387 681**	**(233 643)**
Change in other assets in the balance sheet	**1 265**	**2 302**
Adjustment due to reclassification of other assets from assets held for sale	–	**192**
Change in other assets in the cash flow statement	**1 265**	**2 494**
Change in liabilities in the balance sheet	**(435 897)**	**(187 832)**
Adjustment due to reclassification of liabilities from assets held for sale	–	(31 332)
Adjustment with liabilities due to investment acquisitions	1 088	(1 829)
Adjustment due to liabilities due to lease	784	314
Adjustment with liabilities due to actuarial provisions valuation recognised by total income	(751)	(2 735)
Change in liabilities in the cash flow statement	**(434 776)**	**(223 413)**
Change in provisions in the balance sheet	**(100 036)**	**(42 770)**
Adjustment due to reclassification of provisions from held for sale	–	(31)
Change in provisions in the cash flow statement	**(100 036)**	**(42 801)**

21. Assets held for sale

	As at 31 December 2018	As at 31 December 2017
Property, plant and equipment	1 465	4 991
Investment property	34 760	25 496
Assets held for sale	**36 225**	**30 487**

(in PLN thousand)

In accordance with the provisions of the Agreement on Principles of Debt Service signed on December 21, 2012, the Issuer undertook to sell certain assets. Disposed of the assets are presented as assets held for sale. The above table presents the assets that are held for sale at December 31, 2018.

Investment properties were valued in the fourth quarter of 2018. The Group hires external, independent experts, to determine the fair value of land, buildings and structures owned by the estimation of thee fair value of real estate.

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

As at December 31, 2018, no revaluation for investment property was carried out. The Group monitors the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, structures). There have been not any indications that would indicate that the fair value of investment property has changed significantly since the previous valuation. In the case of two properties, the Group is in the process of advanced disposal, preliminary sales agreements have been concluded. The fair value of these properties has been included in the amount consistent with the signed contracts. Their valuation corresponds to level 1 of the fair value hierarchy.

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

(in PLN thousand)

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

Description	Fair value as at 31 December 2018	Valuation technique	Unobservable data	Scope of data that cannot be observed (average weighted by probabilities)	Relations between unobservable data and fair value
Real properties developed with the complex of warehouse, industrial and office buildings including land forming part of the real property developed with the complex of production, office and warehouse buildings	4 648	Income approach, investment method, simple capitalisation technique	Capitalisation rate	Capitalisation rate is applied taking into account the capitalisation of income potential, property type and prevailing market conditions: 8%-10.5%	A slight increase in the capitalisation rate applied would cause a significant decline in the fair value of the property (and vice versa).
			Rent rate	The monthly market rent was used taking into account the assignment of real estate (office administration and warehouse purposes) differences in location, as well as individual factors such as the size of the property, comparison to other real estate-at an average value:	Significant increase in the market rent would cause a significant increase in fair value (and vice versa).
				- PLN 11 - 19 per sqm for real property of production, office and warehouse assignment (Stalowa Wola district);	
				- PLN 24 - 28 per sqm for real property of production, office and warehouse assignment (Warsaw district);	
Land forming part of real property developed with the complex of production, office and warehouse assignment		Comparative approach, average price adjustment method	Rent rate	- average price per sqm of comparable real properties PLN 74.21 (Stalowa Wola district), adjustment co-efficient 1.660;	Increase of average price per sqm affects the increase of real property value (and vice versa)
		Comparative approach, pairs comparison method	Rent rate	- average price per sqm of comparable real properties PLN 346.50 (Warsaw district);	

22. Shareholders’ equity

22.1. Share capital

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

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

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

Shareholders rights

Each share entitles to one vote at the General Meeting of Shareholders. The shares of all series are equally preferred in terms of dividend and return on capital. According to information obtained on the basis of stock exchange announcements, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at December 31, 2018 presents as follows:

Shareholder	Number of shares/votes	% of share capital/total nubmer of votes at the GMS
ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with its registered office in Warsaw PGNiG Technologie Spółka Akcyjna with its registered office in Krosno - as Investors acting jointly and in agreement*	156 000 097	65.93%
Bank Polska Kasa Opieki SA	13 629 376	5.76%
Others – less than 5% of share capital	66 989 329	28.31%
Number of shares of all issues	**236 618 802**	**100.00%**

* investors hold 16.48% each

(in PLN thousand)

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 December 31, 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 merger with subsidiaries in 2010 year. Energomontaż-Północ S.A. with registered office in Warsaw, Naftoremont Sp. z o.o. based in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with its seat in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with its registered office in Lublin, EPE-Rybnik Sp. z o.o. with its registered office in Rybnik, ECeRemont Sp. z o.o. with its registered office in Zielona Góra (the company being acquired) made 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 December 31, 2016 year other reserves amounted to PLN (85 254) thousand. According to the resolution number 8 and number 9 of the Extraordinary Annual General Meeting of the Company of June 27, 2017 year 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 number 7 the Extraordinary Annual General Meeting of the Company on June 27, 2017 year contributed the company's profit for the year 2016 at the rate of PLN 1 018 thousand to cover the negative value of the remaining capital.Change in the amount of other capitals in 2018 results from the Resolution number 6 of the Ordinary General Meeting dated 21 June 2018 on allocation of the Parent entity's net profit, amounting to PLN 82 558 thousand to other capitals. As at 31 December 2018, the remaining capitals amounted to PLN 209 937 thousand.

