POLIMEX MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED ON 31 DECEMBER 2020 WITH THE OPINION BY AN INDEPENDENT STATUTORY AUDITOR

Polimex Mostostal

GRUPA KAPITAŁOWA

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(in thousands of PLN)

Consolidated profit and loss account

	Note	Year ended on 31 December 2020	Year ended on 31 December 2019
Sales revenues	7.1	1,615,320	1,589,430
Cost of goods sold	7.9	(1,434,197)	(1,482,107)
Gross profit / (loss) on sales		**181,123**	**107,323**
Cost of sales		(21,035)	(22,970)
General administration expenses		(70,374)	(67,886)
Profit / (loss) on impairment of financial assets		(15,009)	18,280
Other operating revenues	7.5	25,945	30,554
Other operating costs	7.6	(11,118)	(4,882)
Profit / (loss) on operating activities		**89,532**	**60,419**
Financial income	7.7	18,132	25,240
Financial costs	7.8	(29,050)	(32,585)
Share in the profit of an associated entity		367	687
Gross profit / (loss)		**78,981**	**53,761**
Income tax	8	(15,771)	(3,107)
Net profit / (loss)		**63,210**	**50,654**
Net profit / (loss) attributable to:			
– shareholders of the parent company		66,226	50,744
– non-controlling interests		(3,016)	(90)
Profit per share attributable to the shareholders of the parent company (in PLN per share)			
- basic profit per share		0.280	0.214
- diluted profit per share		0.277	0.222

Consolidated comprehensive income statement

	Year ended on 31 December 2020	Year ended on 31 December 2019
Net profit / (loss)	**63,210**	**50,654**
Items that will not be allocated in the later periods to the profit and loss account:		
Change from the valuation of tangible fixed assets	(308)	2,949
Actuarial profit / loss	(511)	(1,900)
Items that can be allocated in the later periods to the profit and loss account:		
Foreign exchange differences on translation of foreign entity	(4,349)	2,984
Other net comprehensive income	**(5,168)**	**4,033**
Total comprehensive income	**58,042**	**54,687**
Attributable to:		
– shareholders of the parent company	61,058	54,777
– non-controlling interests	(3,016)	(90)

(in thousands of PLN)

Consolidated balance sheet

	Note	As at 31 December 2020	As at 31 December 2019 (after change)
Assets			
Fixed assets			
Tangible fixed assets	11	405,316	407,862
Investment property		14,576	14,576
Goodwill from consolidation	13	91,220	91,220
Intangible assets		2,574	1,985
Investments in associated entities measured in accordance with the equity method	14	2,786	2,419
Financial assets		694	2,643
Long-term receivables		1,236	1,146
Deposits due to the construction contracts		43,769	117,838
Deferred tax assets	8.2	170,267	179,829
Other fixed assets		5,951	3,161
Total fixed assets		**738,389**	**822,679**
Current assets			
Inventories	15	103,419	104,921
Trade receivables	16	516,493	288,401
Deposits due to the construction contracts		46,843	40,458
Construction contracts assets	18	112,055	145,349
Other receivables		19,625	22,184
Financial assets		2,754	661
Other assets		4,832	4,452
Cash	19	367,754	285,013
Total current assets		**1,173,775**	**891,439**
Assets held for sale	21	**26,890**	**42,192**
Total assets		**1,939,054**	**1,756,310**

(in thousands of PLN)

Consolidated balance sheet (continued)

	Note	As at 31 December 2020	As at 31 December 2019 (after change)
Liabilities and equity			
Share capital	22.1	473,238	473,238
Reserve capital	22.2	157,746	157,746
Other capitals	22.3	322,041	227,466
Reserve capital from surplus of bonds convertible into shares	22.4	6,071	31,552
Accumulated other comprehensive income	22.5	85,436	97,745
Retained earnings / Uncovered losses		(256,765)	(255,651)
Non-controlling interests		354	354
Total equity		**788,121**	**732,450**
Long-term liabilities			
Bank loans, borrowings and other sources of financing	23	25,743	88,000
Long-term bonds	24	113,364	86,857
Provisions	26	22,716	31,977
Employee benefit liabilities	27	21,429	20,233
Other liabilities		6,392	9,503
Deposits due to the construction contracts		26,063	25,983
Deferred tax liabilities	8.2	1,610	1,587
Total long-term liabilities		**217,317**	**264,140**
Short-term liabilities			
Bank loans, borrowings and other sources of financing	23	66,428	85,144
Short-term bonds	24	13,484	86,721
Trade receivables	28	363,042	350,360
Deposits due to the construction contracts		46,739	33,811
Construction contracts liabilities	18	290,240	54,092
Other liabilities	28	33,818	25,343
Income tax liabilities		305	812
Provisions	26	29,665	60,185
Employee benefit liabilities	27	88,063	61,570
Deferred income		1,832	1,682
Total short-term liabilities		**933,616**	**759,720**
Total liabilities		**1,150,933**	**1,023,860**
Total liabilities and equity		**1,939,054**	**1,756,310**

(in thousands of PLN)

Consolidated cash flow statement

	Note	Year ended on 31 December 2020	Year ended on 31 December 2019
Cash flows from operating activities			
Gross profit / (loss)		**78,981**	**53,761**
Adjustment items:		**100,265**	**(44,461)**
Share in the results of associates measured with the equity method		(367)	(687)
Depreciation		37,344	35,218
Net interests and dividends		23,100	27,921
Profit on investing activities		1,588	(9,594)
Change in receivables		(196,548)	20,292
Change in inventories		1,502	(9,587)
Change in liabilities, excluding bank loans and borrowings		294,713	(27,460)
Change in other assets and deferred income		(3,020)	(2,831)
Change in provisions		(39,781)	(74,883)
Income tax paid		(16,285)	(2,835)
Other		(1,981)	(15)
Net cash from operating activities		**179,246**	**9,300**
Cash flows from investing activities			
Disposal of tangible and intangible fixed assets		11,608	8,925
Purchase of tangible and intangible fixed assets		(11,716)	(15,101)
Expenses related to the acquisition of control over a subsidiary		-	(3,696)
Purchase of financial assets		(266)	-
Sales of financial assets		135	-
Net cash from investing activities		**(239)**	**(9,872)**
Cash flows from financing activities			
Lease payments		(10,197)	(9,782)
Proceeds from borrowings / bank loans		76,945	1,104
Repayment of borrowings / bank loans		(71,402)	(69,486)
Redemption of bonds		(32,054)	(11,210)
Interests paid		(59,558)	(42,849)
Net cash from financing activities		**(96,266)**	**(132,223)**
Increase / (decrease) in net cash and cash equivalents		82,741	(132,795)
Cash at the beginning of the period	19	**285,013**	**417,808**
Cash at the end of the period	19	**367,754**	**285,013**
Cash recognized in the consolidated cash flow statement		**367,754**	**285,013**
– including restricted cash		124,480	59,634

(in thousands of PLN)

Consolidated statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income			Retained earnings / Uncovered losses	Total	Minority Interest	Total equity
					Revaluation reserve	Actuarial profit / loss	Foreign exchange differences on translation of foreign entity				
As at 01 January 2020	**473,238**	**157,746**	**227,466**	**31,552**	**119,271**	**(4,048)**	**(17,478)**	**(255,651)**	**732,096**	**354**	**732,450**
Profit / (loss) for the period	–	–	–	–	–	–	–	66,226	66,226	(3,016)	63,210
Other net comprehensive income	–	–	–	–	(308)	(511)	(4,349)	–	(5,168)	–	(5,168)
Total comprehensive income	**–**	**–**	**–**	**–**	**(308)**	**(511)**	**(4,349)**	**66,226**	**61,058**	**(3,016)**	**58,042**
Distribution of net profit / (loss)	–	–	94,575	–	–	–	–	(94,575)	–	–	–
Recognition of valuation of put option held by minority shareholders	–	–	–	–	–	–	–	–	–	3,016	3,016
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(7,141)	–	–	7,141	–	–	–
Change in the taxation of limited partnerships	–	–	–	–	–	–	–	(2,548)	(2,548)	–	(2,548)
Material change in terms of issue of bonds containing an equity component - settlement of expiring issue	–	–	–	(29,734)	–	–	–	28,056	(1,678)	–	(1,678)
Material change in the terms of issue of bonds with an equity component - recognition of the new terms	–	–	–	5,678	–	–	–	–	5,678	–	5,678
Deferred tax on the equity component of series C bonds	–	–	–	(1,425)	–	–	–	–	(1,425)	–	(1,425)
Deferred tax on the equity component of the original issue of series A and B bonds	–	–	–	–	–	–	–	(5,414)	(5,414)	–	(5,414)
As at 31 December 2020	**473,238**	**157,746**	**322,041**	**6,071**	**111,822**	**(4,559)**	**(21,827)**	**(256,765)**	**787,767**	**354**	**788,121**