22.4. Equity component of issued bonds convertible into shares

The equity component of issued bonds convertible into shares as at 31 December 2018 amounts to PLN 31 552 thousand, as at 31 December 2017 amounted to PLN 31 552 thousand. Bonds have been more extensively described in the note number 25.

22.5. Accumulated other comprehensive income

The accumulated other comprehensive income consists of revaluation, actuarial gains/losses and foreign exchange differences on translation of foreign units.

23. Loans and borrowings

	As at 31 December 2018	As at 31 December 2017
Short-term, including:	**93 852**	**24 383**
Bank loans	93 852	24 383
Borrowings		–
Long-term, including:	**139 582**	**226 118**
Bank loans	139 582	226 118
Borrowings	–	–
Total loans and borrowings	**233 434**	**250 501**

Comparison of interest rates in the periods	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Weighted average for loans in PLN	WIBOR 1M + 2.50%	WIBOR 1M + 2.50%

(in PLN thousand)

Weighted average for loans in UAH	WIBOR 3M + 1.33% 19.08%	WIBOR 3M + 1.33%

	As at 31 December 2018	**As at 31 December 2017**
Opening balance of liabilities under bank loans and borrowings	**250 501**	**269 849**
Transfer from liabilities held for sale	–	7 013
Decrease due to deconsolidation of subsidiary	(101)	–
Contracting bank loans	2 626	–
Interest accrued calculated according to the effective interest rate	10 025	10 038
Repayment of interest	(7 560)	(9 576)
Repayment of principal	(22 057)	(21 020)
Recognition of obligations to amortised cost	–	(5 803)
Closing balance of liabilities under bank loans and borrowings	**233 434**	**250 501**

24. Assets transferred as a collateral

	As at 31 December 2018	**As at 31 December 2017**
Tangible fixed assets	355 379	359 027
Inventories	88 454	89 378
Investment real property	14 576	4 376
Conditional assignment of receivables for the benefit of lease companies	–	–
Other	18 868	23 300
Assets held for sale	36 225	30 487
Total	**513 502**	**506 568**

25. Bonds

	As at 31 December 2018	**As at 31 December 2017**
Liabilities under the issue of series E, F bonds	25 679	25 682
Liabilities under the issue of series A, B bonds	137 436	130 425
Liabilities under the issue of series C bonds	13 354	12 927
Total	**176 469**	**169 034**

Series A, B bonds were issued on October 1, 2014, are bonds that have the option of converting into shares of the Company. The total value of inflows from the issue was PLN 140 000 thousand. At the moment of initial recognition of these bonds, the capital element in the amount of PLN 29 747 thousand was included in the capital of the Company, the liability was included in the value of PLN 108 292 thousand, commission under the underwriting guarantee amounted to PLN 1 960 thousand.

Bonds can be converted made at any time up to the bond redemption date (i.e. July 31, 2020, July 31, 2021 and July 31, 2022). If it is not made, the bonds will be redeemed on certain redemption dates of the year at a unit price of PLN 2. The interest rate at WIBOR 3M rate increased by 3 percentage points per year will be paid quarterly until conversion or purchase of bonds.

(in PLN thousand)

On September 27, 2017, the Management Board of the Company addressed Bankowe Towarzystwo Kapitałowe SA and Towarzystwo Finansowe Silesia Sp. z o. o the. proposals to purchase series C bonds convertible into U series bearer shares. The proposal to acquire the Bonds was accepted and the Bonds were issued and paid for. The subject of the issue is 29 Bonds with no form of a document with a total nominal value of up to PLN 14 500 thousand. The nominal value and the issue price of one bond is PLN 500 thousand. The interest rate is variable based on WIBOR 3M plus a margin, which may be increased in the case in which the Company fails to make payment under the Bonds at maturity. The bonds will be redeemable on July 31, 2022 or on the first business day after this date. Proceeds from issuance of Bonds were intended to cover the obligations of the Issuer in relation to the Towarzystwo Bankowe Silesia and Bankowe Towarzystwo Kapitałowe for the commissions for a change in the conditions of the Issue of bonds convertible to bearer series A shares, as amended on January 20, 2017 and uniformed on June 20, 2017, and the Issuer advised on it in the statutory announcement respectively number 11/2017 (in conjunction with number 5/2017) and number 55/2017.

The table below presents the valuation of series A, B and C bonds at amortised cost:

	As at 31 December 2018	**As at 31 December 2017**
Opening balance of the liability value	**143 352**	**134 657**
Issue of series C bonds	–	14 500
Recognition of the capital element of the Issue of series C bonds	–	(1 818)
Interest accrued calculated according to the effective interest rate of 11% (11% in 2017) for series A and B and 7.6% (7.7% in 2017) for series C bonds	14 925	14 707
Commissions regarding changes in the terms of series A and series B bonds	–	(14 500)
Repayment of interest	(7 487)	(4 194)
Closing balance of liability value	**150 790**	**143 352**

26. Other long-term liabilities

	As at 31 December 2018	**As at 31 December 2017**
Lease	1 406	153
Long-term financial guarantees	743	2 577
Long-term liabilities under guarantees and sureties	13 694	26 754
Advance payments received for implementation of power sector contracts	–	49 181
Other	145	1 512
Total	**15 988**	**80 177**

Long-term commitments due to guarantees and sureties refer to liabilities which encumber the Group due to the use of guarantees and sureties by the counterparties.

(in PLN thousand)

27. Provisions

	Provisions for warranty repairs	Restructuring provision	Provision for litigation	Provision for penalties	Provision for contract costs	Provision for losses	Provision for sureties	Other provisions	Total
As at 1 January 2018	**82 249**	**0**	**6 669**	**23 600**	**149 889**	**3 813**	**360**	**501**	**267 081**
Established during the financial year	12 899	-	6 943	663	5 934	65 939	1 058	677	**94 113**
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)	-	-	-	**-**
Exchange rates differences	-	-	-	-	-	-	-	43	**43**
As at 31 December 2018	**74 778**	**0**	**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**
As at 1 January 2017	**83 371**	**7 723**	**19 855**	**24 450**	**150 749**	**23 611**	**18**	**74**	**309 851**
Changes to the sales plan	820	-	-	512	-	-	-	243	**1 575**
Established during the financial year	14 546	-	2 232	2 463	-	11 437	360	620	**31 658**
Used	(6 990)	(3 317)	(659)	(3 012)	(834)	(10 618)	-	(398)	**(25 828)**
Dissolved	(9 498)	(4 406)	(14 759)	(813)	(26)	(20 617)	(18)	(39)	**(50 176)**
Exchange rates differences	-	-	-	-	-	-	-	1	**1**
As at 31 December 2017	**82 249**	**-**	**6 669**	**23 600**	**149 889**	**3 813**	**360**	**501**	**267 081**
Short-term as at 31 December 2017	19 105	-	6 112	16 102	30 177	3 813	360	500	**76 169**
Long-term as at 31 December 2017	63 144	-	557	7 498	119 712	-	-	1	**190 912**

Significant value of provisions used for the costs of contracts and presentation reclassification of provisions from the item provisions for the costs of contracts to the item litigation provisions results from signing the settlement with GDDKiA. More information in this scope has been disclosed in the note number 39.

(in PLN thousand)

28. Liabilities due to employee benefits

	31 December 2018	31 December 2017
Payroll liabilities	16 220	16 655
Social Insurance liabilities	9 319	9 621
Bonuses and rewards	17 083	15 636
Unused leaves	11 905	14 395
Retirement and pension benefits	1 424	1 410
Short-term liabilities due to employee benefits	**55 951**	**57 717**
Retirement and pension benefits	17 487	17 985
Long-term liabilities due to employee benefits	**17 487**	**17 985**

The Group pays its retiring workers the amount of pension checks in the amount specified by the Company's collective agreement. In relation to this, the Group, on the basis on the evaluation made by a professional pensions actuarial company, creates a provision for the current value of the liability under retirement severances, jubilee awards and other post-employment benefits.

28.1. Major assumptions adopted by the actuary

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

Expenses included in the profit and actuarial gains and losses relating to the check-in pension schemes are presented the following table:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Benefit expenses:		
Current service expenses	1 266	1 266
Past service expenses and profit / (loss) from the settlement	524	524
Net interest expenses	607	607
Components of expenses of the specific benefit scheme recognised in the profit and loss	**2 397**	**2 397**
Revaluation of net liability for certain benefits:		
Actuarial gains and losses arising from changes in the demographic assumptions	209	157
Actuarial gains and losses arising from changes in the financial assumptions	271	2 577
Other	447	
Components of expenses in the benefits scheme recognised in other comprehensive income	**927**	**2 734**
Total	**3 324**	**5 131**

The amount of the provision for employee benefits and a reconciliation showing the status changes during the accounting period are given below.