(in thousands of PLN)

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income			Retained earnings / Uncovered losses	Total	Non-controlling interests	Total equity
					Revaluation reserve	Actuarial profit / loss	Foreign exchange differences on translation of foreign entity				
As at 01 January 2019	**473,238**	**157,746**	**209,938**	**31,552**	**117,235**	**(2,148)**	**(20,462)**	**(289,780)**	**677,319**	**354**	**677,673**
Profit / (loss) for the period	–	–	–	–	–	–	–	50,744	50,744	(90)	50,654
Other net comprehensive income	–	–	–	–	2,949	(1,900)	2,984	–	4,033	–	4,033
Total comprehensive income	**–**	**–**	**–**	**–**	**2,949**	**(1,900)**	**2,984**	**50,744**	**54,777**	**(90)**	**54,687**
Distribution of net profit / (loss)	–	–	17,528	–	–	–	–	(17,528)	–	–	–
Obtaining control	–	–	–	–	–	–	–	–	–	9,459	9,459
Recognition of valuation of put option held by minority shareholders*	–	–	–	–	–	–	–	–	–	(9,369)	(9,369)
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(913)	–	–	913	–	–	–
As at 31 December 2019	**473,238**	**157,746**	**227,466**	**31,552**	**119,271**	**(4,048)**	**(17,478)**	**(255,651)**	**732,096**	**354**	**732,450**

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

(in thousands of PLN)

Explanatory notes to the consolidated financial statements as at 31 December 2020

1. General information

Polimex Mostostal Capital Group ("Group", Capital Group") consists of the parent company Polimex Mostostal S.A. ("Parent", "Company", "Issuer"), its subsidiaries and associates. The consolidated financial statements of the Group cover the year ended on 31 December 2020 and contain comparative data for the year ended on 31 December 2019.

Polimex Mostostal Spółka Akcyjna operates under the statute established by the notarial deed of 18 May 1993 (Register A No 4056/93), as amended. The registered office of the Company is in Warsaw at Al. Jana Pawła II 12, 00-124 Warsaw,, Poland. 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 number 0000022460. The Company is assigned the statistical identification number (REGON) 710252031. There were no changes in the name of the reporting unit or other data identifying it during the period.

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

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

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

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

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

As at 31 December 2020 and 31 December 2019 the following subsidiaries and associates were subject to consolidation:

Item	Entity	Registered office	Scope of business activity	Percentage share As at 31 December 2020 (%)	2019 (%)
Subsidiaries					
1	Polimex Energetyka Sp. z o.o.	Warsaw	Construction works	100	100
2	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Construction works	100	100
3	Polimex Opole Sp. z o.o. Sp. k.	Warsaw	Construction works	100	100
4	Mostostal Siedlce Sp. z o.o. Sp. k.	Siedlce	Manufacturing of metal products	100	100
5	Stalfa Sp. z o.o.	Sokołów Podlaski	Manufacturing of metal products	100	100
6	Polimex Mostostal ZUT Sp. z o.o.	Siedlce	Technical services	100	100
7	Polimex Mostostal Ukraina	Zhytomyr – Ukraine	Production of metal structures	100	100
8	Czerwonogradzki Zakład Konstrukcji Stalowych	Chervonograd – Ukraine	Production of metal structures	100	100

9	Polimex Mostostal Wschód	Moscow, Russia	Distribution of metal products	100	100
10	Polimex Centrum Usług Wspólnych Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
11	Polimex Budownictwo Sp. z o.o.	Siedlce	Industrial construction	100	100
12	Polimex Budownictwo Sp. z o.o. Sp. k.	Siedlce	Industrial construction	100	100
13	Polimex Operator Sp. z o.o. Sp. k.	Warsaw	Rental and leasing services of construction machinery and equipment	100	100
14	Polimex Infrastruktura Sp. z o.o.	Warsaw	Construction works on roads and highways	100	100
15	BR Development Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
16	Polimex-Development Inwestycje Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	100	100
17	Polimex-Development Inwestycje Sp. z o.o. Apartamenty Tatarska S.K.A. in liquidation	Kraków [Cracow]	Does not conduct any business activity	100	100
18	Energomontaż-Północ Bełchatów Sp. z o.o.	Rogowiec	Specialized construction and assembly services	54.95	54.95
Associates					
19	Finow Polska Sp. z o.o.	Ostrowiec Świętokrzyski	Specialized construction and assembly services	24.95	26.4

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

The Company has significant influence in its associated entity Finow Polska Sp. z o.o. due to the fact that it holds over 20% of its shares and can appoint one member of its Supervisory Board.

There were no changes in the composition of the Group during 2020.

1.2. Functional and reporting currency

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

2. Approval of the financial statements

On 28 April 2021 the consolidated financial statements of Polimex Mostostal Capital Group for the year ended on 31 December 2020 were approved for publication by the Management Board of the Parent Company.

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

3. Platform of the applied International Financial Reporting Standards

3.1. Statement on compliance

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

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

3.2. Going concern

These consolidated financial statements have been prepared with the assumption that the companies within the Group under consolidation in the foreseeable future will continue as a going concern. As at the day of the approval of these financial statements there were no circumstances which would indicate a threat to the going concern of the Group’s companies under consolidation, with the exception of companies under liquidation.

The Management Board of the Parent Company Polimex Mostostal S.A. conducted an analysis on the impact of the SARS-CoV-2 epidemic on the financial statements of the Group for the year 2020.

- The Contractor (Consortium) was on schedule to complete the Żerań Project on November 20, 2020 in accordance with the contractual requirements, however the program was prevented by the outbreak of the COVID-19 pandemic and drastic restrictions introduced by the Polish legislator and in the legislations of other countries introducing anti-crisis regulations. Consequently, due to changes in the law, it became impossible to mobilise a sufficient number of workers from Belarus and Ukraine to meet the recovery schedule, and due to the complete loss of production capacity by the two largest Polish companies in the electrical sector, Elektrobudowa and Elsta, which occurred at a time coinciding with the closure of the Polish borders, it became impossible to efficiently restore lost resources. As a result, electrical work of a participant in the consortium - which lies in the main critical path of the project and on the completion of which the date of the first firing of the gas turbine directly depended - was carried out during the initial period of the pandemic by only 15% of the necessary number of workers. On October 7, 2020, the contractor submitted a claim to the ordering party, "Claim for Extension of Contract Period and Change in Contract Price Due to Changes in Law Introduced to Counter COVID-19," regarding the impact of the COVID-19 outbreak on the contract completion date and contract price resulting from the extension of the completion date due to the reduced availability of subcontractor personnel and loss of their productivity, particularly due to the introduction of new legislation that constitutes a change in law as defined in the contract. According to this submission and the subsequent ones dated 17/12/2020 (and 08/01/2021) concerning the impact of the second wave of the pandemic, the completion of the project is projected for 30 September 2021, which is not disputed by the Ordering Party.
- During the implementation of the Puławy Project, there were adverse effects of a Force Majeure event involving the spread of an epidemic of SARS-CoV-2 coronavirus. These were both infections with COVID-19 among employees of the Company executing the Contract in Puławy, including key persons on the Project, and its subcontractors, and related referrals by the sanitary authorities to compulsory quarantine of persons having contact with infected persons. All this significantly hampered the implementation of the Project. In particular, the design process suffered delays due to the fairly early onset of illnesses among the staff of the General Designer on the Project and an increase in illnesses throughout the year. Also, key subcontractors/suppliers, due to the SARS-CoV-2 outbreak, reported delays in sourcing materials, equipment, and services and the possibility of untimely performance of concluded contracts related to the Project. Due to the fact that the outbreak of the epidemic in question is of a continuous and growing nature, and the occurrence of further, negative manifestations of the epidemic for the Puławy Project cannot be excluded, it is currently difficult to assess its negative impact on the schedule of works or increased costs of the Project.
- On the Dolna Odra Project, in accordance with the project schedule, work is currently underway to agree on the basic design, demolition work and the contracting of further subcontractors. In

September part of the construction site was taken over and in Q4 construction facilities were opened. At the end of October, a legally binding decision on the building permit was obtained, which allowed for taking over the remaining part of the construction site and commencement of main construction works as well as contracting main deliveries and further construction works. Currently, the ongoing design, preparation, excavation and demolition works are proceeding without major disruptions, which has been confirmed by reaching the first four Implementation Stages within the agreed deadlines.

- On the Opole project there are ongoing works related to the servicing of the warranty period.
- With regards to other key projects currently implemented by the Group, there have been no major delays reported. In several cases the Group has been notified about the suspension of the planned works by the ordering party, but these instances have only been limited to the lower priority projects. Despite the fact that in the opinion of the Group at present there is no risk of delays related to the pandemic, the ordering parties have nevertheless been informed about the occurrence of force majeure.
- The outbreak of the COVID-19 virus pandemic had a significant impact on the operations of the manufacturing segment. The introduction of restrictions in individual countries has caused many business partners to suspend their activities. This resulted in delays in the acceptance of finished products, postponement of their execution and even in withholding or withdrawal from earlier orders. Due to the variety of products on offer, the negative impact of the pandemic has stretched over time. The fastest decline in orders concerned the galvanizing services provided on an ongoing basis. In the grating product group, mainly due to a two-month order backlog, the effects of the pandemic were experienced with a delay. With a significant share of export sales (exceeding 50%), mainly to the European market, all sanitary restrictions imposed in individual countries resulted in delays and a drop in deliveries. The impact of COVID-19 was felt at the latest in steel structure orders due to the greater possibility to revise the delivery schedule. Production slowed down gradually and its decline was limited by the acceleration of the implementation of already acquired projects. Due to the reduced level of new orders, the cumulation of decline in construction production occurred in late June and early July.
- The Group's liquidity is fully secured. The epidemic did not contribute to significant delays in payments from the Group's counter parties. At the moment there are no premises to adjust the expected cash flows. The Group believes that the credit risk of its balances of receivables has not materially increased. At the end of 2020, the Group completed a financing structure change and made an early repayment of financial debt and agreed a material change to the terms of bond issue (Notes 23 and 24).
- The Group has benefited from the shield packages adopted by the parliament to deal with the economic impact of the pandemic. In particular, the Company applied for and received subsidies to employment costs in connection with temporary reduced hours and subsidies for employees not covered by the shutdown and reduced hours. The received subsidies to employment costs were recognised on an accrual basis and reduced the payroll costs (in the period to 31 December 2020 in the amount of PLN 17,098 thousand).
- The Capital Group operates on numerous markets and it is active on diverse segments of the market. This reduces the risk of over-concentration in areas that may be particularly affected by the epidemic. The Group has a secure order portfolio that is diversified in terms of geographies and industries.

In the opinion of the Management Board of Polimex Mostostal, the SARS-CoV-2 epidemic has not prompted the necessity to make adjustments in the financial statements for the year 2020. Any potential consequences of the epidemic in 2021 will be reflected in a relevant manner in the financial statements for the year 2021.

3.3. Effect of new and amended standards and interpretations

While preparing the 2020 consolidated financial statements the Group adopted the following standards for the first time:

- Amendments to IFRS 9, IFRS 39 and IFRS 7: Reform of interest rate benchmarks;
- Amendments to the Conceptual Framework for Financial Reporting included in the International Financial Reporting Standards;

- Amendments to IFRS 1 and IFRS 8: Definition of "Material" – effective for annual reporting periods beginning on or after 1 January 2020;
- Changes to IFRS 3 Business combinations

Other standards mentioned above have not had a significant impact on these consolidated financial statements.

IFRS as approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the interpretations and standards listed below, which as at 28 April 2021 still awaited implementation:

- IFRS 14 Regulatory interim accruals (published on 30 January 2014) – compliant with the decision of the European Commission, the process for approving a draft standard will not be initiated before the final version is published – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IFRS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture" (published on 11 September 2014) – discussions leading to the approval of these amendments have been postponed by the EU for an indefinite period – the date of entry into force has been postponed by the IASB for an indefinite period;
- IFRS 17 Insurance Contracts (published on 18 May 2017) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2021;
- Amendments to IFRS 1 Presentation of Financial Statements: Classification of liabilities as short-term and long-term (published on 23 January 2020) – effective for annual reporting periods beginning on or after 01 January 2023;;
- Amendments IFRS 3 Amendments to Conceptual Framework for Financial Reporting included in the IFRS (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments to IFRS 16 Tangible Fixed Assets: revenues generated before commissioning (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments to IFRS 37 Agreements Giving Rise to Liabilities – Costs of meeting contractual obligations (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments arising from the IFRS 2018-2020 review (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendment to IFRS 16 Leases: Rent concessions related to Covid-19 (published on 28 May 2020) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 01 June 2020;
- Amendments to IFRS 4 *Insurance contracts* – deferral of IFRS 9 (published on 25 June 2020) – effective for annual reporting periods beginning on or after 01 June 2020.
- Amendments to IFRS 9, IFRS 39, IFRS 7, IFRS 4 and IFRS 16: *Reform of interest rate benchmarks - Phase 2* (published on 27 August 2020) – effective for annual reporting periods beginning on or after 01 January 2021;
- Amendments to IFRS 1 and Practice Statement 2: Disclosure of Accounting Policies (published on 12 February 2021) – effective for annual reporting periods beginning on or after 01 January 2023;
- Changes to IFRS 8: Definition of Estimates (published on 12 February 2021) – effective for annual reporting periods beginning on or after 01 January 2023;

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

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

The Group changed the presentation of liabilities on account of recourse claims under guarantees in the balance sheet. So far, the Group has presented these liabilities as an element of other liabilities (divided into short-term and long-term parts). In the profit and loss account, financial costs relating to these liabilities were presented under financing activities. Starting from this statement, these liabilities are presented in the balance sheet under Bank loans, borrowings and other sources of financing (divided into short-term and long-term parts), in the cash flow statement under financing activities, whereas their presentation in the profit and loss account remains unchanged. Liabilities on account of recourse claims under guarantees are financial liabilities in respect of financial institutions. These liabilities are measured at amortized cost. The Group believes that presenting these liabilities in the manner described above will result in the financial statements containing more reliable and useful information about the impact of these transactions on the financial position. The changes in the presentation of data has had no impact on the position of equities or on the financial results.

(in thousands of PLN)

The table below outlines the impact of the changes in the presentation on the comparative data:

	As at 31 December 2019 (before change)	**Changes in presentation**	**As at 31 December 2019 (after change)**
Long-term liabilities			
Bank loans, borrowings and other sources of financing	83,456	4,544	88,000
Other liabilities	14,047	(4,544)	9,503
Short-term liabilities			
Bank loans, borrowings and other sources of financing	76,323	8,821	85,144
Other liabilities	34,164	(8,821)	25,343

4. Adopted accounting principles (policy)

The grounds for preparing the consolidated financial statements

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

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

The most important accounting principles applied by the Company have been presented below.

4.1. Principles of consolidation

These consolidated financial statements include the financial statements of Polimex Mostostal S.A. and the financial statements of its subsidiaries prepared for the year ended on 31 December 2020. The financial statements of the subsidiaries, after accounting for the adjustments to render them compliant with the IFRS, are prepared for the same reporting period as the financial statements of the Parent Company, based on the uniform accounting principles applied for transactions and economic events of a similar nature. Adjustments are made to eliminate any discrepancies in the adopted accounting policies.

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

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

4.2. Investments in associated entities

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

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

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

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

4.4. Acquisition of control in stages

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

4.5. Minority capital and put option held by minority shareholders

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

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

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

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

4.6. Participation in a joint venture

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

(in thousands of PLN)

4.7. Conversion of amounts expressed in foreign currencies

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

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

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

	Year closed on 31 December 2020	Year closed on 31 December 2019
UAH	0.1439	0.1502
RUB	0.0535	0.0596
EUR	4.4742	4.3018

4.8. Tangible fixed assets

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

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

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

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

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

Type	Period
Buildings and structures	10-60 years
Machines and technical equipment	2-40 years

Office equipment	3-10 years
Means of transportation	2-30 years
Computers	2-8 years
Investments in external tangible fixed assets	10-25 years

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

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

4.9. Investment property

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

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

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

4.10. Intangible assets

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

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

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

Value of the company

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

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

- over the net amount determined as at the date of acquisition of the values of identifiable assets acquired and liabilities assumed.

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

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

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

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

Impairment of non-financial fixed assets

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

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

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

4.11. Borrowing costs

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

4.12. Inventories

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

The costs are recognised as follows:

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

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

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

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

4.13. Trade receivables

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

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

4.14. Other receivables

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

4.15. Deposits transferred under construction contracts

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

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

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

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

4.16. Cash and cash equivalents

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

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

Cash and cash equivalents are measured at amortized cost.

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

4.17. Financial instruments

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

Financial assets are classified into the following valuation categories:

- assets measured at amortized cost,

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

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

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

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

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

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

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

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

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

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

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

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

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

The Companies within the Group do not use hedge accounting.