(in PLN thousand)

	31 December 2018	31 December 2017
Liabilities due to defined benefits, 1 January	**19 490**	**13 784**
Reclassification of liabilities associated with assets held for sale	-	1 740
Cost of current benefits	1 169	1 266
Interest expenses	664	607
Revaluation (profit)/loss:	**1 388**	**2 737**
Actuarial gains and losses arising from changes in the demographic assumptions	261	160
Actuarial gains and losses arising from changes in the financial assumptions	1 127	2 577
Past service cost including (loss)/profit due to restrictions	(2 217)	524
Paid out benefits	(1 222)	(1 168)
Other	(361)	0
Liabilities due to defined expenses, 31 December	**18 911**	**19 490**

28.2. Sensitivity analysis

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

Change of assumption	Liability for severance pay and pensions
Discount rate – decrease by 0.5 p.p.	19 727
Discount rate – increase by 0.5 p.p.	17 931
Wages increase rate – decrease by 0.5 p.p.	17 948
Wages increase rate – increase by 0.5 p.p.	19 704

29. Trade and other payables

	31 December 2018	31 December 2017
Trade payables		
To related entities	3 507	70 826
To other entities	236 244	309 467
	239 751	**380 293**
Tax, customs, social Insurance and other payables		
VAT	21 132	25 282
Withholding tax	-	3
Personal income tax	4 274	4 353
PFRON (National Disabled Persons Rehabilitation Fund)	284	292
Social Insurance contributions payables	7 126	7 763
Other	274	269
	33 090	**37 962**
Financial liabilities		
Lease liabilities	728	335
Financial guarantee expenses	13 852	3 650
Other	–	–
	14 580	**3 985**
Other liabilities		
Fixes assets purchase liabilities	1 350	1 305
Accruals	107 338	311 909
Other	3 285	7 587
	111 973	**320 801**
Total short-term payables	**399 394**	**743 041**

Accruals cover mainly the value of construction contract costs incurred, not settled in invoices. High accrued expenses rate as at 31 December 2017 results from the settlements of the suppliers in Kozienice project, the implementation of which ended on 17 December 2017. Decrease of the balance of this item results from the settlement of balances with suppliers which occurred in 2018.

(in PLN thousand)

The terms and conditions for the payment of the above financial liabilities:

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

Liabilities for deliveries and services are interest-free and usually settled within 30 to 180 days.

Other liabilities are interest-free, with an average 1-month's payment period.

The amount resulting from the difference between the obligations and liabilities in respect of goods and services tax is paid to the competent tax authorities in the periods under tax rules.

Liabilities due to interest are usually settled under the accepted interest notes.

30. Contingent liabilities

Off-balance sheet items and litigation	31 December 2018	31 December 2017
Contingent liabilities	**509 327**	**1 259 557**
- guarantees and sureties granted	461 098	832 027
- own promissory notes	5 340	1 613
- litigation	42 889	425 917

In connection with the contracts of loans and guarantees (both banking and insurance), as well as in terms of bond obligations (including the A and B series bonds issued in the year 2014 of EUR 140 million and bonds (C) issued in 2017 of PLN 14.5 million) and, in particular, in connection with the agreement of July 24, 2012 prohibiting the enforcement of liabilities, the agreement of December 21, 2012 on debt service policy as amended, the agreement of December 21, 2012 as amended on a new Line of the guarantee and the related open-end credit as amended, the terms of the ordinary and convertible bonds issue of September 12, 2014 as amended, the loan agreement on the warranty line and related open-end and non-open-end credits of May 31, 2017 as amended, the conditions of convertible series C bonds issue of September 27, 2017, the Company and its selected subsidiaries have established mortgages, pledges, chattel mortgages, assignments, notes, adopted the sureties of certain subsidiaries and provided guarantees the selected subsidiaries to secure claims arising from these instruments. Group's total exposure due to the credit instruments concerned amounted to PLN 930 million as at 31 December 2018 (and PLN 1 345 million as at 31 December 2017).

Total exposure of the Parent due to the credit instruments concerned amounted to PLN 832 million as at 31 December 2018 (and PLN 1 198 million as at 31 December 2017).

31. Information on transactions with related entities

Transactions with related entities have been concluded at arm's length (typical commercial transactions).

Group does not apply any hedging in relations to receivables from related entities.

Tables below presents total amounts of transactions concluded with associates for the year ended 31 December 2018 and as at that date and the year ended 31 December 2017 and as at that date.

(in PLN thousand)

Group of entities		For the period of 12 months		As at closing balance	
		Sale to related entities	Purchases from related entities	Receivables from related entities	Liabilities due to related entities
Other entities linked by shareholders	2018	619 165	18 358	229 311	97 396
Unconsolidated related entities	2018	1 198	2 566	2 226	3 321
Associates	2018	-	4 497	1	958
Total		**620 363**	**25 421**	**231 538**	**101 675**
Other entities linked by shareholders	2017	2 419 865	16 526	169 524	147 236
Unconsolidated subsidiaries	2017	53	10 202	1 491	4 906
Associates	2017	-	4 786	2	1 251
Total		**2 419 918**	**31 514**	**171 017**	**153 393**

32. Transactions with entities related to the State Treasury

Polimex Mostostal Group is a party to transactions with entities related to the State Treasury. These transactions, which are also transactions carried out with shareholders and entities related by shareholders, were presented in Note 31 as transactions with other entities related by shareholders. Transactions carried out with other entities related to the State Treasury are transactions carried out at arm's length – these transactions are not significant.