4.18. Credits, borrowings and debt securities (bonds)

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

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

4.19. Lease

The Group applies exemptions related to the recognition of low-value asset leases (not exceeding PLN 15,000) and short-term leases (not exceeding 12 months). These transactions are presented within the cost of goods sold as costs of external services. In cases where it is not be possible to determine the interest rate of the lease, the Group applies the marginal interest rate of the lessee, which is on average 4.1%.

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

At the onset of the lease the Group recognizes an underlying right-of-use asset and a lease liability. At the onset date the Group measures the lease liability as the present value of the lease payments that have not been paid at that date.

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

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

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

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

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

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

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

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

The Group includes the right-of-use assets as part of the same balance sheet positions they would be presented in if the Group owned these assets. The right-of-use assets have been presented in the line item “Tangible fixed assets”. Lease liabilities have been presented in the line item “Bank loans, borrowings and other sources of financing” in the long-term or short-term part of the balance sheet – depending on the settlement date. In the statement of cash flows the Group presents outflows related to leases recognized in the balance sheet. Cash flows related to short-term or low-value leases are presented under “Operating cash flows”. Additional disclosures regarding leasing have been presented in notes 7.8, 7.9, 11 and 23.

4.20. Asset (or disposal groups) held for sale

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

4.21. Other assets

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

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

4.22. Deferred income

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

4.23. Trade receivables

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

4.24. Other liabilities

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

4.25. Deposits received under construction contracts

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

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

4.26. Employee benefit liabilities

Short-term employee benefits paid by the Group include:

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

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

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

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

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

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

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

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

4.27. Provisions

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

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

4.28. Profit distribution for employee purposes and special funds

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

4.29. Reserve capital from surplus of bonds convertible into shares

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

4.30. Revenues from contracts with Customers

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

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

- it is probable that the Group will receive remuneration to which the Group will be entitled to in exchange for goods or services that will be provided to the customer.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.31. Taxes

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

5. Significant values based on professional judgement and estimates

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

Periods of economic use of tangible fixed assets

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

Fair value measurement and the valuation procedures

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

Impairment of assets

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

Impairment of goodwill

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

Asset due to deferred tax, note 8.2

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

Revenue recognition, note 18

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

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

Valuation of employee benefits liabilities – retirement and pension payments

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

Provision for warranty repairs, note 26

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

Provisions for court cases, note 26

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

Provision for penalties, note 26

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

Provision for the settlement price of contracts, note 26

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

Provisions for projected losses on construction contracts, note 26

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

Provision for sureties, note 26

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

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

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

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

6. Reporting segments

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

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

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

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

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

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

The below tables present data on revenues and profits of individual operating segments of the Group for the year ended on 31 December 2020 and the year ended on 31 December 2019. The Management Board of the Company regularly monitors the results of the segments, however there is no ongoing assessment of the assets and liabilities of the segments. Therefore, the below tables do not include the division of assets and liabilities by segments.

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

(in thousands of PLN)

Year closed on 31 December 2020	Production	Industrial construction	Power Sector */	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Total activity
Revenues								
Sales to external clients	528,519	74,869	602,828	346,232	59,728	3,144	–	1,615,320
Sales between the segments	62,990	68,984	7,663	1,748	9,129	35,234	(185,748)	–
Total segment sales revenues	591,509	143,853	610,491	347,980	68,857	38,378	(185,748)	1,615,320
Results								
Profit / loss on operating activities of the segment	29,410	15,136	31,193	28,137	18,483	(32,460)	–	89,899
Financial income and costs balance	(410)	269	(1,426)	3,251	103	(12,705)	–	(10,918)
Gross profit / loss from the segment	29,000	15,405	29,767	31,388	18,586	(45,165)	–	78,981

The income from transactions between the segments has been excluded.

* / The operating profit includes the share in the profit of an associated entity in the amount of PLN 367 thousand.

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

The income from transactions between the segments has been excluded.

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

(in thousands of PLN)

7. Revenues and costs

7.1. Sales revenues by categories

Year closed on 31 December 2020	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Revenues from the sales of construction and other services	568,503	143,857	609,952	347,744	68,857	22,244	(175,535)	**1,585,622**
Revenues from the sales of goods and materials	19,786	(4)	473	236	–	4,513	(2)	**25,002**
Revenues from rental	3,220	–	66	–	–	11,621	(10,211)	**4,696**
Total sales revenues	**591,509**	**143,853**	**610,491**	**347,980**	**68,857**	**38,378**	**(185,748)**	**1,615,320**

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

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

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

(in thousands of PLN)

7.2. Geographical information

The below tables present data on revenues regarding specific geographical areas of the Group for the year ended on 31 December 2020 and on 31 December 2019. The geographical areas are classified by the location of the rendered service or delivery.

Year closed on 31 December 2020	Production	Industrial construction	Power sector	Oil, gas and chemicals	Infrastructure construction	Other activity	Exclusions	Consolidated financial data
Poland	243,092	143,853	561,155	205,135	68,857	34,215	(183,681)	**1,072,626**
Abroad	348,417	–	49,336	142,845	–	4,163	(2,067)	**542,694**
Total sales revenues	**591,509**	**143,853**	**610,491**	**347,980**	**68,857**	**38,378**	**(185,748)**	**1,615,320**

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

7.3. Key recipients of the Group

In 2020 the Group had no recipients who generated over 10% of sales revenues.

7.4. Other significant events regarding ongoing contracts

In 2020 the Group implemented the following strategic contracts in the power sector:

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

The Żerań CHP Plant

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

On 30 January 2019 there was a conclusion of Annex 1 between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the scope of the contract was extended. The contract value in the scope of the Group increased by PLN 5,426 thousand. The annex also extended the deadline for the signature by the ordering party of the protocol for the handover of the unit for operation. This will take place within 37 months from the date of the signature of the contract.

On 16 July 2019 there was a conclusion of Annex 2 between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the deadline for the signature of the handover protocol of the unit for operation that the contractor had committed to was extended to 40 months and 21 days from the date of the signature of the contract. This change was due to the occurrence of typhoon Jebi on 4 September 2018 in Japan. As a result of severe weather conditions, the storage site for the components of the gas turbine equipment was affected and the components were damaged, making it impossible for the contractor to fulfil the contractual obligations in terms of the guarantee of quality and warranty for physical defects. The ordering party and the contractor agreed that the event constituted force majeure and that an extension to the deadline for the contract finalization to allow for the removal of damage was duly justified.

On 22 October 2019, Annex 3 was concluded between the ordering party and the consortium that resulted in an increase to the remuneration to the extent attributable to the Group in the amount of PLN 2,492 thousand.

On 17 April 2020, a Pre-Judicial Settlement Agreement was signed between the ordering party and the consortium, granting the Contractor additional remuneration resulting from the indexation of prices. On 3 August 2020, an Agreement was signed amending the content of the Settlement of 17 April 2020 treated as Annex 4 to the Contract, under which the contract price to the extent attributable to the Group increased by PLN 19,598 thousand.

On 6 November 2020, Annex 5 was signed between the ordering party and the consortium, extending the scope of the project by additional works and replacement works without affecting the contract price to the extent attributable to the Group.

The total expected loss on the implementation of this contract decreased and as at 31 December 2020 it was PLN 36.1 million.

Puławy CHP Plant

On 25 September 2019, an agreement was concluded between Grupa Azoty Zakłady Azotowe "Puławy" S.A. and a consortium comprising: Polimex Mostostal S.A. (as consortium leader), Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. The subject of the Agreement is the construction of a complete Thermal and Condensing Power Unit based on coal fuel, with closed cooling system with wet fan coolers, with gross electrical power capacity in the range of 90-100 MWe, with thermal power supplied with fuel to the furnace of the boiler of the Unit lower than 300 MWt, with thermal power capacity in technological steam of at least 250MWt, operating on steam parameters. The net remuneration for the performance of the Assignment is flat rate and it amounts to PLN 1,159,900 thousand, of which approximately 99% is attributable to the Group. Pursuant to the Agreement, the contractor is obliged to hand over the power unit for operation to the ordering party within 36 months from the date indicated by the ordering party as the date of commencement of the work. On 16 December 2019 there was a conclusion of an agreement with Fabryka Kotłów SEFAKO S.A., the subject of which is the preparation by SEFAKO of the basic design and the implementation documentation, prefabrication and delivery of a complete boiler together with the accessories and protections. The net value of this subcontracting order was PLN 179,900 thousand. On 20 December 2019 there was a conclusion of an agreement with Siemens AG, the subject of which is the production and delivery by Siemens of a steam turbine generator set, feed water heaters and spare parts. The net remuneration was determined at the level of EUR 17,457 thousand. On 31 December 2019, the following agreements were concluded (i) between Polimex Mostostal S.A. and Bank Ochrony Środowiska S.A. ("BOŚ Bank") - a guarantee agreement for the issuance of a performance bond securing the performance of the contract in the amount of PLN 59,650 thousand with a validity period not exceeding 22 November 2022 (ii) between Polimex Mostostal S.A. and Bank Gospodarstwa Krajowego ("BGK") - Annex 3 to Loan Agreement for Guarantee Lines and Related Revolving and Non-revolving Loans dated May 31, 2017, as amended, establishing the terms and conditions for the issuance of a performance bond for the Puławy Contract in the amount of PLN 46,340 thousand. As the conditions precedent have been fulfilled, on 31 January 2020 BOŚ Bank and BGK issued, at the Group's request, performance bonds for the amounts shown above.