In previous periods, the Group carried out significant transactions with the General Directorate for National Roads and Motorways. In the scope of these transactions, litigations have ended with settlement. Terms of the concluded settlement agreement have been described in the note 39.

33. Remuneration of the Management and Supervisory Boards of the Parent

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

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

(in PLN thousand)

34. Credit risk objectives and principles

34.1. 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 December 31, 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 with	
		0.50 pp	-0.50 pp
For the year ended 31 December 2018			
Cash at bank	417 808	2 089	(2 089)
Bank guarantee deposits	115	1	(1)
Credits and loans received	233 434	(1 167)	1 167
Liabilities under finance lease	728	(4)	4
Bonds	176 469	(882)	882
Influence on gross financial profit/loss		**37**	**(37)**
Deferred tax		(7)	7
Total		**30**	**(30)**

	Value exposed to risk	Increase / decrease with	
		0.50 pp	-0.50 pp
Year ended 31 December 2017			
Cash at bank	579 140	2 896	(2 896)
Bank guarantee deposits	219 616	1 098	(1 098)
Credits and loans received	250 501	(1 253)	1 253
Liabilities under finance lease	335	(2)	2
Bonds	169 034	(845)	845
Influence on gross financial profit / loss		**1 894**	**(1 894)**
Deferred tax		(360)	360
Total		**1 534**	**(1 534)**

34.2. Foreign exchange risk

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

Natural hedging is the basic protection method against currency risk applied by the Company, i.e. hedging currency risk by concluding transactions generating costs in the same currency as the currency of revenues.

Financial Debt Service Agreement does not provide the possibility to apply foreign exchange derivatives by the Company as available credit products. As at 31 December 2018, the companies of the Capital Group did not have active foreign exchange rate derivatives. In these circumstances, natural hedging application is significant also by the Segment Companies as the only present tool to restrict foreign exchange risk resulting from the enterprise's business operations.

Fluctuations in the average EUR significantly influence revenue expressed in PLN from contracts concluded in a foreign currency. On the basis of the contracts held and highly probable to be conclude, the Group estimated the exposure to currency risk in the period January - December 2019 as follows:

Specification	**I-IV quarter of 2018**
Forecasted inflows in foreign currency – equivalent in EUR thousand	119 454
Forecasted expenses in foreign currency – equivalent in EUR thousand	15 122
Business exposure to foreign exchange risk in EUR thousand	**104 332**

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.

Foreign exchange risk exposure*

	31 December 2018		**31 December 2017**		
	EUR	*USD*	*EUR*	*USD*	*CZK*
Cash	*3 235*	*9*	*3 913*	*111*	*24*
Trade payables	17 433	1	32 945	385	42
Collateralised bank loans	470	–	–	–	–
Trade liabilities	2 145	14	3 719	14	1
Gross carrying amount	**18 053**	**(4)**	**33 139**	**482**	**65**
Estimated sales forecast	119 454	–	36 645	50	–
Estimated acquisitions forecast	15 122	17 020	10 544	1	–
Gross exposure	**104 332**	**(17 020)**	**26 101**	**49**	**–**
Net exposure	**122 385**	**(17 024)**	**59 240**	**531**	**65**

* data in the table above have been presented in the amounts of relevant currencies

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 payables	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
Influence on gross financial profit and loss	**70 881**	**7 106**	**(7 106)**
Deferred tax	(13 467)	(1 350)	1 350
Influence on net financial profit and loss	**57 414**	**5 756**	**(5 756)**

(in PLN thousand)

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 2017

	Carrying amount	*EUR/PLN*		*USD/PLN*	
		Foreign exchange rate (change 10 %)	*Foreign exchange rate (change10 %)*	*Foreign exchange rate (change 10 %)*	*Foreign exchange rate (change 10 %)*
Cash	16 711	236	(236)	39	(39)
Trade and other payables	138 757	13 741	(13 741)	134	(134)
Derivative financial instruments	–	–	–	–	–
Trade and other liabilities	(15 560)	(1 551)	1 551	(5)	5
Bank loans, borrowings and other sources of financing	–	–	–	–	–
Influence on gross financial profit and loss		**12 426**	**(12 426)**	**168**	**(168)**
Deferred tax		(2 361)	2 361	(32)	32
Influence on net profit and loss		**10 065**	**(10 065)**	**136**	**(136)**

34.3. Credit risk

At the level of the Capital Group, the credit risk is minimised by co-operation with reliable commercial partners, the application of instruments available on the market that enable the insurance of trade receivables from foreign recipients and the acquisition of collateral for payments from the counterparties. 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 co-operates. 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 maximum risk exposure for particular classes of financial assets is the measure of credit risk. The book values of financial assets represent the maximum credit exposure. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making the revaluation write-downs.