Dolna Odra Power Plant

On January 30, 2020 an agreement was signed between PGE Górnictwo i Energetyka Konwencjonalna S.A. and a consortium consisting of: General Electric Global Services GmbH (as consortium leader), General Electric International Inc. and Polimex Mostostal S.A. The subject of the Agreement is a turnkey construction of two gas and steam power units (number 9 and 10), provision of complete sets of power generating equipment and their auxiliary installations and any other technological, mechanical, electrical and automation installations, along with associated facilities for PGE Górnictwo i Energetyka Konwencjonalna S.A. Dolna Odra Power Plant Complex Branch, covering all works, supplies and services, including development of the design documentation. Pursuant to the Agreement, the Contractor is obliged to start the implementation of the Agreement immediately after its conclusion and to finalize the Assignment by 11 December 2023. The remuneration for the performance of the Assignment is fixed and to the extent attributable to the Group amounts to PLN 1,515,097 thousand net. On 15 December 2020, Annex 2 to the Consortium Agreement was concluded, which approved the division of responsibility for the prefabrication of pipelines by shifting a part of Implementation Stage 10 from Polimex Mostostal to General Electric and thus reduced Polimex's remuneration by PLN 8,307 thousand net. The remuneration for the performance of the Assignment attributable to the Group is currently PLN 1,506,790,000, and the value of the entire contract assigned to the consortium is PLN 3,637,713 thousand net.

Pursuant to the provisions of the Agreement, the Contractor will provide the Ordering Party with a basic quality guarantee for the subject of the Agreement covering a period of 24 months, as well as an extended warranty for the construction works for the period of 60 months. On 28 February 2020, Polimex Mostostal S.A. entered into an agreement with PKO BP for the issuance of a bank guarantee for the reimbursement of the advance payment upon the order of Polimex Mostostal. Pursuant to the terms of the Agreement, PKO BP provided a Guarantee in the amount of PLN 47,360 thousand valid until 31 March 2023. The above guarantee was replaced with a bank guarantee issued on February 11, 2021 upon the order of Polimex Mostostal on behalf of the Contractor by INTESA SANPAOLO S.A. Branch in Poland for the reimbursement of an advance payment, amounting to PLN 47,360 thousand with the expiry date of 31 March 2023. On 11.02.2021 Polimex Mostostal provided the Ordering Party with a performance bond issued at the request of Polimex Mostostal on behalf of the Contractor by the bank INTESA SANPAOLO S.A. Poland Branch for the amount of: PLN 135,335 thousand with an expiry date of January 11, 2024. On 10.02.2021 Polimex Mostostal provided the Ordering Party with a performance bond issued at the request of Polimex Mostostal on behalf of the Contractor by STU Ergo Hestia S.A. for the amount of PLN 50,000 thousand with expiry date of 11 January 2024.

(in thousands of PLN)

7.5. Other operating revenues

	Year ended on 31 December 2020	Year ended on 31 December 2019
Profit from the sale of tangible fixed assets	1,059	221
Dissolution of revaluation write-offs on tangible fixed assets	1,938	2,324
Dissolution of the provision for litigations	8,383	11,179
Dissolution of other provisions	7,008	3,690
Write-off of negative goodwill	–	952
Revaluation of investment property and tangible fixed assets to fair value	400	2,347
Penalties and compensations received	1,577	2,737
Court settlement	389	259
Waiver on trade liabilities	3,241	4,901
Other	1,950	1,944
Total other operating revenues	**25,945**	**30,554**

7.6. Other operating costs

	Year ended on 31 December 2020	Year ended on 31 December 2019
Establishment of revaluation write-offs for non-financial fixed assets	4,981	–
Establishment of write-offs on inventory	1,434	277
Costs of the liquidation of fixed and current assets	643	823
Penalties and compensations	1,282	1,373
Legal costs	1,231	1,094
Other	1,547	1,315
Total other operating costs	**11,118**	**4,882**

7.7. Financial income

	Year closed on 31 December 2020	Year closed on 31 December 2019
Revenues from bank interests	3,164	3,625
Income due to the interest on late payment of receivables	1,547	361
Profit on modification of financial assets	–	14,774
Foreign exchange profits	7,968	–
Adjustment for discounting settlements	2,609	3,325
Profit from sales of financial assets	4	–
Fair value assessment of an investment in an entity taken under control	–	2,671
Dissolution of provisions for the financial costs	31	297
Change to the terms of the bonds issue	2,793	–
Other	16	187
Total financial income	**18,132**	**25,240**

7.8. Financial costs

	Year closed on 31 December 2020	Year closed on 31 December 2019
Interest on bank loans and borrowings	6,117	10,348
Interest and commissions on bonds	15,699	16,602
Interest on other liabilities	760	622
Financial costs due to lease agreements	1,187	543
Foreign exchange losses	–	1,773
Bank charges on guarantees and loans	923	2,037
Costs of material change to the terms of bonds issue	2,960	–
Costs of early repayment of loans	206	–

(in thousands of PLN)

Valuation of long-term settlements with amortized costs	–	318
Other	1,198	342
Total financial costs	**29,050**	**32,585**

7.9. Costs classified by type

	Year closed on 31 December 2020	Year closed on 31 December 2019
Depreciation	37,344	35,218
Use of materials and energy	441,056	497,503
External services including construction	594,458	607,441
Taxes and payments	14,328	14,067
Costs of employee benefits	411,507	378,202
Other classified costs	7,086	15,259
Total costs classified by type	**1,505,779**	**1,547,690**
Items included in the costs of sales	(21,035)	(22,970)
Items included in the general administration expenses	(70,374)	(67,886)
Value of goods and materials sold	19,149	23,607
Change in finished goods	1,091	2,809
Cost of producing services for own needs of the entity	(413)	(1,143)
Cost of goods sold	**1,434,197**	**1,482,107**

The costs of short-term leasing and leasing of low-value assets incurred in 2020 amounted to PLN 36,506 thousand, while in 2019 amounted to PLN 43,928 thousand. These costs are presented as a component of costs of external services.

7.10. Depreciation costs included in the profit and loss account

	Year ended on 31 December 2020	Year ended on 31 December 2019
Items presented as cost of goods sold	34,972	32,877
Depreciation of tangible fixed assets	34,635	32,548
Depreciation of intangible assets	337	329
Items included in the costs of sales	723	726
Depreciation of tangible fixed assets	713	726
Depreciation of intangible assets	10	–
Items included in the general administration expenses	1,649	1,615
Depreciation of tangible fixed assets	1,574	1,523
Depreciation of intangible assets	75	92
Total depreciation and write-offs	**37,344**	**35,218**

7.11. Costs of employee benefits

	Year ended on 31 December 2020	Year ended on 31 December 2019
Remuneration	326,733	301,089
Social insurance costs	58,950	55,795
Retirement benefit costs	1,485	1,161
Jubilee bonuses	102	81
Other post-employment benefits	2,133	976
Write-offs for the Company Social Benefits Fund	6,489	4,954
Other (including working clothes, cleaning products)	15,615	14,146
Total costs of employee benefits	**411,507**	**378,202**

(in thousands of PLN)

8. Income tax

8.1. Current income tax

The main components of the tax burden for the year ended on 31 December 2020 and for the year ended on 31 December 2019 are as follows:

	Year ended on 31 December 2020	Year ended on 31 December 2019
Consolidated profit and loss account		
Current income tax liabilities	15,380	3,296
Foreign income tax for the previous years	–	1,033
Deferred income tax	391	(1,222)
Tax burden due to continued business activity recognized in the consolidated profit and loss account	**15,771**	**3,107**
Consolidated comprehensive income statement		
Deferred income tax due to revaluation of land and buildings	72	(692)
Deferred income tax from valuation of liabilities due to post-employment benefits	120	446
Tax burden due to continued business activity recognized in the consolidated statement of comprehensive income	**192**	**(246)**