The Group has a concentration of credit risk in connection with significant receivables from energy companies. Considering the fact that the main recipients, being domestic energy companies, are entities controlled by the State Treasury and perform a critical function in the national energy system, the 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.

34.4. Liquidity risk

According to the Group this risk is moderate at the moment. Keeping mid and long-term financial liquidity requires involvement in the contracts and projects that ensure neutral and positive cash flows. This risk is constantly being monitored and analyzed both short and long-term.

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

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

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

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

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

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

(in PLN thousand)

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

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

The current order portfolio of the Group, decreased by the sales attributable to consortium members, amounts approx. to PLN 1.54 billion and relates entirely to the contracts concluded. In individual years, it is as follows: 2019 PLN 1.17 billion, 2020 PLN 0.35 billion, 2021 and the subsequent years PLN 0.02 million.

The Group’s liquidity is additionally supported by the inflow of cash from the settlement of transferred long-term deposits and also the expected inflow of the margin implemented on Opole contract that shall take place after the implementation of the contract.

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

31 December 2018	*Upon request*	*Less than 3 months*	*From 3 up to 12 months*	*From 1 up to 5 years*	*More than 5 years*	*Total*
Bank loans and borrowings	1 469	(1 313)	92 183	144 426	–	236 765
Bonds	–	–	12 839	163 630	–	176 469
Other long-term liabilities, including:	1 849	–	–	20 352	–	22 201
- Lease	–	–	–	1 406	–	1 406
Trade and other payables, including:	342 629	170 376	47 635	14 324	2 136	577 100
- Lease	–	165	563		–	728
	345 947	**169 063**	**152 657**	**342 732**	**2 136**	**1 012 535**

31 December 2017	*Upon request*	*Less than 3 months*	*From 3 up to 12 months*	*From 1 year up to 5 years*	*More than 5 years*	*Total*
Bank loans and borrowings	–	5 586	18 797	230 527	–	254 910
Bonds	–	–	–	198 120	–	198 120
Other long-term liabilities, including:	–	–	–	113 462	6 189	119 651
- Lease	–	–	–	153	–	153
Trade and other liabilities, including:	91 015	315 609	62 153	–	–	468 777
- Lease	–	66	269	–	–	335
	91 015	**321 195**	**80 950**	**542 109**	**6 189**	**1 041 458**

(in PLN thousand)

35. Financial instruments

35.1. Classification of financial instruments

	31 December 2018	1 January 2018		31 December 2017
	Financial assets measured at amortised cost	Financial assets measured at amortised cost	Change due to implementation of IFRS 9	Loans granted and receivables
	According to IFRS 9	According to IFRS 9		According to IAS 39
Financial assets				
Other financial assets	750	220 084	–	220 084
- short-term (bank guarantee deposits and loans)	750	220 084	–	220 084
Trade and other payables	362 550	445 188	-2 486	447 674
Deposits under the construction contracts	175 947	173 220	-2 158	175 378
Cash and cash equivalents	417 808	579 140	–	579 140

	31 December 2018	1 January 2018	31 December 2017
	According to IFRS 9		According to IAS 39
	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost
Financial liabilities			
Bonds	176 469	169 034	169 034
Bank loans and borrowings, including:			
- long-term bearing variable interest rate	139 582	226 118	226 118
- short-term bearing variable interest rate	93 852	24 383	24 383
Other liabilities (long-term), including:	15 985	80 177	80 177
- Liabilities due to financial lease and lease contracts with the purchase option	1 406		
- Financial guarantees	743	2 577	2 577
- Other	13 836	77 600	77 600
Trade and other liabilities	239 751	380 293	380 293
Deposits due to the construction contracts	59 015	76 208	76 208
Short-term lease	728	335	335

(in PLN thousand)

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

Year ended 31 December 2018

	Revenues / (expenses) under interest	*Profits / (losses) under FX rate differences*	*Dissolution / (recognition) of impairment write -offs*	*Other*	*Total*
Financial assets					
Financial assets measured with amortised cost through profit and loss	6 051	4 105	4 226	4 334	**18 716**
Financial liabilities					
Financial liabilities measured at amortised cost	(28 646)	(2 206)	–	7 395	**(23 457)**
Total	**(22 595)**	**1 899**	**4 226**	**11 729**	**(4 741)**

Year ended 31 December 2017

	Revenues / (expenses) due to interest	*Profits / (losses) under FX rate*	*Dissolution/(recognition) of impairment write-offs*	*Profits/ (losses) due to valuation*	*Other*	*Total*
Financial assets						
Borrowings and payables	13 789	(3 956)	10 896	(15)	892	**21 606**
Financial liabilities						
Financial liabilities measured at amortised cost	(23 255)	(1 824)	–	3	(9 218)	**(34 294)**
Total	**(9 466)**	**(5 780)**	**10 896**	**(12)**	**(8 326)**	**(12 688)**

36. Fair values of individual categories of financial instruments

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

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

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

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

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

The Group is a party to the Investment Certificates Purchase Option Agreement with PKO BP S.A. dated November 7, 2013 as amended that depending on the scenario for real estate prices it covers will determine the amount of the acquisition/clearance between the Contracting Parties in the future. The Group, in the case of the failure to achieve the minimum return on investment required by the investor will be obliged to compensate the relevant part of the losses. In the case of a reported increase in the value of the property portfolio the Group is guaranteed participation in a part of the profit exceeding the interest rate of the profit guaranteed to the investor.

(in PLN thousand)

During the reporting period, there were changes in the valuation method of this instrument, in the form of discounting the predicted growth in the property portfolio's value in the horizon for the duration of the transaction. The value of the instrument included in the books on December 31, 2018 amounted to PLN 0 (December 31, 2017: PLN 0).

37. 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 Financial Indebtedness Service Principles (ZOZF) Agreement, the parent is required to have positive equity on the last day of each calendar month. Failure to meet the positive equity condition constitutes a violation of the ZOZF Agreement. The effect of the occurrence and duration of the violation may be the termination of the ZOZF Agreement.

As at December 31, 2017 and December 31, 2016 the parent had positive equity.

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.

	31 December 2018	**31 December 2017**
Loans, borrowings and bonds	397 064	419 535
Trade and other payables	399 394	743 041
Less cash and cash equivalents	417 808	579 140
Net indebtedness	378 650	583 436
Equity	679 352	664 585
Net capital and debt	**1 058 002**	**1 248 021**
Leverage ratio (net debt/equity and net debt)	36%	47%

38. Employment structure

Employment in the Group as at December 31, 2018 and December 31, 2017 year was as follows:

	31 December 2018	**31 December 2017**
Management Board of the Parent Entity	3	3
Management Boards of Entities in the Group	17	17
Support division	573	254
Operations division	3 747	3 933
Total	**4 340**	**4 207**

39. Litigation regarding receivables and liabilities

In the preceding periods the Group held litigation cases with the General Directorate of National Roads and Motorways. These litigations referred to ending the implementation and settlement of the following contracts: (i) Design and construction of A1 motorway Stryków – "Tuszyn" node in the section from km 295 + 850 (from the node Stryków 1, without the node, to km 335+937.65, (ii) S-69 Bielsko-Biała – Żywiec – Zwardoń expressway construction, section "Mikuszowice" node („Żywiecka/Bystrzańska")–Żywiec, and (iii) A-4 motorway construction, section Rzeszów (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450. In reference to the above matters:

- On 21 September 2018, the Management Board of "Polimex Mostostal" SA with its registered office in Warsaw (the "Company") informed that final decisions on discontinuation of court proceedings regarding the Contracts (defined below) also became final and enforceable and the subject matters of which were:

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

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

- On 21 September 2018, the Management Board of the Parent announced the delayed confidential information dated 17 July 2018 on the agreement regarding the terms of ending the litigations between the Company and the remaining parties to the below listed infrastructural contracts: State Treasury, i.e. General Directorate of the National Roads and Motorways ("GDDKiA"), Doprastav AS, MSF Engenharia S.A. and MSF Polska Sp. z o.o. (jointly the "Consortium Members"). The settlements referred to mutual claims pursued in the litigations or other potential claims which could arise under the Contracts, the subject matters of which were:
  (i) Design and construction of A1 Stryków – "Tuszyn" node in the section from km 295 + 850 (from Stryków 1 node, without the node to km 335+937.65 ("A1 Contract"),

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

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

Due to the settlements between the Parties, which became final on 21 September 2018, the following, including but not limited to, occurred:

(i) The Parties shall confirm that the Contracts execution ended on 14 January 2014 in reference to A1 Contract and A4 Contract and 31 December 2013 in reference to S69 Contract,

(ii) The Parties shall not raise any claims ageist each other regarding the Contracts' execution, therefore the litigations regarding the contracts shall be discontinued and in particular the Company shall withdraw claims in the scope litigations pending before the Slovakian courts against Doprastav AS,

(iii) The Company has taken over liability for potential claims of sub-contractors, service providers and suppliers, and also other entities, which were executing works, rendered services, supplied deliveries or fulfilled other benefits due to the Contracts' implementation. As a collateral of these claims, the Company shall submit bank guarantees to GDDKiA for the total amount of PLN 20 million. Bank guarantees shall be issued for the period of 6 years with the possibility to reduce them to the total level of PLN 12.5 million after the period of 3 years from being issued,

(iv) GDDKiA shall release bank guarantee issued upon the commission of the Company as a collateral of the claims under A1 Contract for the amount of PLN 29.21 million and bank guarantee issued upon the order of the Company to protect the claims under A4 Contract for the amount of PLN 56 million and shall withdraw statements of claims for the payment of these guarantees,

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

(vi) The Company shall pay the pecuniary deposit amounting to PLN 6.58 million for the period not longer than until 4 July 2019 for the protection of the absence of cash payment from guarantee issued by Doprastav AS for the account of the protection of defects and failures removal in the period of quality guarantee and warranty referring to A4 Contract,

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

Due to the concluded settlements, the Group recognised other operating revenues in the amount equal to PLN 8.5 million. Previously recognised provisions for expenses related to contracts settlements have been used in the amount equal to PLN 110.2 million and receivables impairment write-offs were used amounting to PLN 94.7 million related to the litigations ended.