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

	Year ended on 31 December 2020	Year ended on 31 December 2019
Profit / (loss) before tax	**78,981**	**53,761**
Tax at the statutory income tax rate applicable in Poland, which in 2020 was 19% (2019: 19%)	15,006	10,215
Tax effects from the following items:		
– Non-taxable income	(5,000)	(9,440)
– Expenses not deductible for tax purposes	5,795	14,554
– Adjustments regarding current income tax from previous years	–	765
– Recognition of assets due to deferred tax not recognized in the previous years	–	(12,431)
– Tax losses and negative temporary differences due to which the deferred tax assets were not recognized	4,477	–
– Tax deductible costs not included in the financial result	(673)	(450)
– Differences in the tax rate of foreign entities and small taxpayers	8	(16)
- Recognition by equity of the provisions for the deferred tax on the equity component of issued bonds	(5,414)	–
– Other	1,572	(90)
Income tax expense	**15,771**	**3,107**

(in thousands of PLN)

8.2. Deferred income tax

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

Deferred tax liabilities	Valuation of contracts	Foreign exchange rate differences	Other	Equity component of bonds	Total
Status as at 01 January 2019	**17,381**	**59**	**1,397**	**–**	**18,837**
Charge / (recognition) of the financial result	9,147	(25)	2,280	–	11,402
Acquisition of control over a new entity	–	–	–	–	–
As at 31 December 2019	**26,528**	**34**	**3,677**	**–**	**30,239**
Charge / (recognition) of the financial result	(2,555)	332	(2,942)	(5,052)	(10,217)
Charge / (recognition) of equity	–	–	–	6,838	6,838
As at 31 December 2020	**23,973**	**366**	**735**	**1,786**	**26,860**
Presentation of net deferred tax assets and liabilities, including compensation within one tax jurisdiction					(25,250)
Deferred tax liabilities in the balance sheet					**1,610**

(in thousands of PLN)

Deferred tax assets	Temporary differences regarding tangible fixed assets	Employee benefit liabilities	Foreign exchange rate differences	Write-offs on inventory	Write-offs on receivables	Valuation of contracts	Provisions	Tax losses	Debt financing limit	Other	Total
Status as at 01 January 2019	**1,377**	**10,381**	**16**	**1,209**	**18,064**	**27,562**	**48,656**	**71,235**	**–**	**14,943**	**193,443**
Recognition / (charge) of the financial result	3,843	405	48	213	(5,962)	6,110	(24,214)	24,356	8,033	(208)	12,624
Recognition / (charge) of other comprehensive income	(692)	446	–	–	–	–	–	–	–	–	(246)
Acquisition of control over a new entity	(3,041)	–	–	80	–	221	84	5,255	–	61	2,660
As at 31 December 2019	**1,487**	**11,232**	**64**	**1,502**	**12,102**	**33,893**	**24,526**	**100,846**	**8,033**	**14,796**	**208,481**
Recognition / (charge) of the financial result	7,903	1,816	(64)	2	2,281	36,726	2,453	(39,988)	(8,033)	(13,704)	(10,608)
Recognition / (charge) of other comprehensive income	72	120	–	–	–	–	–	–	–	–	192
Recognition / (charge) of equity	(2,548)	–	–	–	–	–	–	–	–	–	(2,548)
As at 31 December 2020	**6,914**	**13,168**	**–**	**1,504**	**14,383**	**70,619**	**26,979**	**60,858**	**–**	**1,092**	**195,517**
Presentation of net deferred tax assets and liabilities, including compensation within one tax jurisdiction											(25,250)
Deferred tax assets in the balance sheet											**170,267**

(in thousands of PLN)

Deferred income tax assets and liabilities are presented as follows:

	As at 31 December 2020	As at 31 December 2019
Deferred income tax assets:		
before compensation		
– to be implemented after 12 months	46,638	90,902
– to be implemented within 12 months	148,879	117,579
	195,517	**208,481**
Deferred income tax liabilities:		
before compensation		
– to be implemented after 12 months	1,072	0
– to be implemented within 12 months	25,788	30,239
	26,860	**30,239**

As at 31 December 2020 the Group incurred PLN 320,305 thousand of unsettled tax losses (which mostly pertained to losses in the amount of PLN 206,550 thousand at Polimex Mostostal S.A and PLN 103,708 thousand at Polimex Energetyka Sp.z o.o. The value of deferred tax assets due to unsettled tax losses amounted to PLN 60,858 thousand. As at 31 December 2020, there are unrecognised tax loss assets in the subsidiary Energomontaż-Północ Bełchatów Sp. z o.o. The Group carried out an analysis of the recoverability of assets due to tax loss based on the anticipated tax results and additional one-off events fostering the recovery of tax losses incurred in the previous reporting periods. The analysis was prepared using the best estimates and under the most probable scenario. A change in individual assumptions and elimination of one-off events fostering the recovery of tax losses from the analysis could lead to other conclusions regarding the amount of recoverable losses. The performed analysis is particularly sensitive to changes in the amount of expected tax revenues and costs obtained from operating activities. The main limitation in the possibility of settling tax losses is the 5-year period indicated in the regulations when tax losses can be settled. In accordance with the conducted analysis, the Group will use tax loss assets in the periods of: 2021 (in the amount of PLN 195,151 thousand), 2022 (in the amount of PLN 69,439 thousand), 2023 (in the amount of PLN 39,313 thousand), 2024 (in the amount of PLN 15,687 thousand) and 2025 (in the amount of PLN 715 thousand). The one-off events supporting the recoverability of tax losses relate in particular to the achievement of additional tax income from the disposal of real estate held for sale (expected tax income of PLN 47,045 thousand in 2021). The Management Board of the Parent Company estimates that the occurrence of the above one-off events is highly probable.

(in thousands of PLN)

9. Profit per share

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

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

	Year ended on 31 December 2020	**Year ended on 31 December 2019**
Net profit / (loss)	**66,226**	**50,744**
Adjustment to net profit/(loss) - interest costs of convertible bonds	12,716	12,320
Net profit / (loss) after adjustment to calculation of diluted loss per share	**78,942**	**63,064**
number of shares registered as at the balance sheet date	236,618,802	236,618,802
weighted average number of ordinary shares used to calculate ordinary loss per share	236,618,802	236,618,802
Dilutive potential ordinary shares related to convertible bonds	48,000,000	48,000,000
Total number of shares used to calculate diluted profit / (loss) per share	284,618,802	284,618,802
Basic profit per share attributable to shareholders of the parent company (in PLN)	**0.280**	**0.214**
Diluted profit per share attributable to shareholders of the parent company (in PLN)	**0.277**	**0.222**

10. Dividends paid and proposed for payment

In 2020 the parent company did not declare or pay dividends. The parent company does not anticipate the payment of dividends in 2021 for the financial year ended on 31 December 2020.

(in thousands of PLN)

11. Tangible fixed assets

11.1. Tables of tangible fixed assets flows

The table below presents the net value of tangible fixed assets as at 31 December 2020

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Own tangible fixed assets	244,022	105,606	11,147	2,768	11,424	374,967
Right-of-use assets	23,701	668	4,509	1,471	–	30,349
Total tangible fixed assets	**267,723**	**106,274**	**15,656**	**4,239**	**11,424**	**405,316**

The table below presents own tangible fixed assets.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Net value as at 01 January 2020	**253,086**	**113,603**	**11,980**	**3,046**	**6,207**	**387,922**
						-
Purchase of tangible fixed assets	2,571	6,933	941	1,234	4,321	**16,000**
Decrease / increase due to the settlement of a tangible fixed asset under construction	413	581	-	43	(1,037)	-
Sale and liquidation of tangible fixed assets	-	(134)	(97)	(8)	-	**(239)**
Revaluation	(380)	-	-	-	1,938	**1,558**
Reclassification to / from assets held for sale	(17)	162	6	(66)	-	**85**
Foreign exchange rate differences	(651)	(773)	(80)	(35)	(5)	**(1,544)**
Depreciation charge for the financial period	(11,000)	(14,766)	(1,603)	(1,446)	-	**(28,815)**
Net value as at 31 December 2020	**244,022**	**105,606**	**11,147**	**2,768**	**11,424**	**374,967**
As at 01 January 2020						
Gross value	**275,619**	**329,588**	**36,296**	**26,510**	**20,421**	**688,434**
Depreciation and impairment write-off	**(22,533)**	**(215,985)**	**(24,316)**	**(23,464)**	**(14,214)**	**(300,512)**
Net value	**253,086**	**113,603**	**11,980**	**3,046**	**6,207**	**387,922**
As at 31 December 2020						
Gross value	**277,282**	**327,571**	**35,306**	**24,536**	**21,366**	**686,061**
Depreciation and impairment write-off	**(33,260)**	**(221,965)**	**(24,159)**	**(21,768)**	**(9,942)**	**(311,094)**
Net value	**244,022**	**105,606**	**11,147**	**2,768**	**11,424**	**374,967**