Presentation of the provisions within additional explanatory note to the financial statements has been subject to change. Provisions related to implementation of the contracts for GDDKiA prior to the conclusion of the settlement were presented as provisions due to the contracts' settlement. Within the recognition of accounting effects of the concluded settlement, provisions referring to the pending litigations were presented in the additional explanatory note to the financial statements as provisions for litigations.

According to the estimates of the Group, as at 31 December 2018, value of risks related to settlement implementation amounts to PLN 36.9 million.

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

40. Events after the balance sheet date

- On 16 January 2019, PERN S.A. with the registered office in Płock (the "Ordering Party") and Naftoremont – Naftobudowa sp. z o.o. with its registered office in Płock as the consortium leader ("NN") and Agat S.A. with its registered office in Koluszki as the consortium partner (jointly the "Contractor") concluded the agreement, the subject matter of which was to implement the task entitled: "Crude Oil Terminal in Gdańsk II, stage II for PERN S.A. with its registered office in Płock" (the "Contract").

- Contract price for the implementation of all liabilities under the Contract is a flat-rate price and amounts to PLN 326,890,000 net (the "Contract Price"). Remuneration shall be paid after the Ordering Party has commissioned Contract's implementation stages. The Contractor may apply for the one-off advance payment for the account of the Contract's price amounting to 20 per cent. of gross Contract's price. 69.3 per cent. of the Contract's Price falls to NN.

  The Contractor shall complete the Contract's implementation within 21 months from the date of concluding the Contract.

- On 30 January 2019, the Management Board of "Polimex Mostostal" S.A. informed that PGNiG TERMIKA S.A. with its registered office in Warsaw (the "Contractor") and Mitsubishi Hitachi Power Systems Europe GmbH with its registered office in Germany, as the consortium leader, Mitsubishi Hitachi Power Systems Ltd. with the registered office in Japan, Mitsubishi Hitachi Power Systems Europe Ltd. with its registered office in London and the Company as the consortium members, (collectively as the “Contractor”) concluded annex to the agreement, the subject matter of which was to deliver and assembly gas and vapour unit in Żerań Heat and Power Plant in Warsaw (the “Contract”).

The Annex was concluded in the result of extension to the Contract’s subject matter and consequently, including but not limited to, increased the Contract’s Price (according to the definition included in the Regulatory Announcement Number 61/2017 dated 29 June 2017) with the amount of PLN 29,715,200.00 and EUR 67,700.00 and the amount of PLN 5,426,300.00 from this amount falls to the Company. Additionally, the Annex extended the period to sign the unit’s commission protocol.

Under the Annex, the Contract’s Price amounted to PLN 1,018,831.84 (in words: one billion eighteen million and eight hundred thirty-one thousand 84/100 PLN) and EUR 112,022,030.89 (in words: one hundred and twelve million twenty-two thousand and thirty 89/100 EUR).

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

- On 8 February 2019, the agreement, the subject matter of which is to execute, deliver and assemble steel channel and reactor support structure and channels and reactor’s structure for SCR unit number 9 and 10 systems in ENEA Wytwarzanie Sp. z o.o. (the “Agreement”) concluded between Polimex Energetyka Sp. z o.o. (the “Contractor”) and Rafako S.A. with the registered office in Racibórz (the “Ordering Party”) (the "Annex").

  According to the Annex, the Contractor and the Ordering Party determined change of the unit rates. Estimate remuneration for the Contractor for implementation of the Agreement at the moment amounts to PLN 61,725,172.06 net.

  According to the provisions of the Annex, the Contractor shall execute the subject matter of the Contract: (i) in the scope of the assembly until 15.03.2019 and (ii) in the scope of preparation of the quality documentation until 31.03.2019 and (iii) in the scope of preparing the anti-corrosive protection of unit 9 until 15.04.2019 r.

  Not later than within 30 days after signing the Annex, the Contractor shall submit to the Ordering Party the addendum to the performance guarantee taking into account the changes resulting from the Annex.

Warsaw, 11 April 2019

SIGNATURES OF ALL BOARD MEMBERS		
First and last name	Position/Role	Signature
Krzysztof Figat	President of the Management Board (CEO)	
Przemysław Janiszewski	Vice-president of the Management Board	
Maciej Korniluk	Vice-President of the Management Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR PREPARATION OF THE FINANCIAL STATEMENTS		
First and last name	Position/Role	Signature
Sławomir Czech	CFO/ Chief Accountant	