(in thousands of PLN)

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

	Lands, buildings and structures	**Machines and equipment**	**Means of transportation**	**Other tangible fixed assets**	**Total**
Net value as at 01 January 2020	**11,342**	**3,745**	**3,999**	**854**	**19,940**
Conclusion of new lease agreements	15,100	135	3,308	2,234	**20,777**
Termination of lease agreements	(17)	(2,528)	(56)	(66)	**(2,667)**
Revaluation of lease agreements	406	-	-	-	**406**
Depreciation charge for the financial period	(3,130)	(684)	(2,742)	(1,551)	**(8,107)**
Net value as at 31 December 2020	**23,701**	**668**	**4,509**	**1,471**	**30,349**
As at 01 January 2020					
Gross value	**14,474**	**4,727**	**7,338**	**2,191**	**28,730**
Depreciation and impairment write-off	**(3,132)**	**(982)**	**(3,339)**	**(1,337)**	**(8,790)**
Net value	**11,342**	**3,745**	**3,999**	**854**	**19,940**
As at 31 December 2020					
Gross value	**27,987**	**1,076**	**8,711**	**3,417**	**41,191**
Depreciation and impairment write-off	**(4,286)**	**(408)**	**(4,202)**	**(1,946)**	**(10,842)**
Net value	**23,701**	**668**	**4,509**	**1,471**	**30,349**

(in thousands of PLN)

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

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

The table below presents own tangible fixed assets.

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

(in thousands of PLN)

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

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

	Lands, buildings and structures	**Machines and equipment**	**Means of transportation**	**Other tangible fixed assets**	**Total**
Net value as at 1 January 2019	-	**3,263**	-	-	**3,263**
Recognized assets in accordance with IFRS 16 as at 01.01.2019	**14,725**	**434**	**7,004**	**664**	**22,827**
Purchase of tangible fixed assets	4	262	164	1,535	**1,965**
Sale and liquidation of tangible fixed assets	(254)	(83)	(40)	(9)	**(386)**
Acquisition of control over a subsidiary	-	540	275	-	**815**
Depreciation charge for the financial period	(3,133)	(671)	(3,404)	(1,336)	**(8,544)**
Net value as at 31 December 2019	**11,342**	**3,745**	**3,999**	**854**	**19,940**
As at 01 January 2019					
Gross value	-	**3,900**	-	-	**3,900**
Depreciation and impairment write-off	-	**(637)**	-	-	**(637)**
Net value	-	**3,263**	-	-	**3,263**
As at 31 December 2019					
Gross value	**14,474**	**4,727**	**7,338**	**2,191**	**28,730**
Depreciation and impairment write-off	**(3,132)**	**(982)**	**(3,339)**	**(1,337)**	**(8,790)**

Net value	**11,342**	**3,745**	**3,999**	**854**	**19,940**

11.2. Fair values of land, buildings, structures.

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

The valuation of tangible fixed assets was performed as at 31 December 2019.

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

The fair value measurement has been categorized in the fair value hierarchy at level 3. Significant information regarding the valuation techniques and parameters used and significant unobservable inputs is presented in the Financial Statements for the year ended December 31, 2019 in Note 11.2.

12. Investment property

The rental income generated by investment property amounted to PLN 2,799 thousand in 2020 and PLN 2,981 thousand in 2019. Direct operating costs related to investment property that generated the rent income amounted to PLN 729 thousand in 2020 and PLN 854 thousand in 2019.

Investment property is recognized at fair value. The estimation of fair value was conducted as at 31 December 2020.

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

The table below presents investment property that were measured at fair value as at 31 December 2020. The individual levels are defined as follows:

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

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

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

Property Description: Real estate developed with a complex of buildings of production, office and warehouse character with fair value as at 31 December 2020 amounting to PLN 14,576 thousand.

(in thousands of PLN)

Income approach, investment method, simple capitalization technique

Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 11%	A slight increase in the capitalization rate would cause a significant decrease in the fair value of the property (and vice versa).
The rate of rent	- PLN 15-19 per square meter per month for production, office and warehouse facilities	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa)

Comparative approach, pair comparison method

Unobservable data	Unobservable data range (probability weighted average)	Relations between unobservable data and fair value
Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 97.35 (the Siedlce county),	An increase in the average price per square meter increases the value of real estate (and vice versa)

13. Goodwill from consolidation

	As at 31 December 2020	As at 31 December 2019
Power Sector	91,220	91,220
Total	**91,220**	**91,220**

As at 31 December 2020 in accordance with the principles of IAS 36, the Management Board of Polimex Mostostal S.A. conducted tests for the permanent impairment of goodwill on consolidation that occured in previous periods. The level of the operating segment is the level at which the Management Board of the Group monitors goodwill. Goodwill for 2020 has been fully allocated to the power sector segment.

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

	Financial data and test results			
Segment	Tested value	Estimated value in use	Impairment of goodwill	Value of the company
Power sector	120,908	329,062	-	91,220

	Main assumptions			
Segment	Weighted average cost of capital (WACC)	Average operating profitability over the forecast period	Average annual expected sales revenues	Constant growth rate after the forecast period
Power sector	8.78%	6.03%	899,122	1.00%

The tested value included goodwill and net assets assigned to the power sector segment (Polimex Energetyka Sp. z o.o.). The adjusted discounted cash flow value of the power generation segment (value in use) was estimated at PLN 329,062 thousand. The valuation was made with the following assumptions: weighted average cost of capital (WACC): 8.78%, growth rate after the forecast period: 1.0%, average profitability at operating profit level over the forecast period: 6.03%, average annual expected revenues from sales of the energy segment: PLN 899,122 thousand.

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

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

The following table presents the balance sheet of the entity consolidated using the equity method:

	As at	As at

	31 December 2020	31 December 2019
Current assets	11,273	13,118
Fixed assets	7,317	6,442
Short-term liabilities	1,674	5,007
Long-term liabilities and provisions	2,822	1,932
Minority equity		
Net assets	14,094	12,621
	Year ended on 31 December 2020	**Year ended on 31 December 2019**
Sales revenues	19,582	27,873
Net profit from continuing operations	1,473	1,040
Total income	1,473	1,040
Share in the profit of an associated entity*	367	24*

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

15. Inventories

	As at 31 December 2020	As at 31 December 2019
Materials	36,406	38,913
Advance payments on materials	4,106	1,694
Goods	224	723
Production in progress	36,155	45,472
Ready products	26,528	18,119
Total provisions	**103,419**	**104,921**

16. Trade and other receivables

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

The terms of transactions with related entities are presented in note 30.

	As at 31 December 2020	As at 31 December 2019
Trade receivables:	**516,493**	**288,401**
- from related entities	53,177	18,698
- from other entities	463,316	269,703
Other receivables:	**19,625**	**22,184**
Budget receivables:	13,988	17,821
- due to VAT	12,914	17,679
- other	1,074	142
Other receivables	5,637	4,363
Total receivables (net)	**536,118**	**310,585**
Write-downs on receivables	88,060	71,259
Total receivables (gross)	**624,178**	**381,844**

The significant increase in trade receivables balances is due to invoicing on ongoing strategic contracts: Puławy and Dolna Odra. For a description of the status of execution of these contracts, see Note 7.4.

Changes in write-offs on trade receivables:

	As at 31 December 2020	As at 31 December 2019
Write-down at the beginning of the reporting period	70,558	93,945
Increase including:	**12,871**	**5,814**
- establishment of write-offs on receivables	12,871	1,676

(in thousands of PLN)

- changes in the structure of the capital group	–	4,138
Decrease including:	**604**	**27,999**
- use	178	6,559
- repayment of liabilities	351	21,440
- reclassification of write-offs on deposits	75	–
Conversion due to recognition of a write-off on expected credit losses	**257**	**(1,202)**
Write-down at the end of the reporting period	**83,082**	**70,558**

The increase in write-offs in the current reporting period is related to unpaid receivables from the contractor Hamon Enviroserv GmbH, which was put into liquidation. The Group performed for Hamon Enviroserv GmbH the production of supporting steel structures, steel elements of bag filters, flue gas ducts, as well as transport ex construction site and assembly/disassembly under the investment involving the construction of flue gas dedusting systems at the power plant in Duisburg.

17. Financial instruments – impairment

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

	Current and 30 days after the payment date	Overdue from 31 to 90 days	from 91 to 180 days	over 181 days	**Total**
Non-manufacturing activities					
Ratio	0.05%	0.08%	0.51%	8.78%	
Value of write-offs on expected credit losses	125	75	97	479	**776**
Manufacturing activities					
Ratio	0.00%	5.17%	20.79%	0.36%	
of write-offs on expected credit losses	–	197	262	13	**472**

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

The value of individual impairment losses on trade receivables was PLN 81,834 thousand, while the value of the deposits was PLN 7,716 thousand.

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

		As at 31/12/2020	
	12-month ECL	**Lifetime ECL – without impairment**	**Lifetime ECL – with impairment**
Gross carrying amount	**367,754**	**587,902**	**119,898**
Trade receivables	–	493,297	106,278
Other receivables	–	5,409	5,206
Deposits due to the construction contracts	–	89,196	8,414
Cash and cash equivalents	367,754	–	–
Revaluation write-offs	**–**	**(1,465)**	**(94,528)**
Trade receivables	–	(1,248)	(81,834)
Other receivables	–	–	(4,978)
Deposits due to the construction contracts	–	(217)	(7,716)
Carrying amount	**367,754**	**586,437**	**25,370**
Trade receivables	–	492,049	24,444
Other receivables	–	5,409	228
Deposits due to the construction contracts	–	88,979	698
Cash and cash equivalents	367,754	–	–

(in thousands of PLN)

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

18. Long-term construction contracts

The table below provides the clarification on the balance changes regarding the valuation of contracts for 2020.

	Status as at 01 January 2020	**Changes in valuation of contracts**	**Revenues recognized in 2020 included in the balance of liabilities as at 01/01/2020**	**Change in the period during which the right to remuneration becomes unconditional**	**Change in advances received**	**Status as at 31 December 2020**
Construction contracts assets	145,349	131,646	–	(182,766)	17,826	112,055
Construction contracts liabilities	(54,092)	(207,737)	23,258	(6,640)	(45,029)	(290,240)
Total	**91,257**	**(76,091)**	**23,258**	**(189,406)**	**(27,203)**	**(178,185)**

The significant increase in the balance of liabilities on account of contract valuation results from the progress in execution and high invoicing as well as from received advance payments on strategic contracts: Puławy and Dolna Odra. For a description of the status of execution of these contracts, see Note 7.4.

The value of revenues generated in 2019 regarding obligations on benefits recognized in the previous periods was PLN 23,258 thousand.

The table below provides the clarification on the balance changes regarding the valuation of contracts for 2019.

	Status as at 01 January 2019	**Changes in valuation of contracts**	**Revenues recognized in 2019 included in the balance of liabilities as at 1 January 2019**	**Change in the period during which the right to remuneration becomes unconditional**	**Change in advances received**	**Status as at 31 December 2019**

Construction contracts assets	60,058	189,896	-	(71,837)	(32,768)	145,349
Construction contracts liabilities	(63,939)	(23,091)	12,762	(32,288)	52,464	(54,092)
Total	**(3,881)**	**166,805**	**12,762**	**(104,125)**	**19,696**	**91,257**

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

	As at 31 December 2020	As at 31 December 2019
a) up to 1 year	1,741,505	1,135,571
b) over 1 year	1,621,462	957,240
Total	**3,362,967**	**2,092,811**

19. Cash and cash equivalents

	As at 31 December 2020	As at 31 December 2019
Cash at bank and in hand	353,004	142,193
Short-term deposits	14,750	142,820
Total	**367,754**	**285,013**
Restricted cash	*124,480*	*59,634*

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

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

The balance of restricted cash presented as at December 31, 2020 relates to funds which at that date were maintained in project accounts held for the Dolna Odra, Opole and Puławy contracts and at the subsidiary Naforemnot-Naftobudowa. These accounts are used to receive payments from the Ordering Parties for services rendered and to make payments to subcontractors for work performed. Payments from the project accounts in question to subcontractors are made using the procedure of expenditure approval by an independent technical consultant appointed for the contract in question.

20. Cash flow statement

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

	Year ended on 31 December 2020	Year ended on 31 December 2019
Change in receivables in the balance sheet	**(124,162)**	**22,495**
Adjustment due to the acquisition of an associated company Finow Polska Sp. z o.o.	–	(2,394)
Adjustment for receivables from sales of tangible fixed assets	–	(246)
Adjustment for compensation of security deposit with loan liabilities	(72,363)	–
Other	(23)	437
Change in receivables in the cash flow statement	**(196,548)**	**20,292**
Change in liabilities in the balance sheet	**294,891**	**(17,514)**
Adjustment for liabilities due to investment purchases	(2,938)	(3,069)
Adjustment for lease liabilities	375	2,134

(in thousands of PLN)

Adjustment for a change in tax liabilities		(936)
Adjustment for liabilities due to the valuation of actuarial reserves recognized in comprehensive income	(631)	1,294
Correction due to reclassification from minority capital of liabilities due to the valuation of the put option held by the minority shareholders of Energomontaż-Północ Bełchatów	3,016	(9,369)
Change in liabilities in the cash flow statement	**294,713**	**(27,460)**

21. Assets held for sale

In compliance with the Agreement on the Management of Financial Debt of 21 December 2012 the Issuer has undertaken to divest certain assets. The assets disposed of include redundant property, organized parts of the company and development and investment properties, as well as selected operating properties. The table below presents financial data concerning those assets whose disposal is planned within one year from the balance sheet date.

	As at 31 December 2020	**As at 31 December 2019**
Tangible fixed assets	893	14,396
Investment property	25,997	27,796
Assets held for sale	**26,890**	**42,192**

During 2020, the Company sold the property located at ul. Przemysłowa 11 in Stalowa Wola worth PLN 2,199 thousand. In the third quarter of 2020, in connection with the expected sale of the property located in Wilczkowice Górne (near Kozienice), the Group recognised the adjustment of the property value with the expected sales price. As a result, the value of the property was reduced by PLN 4,871 thousand, which was charged in full to the Group's current result. The sale of this property took place in the fourth quarter of 2020, for the price of PLN 8,450 thousand. Due to formal and legal conditions, the property located in Krakow at ul. Powstańców 66 (worth PLN 19,500 thousand) will be sold within a period exceeding 12 months.

As at 31 December 2020, investment properties presented under assets held for sale were measured at fair value based on signed contracts and received offers. It was classified as level 1 of the fair value hierarchy.

	Level 1	**Level 3**	**Fair value as at 31 December 2020**
Real estate with a complex of buildings of warehouse and industrial and office character	25,980	17	25,997
Total	25,980	**17**	**25,997**

	Level 1	**Level 3**	**Fair value as at 31 December 2020**
Real estate with a complex of buildings of warehouse and industrial and office character	25,580	2,216	27,796
Total	25,580	**2,216**	**27,796**

22. Equity capital

22.1. Share capital

As at 31 December 2020 the parent company's share capital amounted to PLN 473,237,604 and was divided into 236,618,802 shares with a nominal value of PLN 2 each. The shares have been fully paid.

Share capital	**As at**	**As at**

	31 December 2020	**31 December 2019**
Series A ordinary shares	86,618,802	86,618,802
Series T ordinary shares	150,000,000	150,000,000
Total	**236,618,802**	**236,618,802**

Shareholders' rights

Each share has the right to one vote at the General Meeting of Shareholders. Shares of all series are equally privileged with regards to the dividends and return on capital. According to the information included in the stock exchange reports, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at 31 December 2020 is as follows:

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

* each Investor holds 16.48%

22.2. Reserve capital

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

22.3. Other capitals

Other Groups' equity refers to the effect of the settlement of a merger with subsidiaries in 2010: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o.o. with the registered office in in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o.o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquired companies) carried out pursuant to art. 492 § 1 paragraph 1 of the Code of Commercial Companies and Partnerships through the transfer of all assets of these companies to "Polimex-Mostostal" S.A. On 31 December 2016 the remaining capitals amounted to PLN (85,254) thousand. According to the Resolutions No 8 and 9 of the Extraordinary General Meeting of the Company of 27 June 2017, the negative value of the remaining capital was covered with retained earnings in the amount of PLN 59,640 thousand and spare capital amounting to PLN 151,964 thousand. In addition, according to the Resolution No 7 the Extraordinary General Meeting of the Company of 27 June 2017 contributed the company's profit for the year 2016 in the amount of PLN 1,018 thousand to cover the negative value of the remaining capital. The change in the amount of other capitals in 2018 results from the Resolution No 6 of the Ordinary General Meeting of 21 June 2018 on the allocation of the Parent Company's net profit in the amount of PLN 82,558 thousand to other capitals. The change in the amount of other capital in 2019 results from Resolution No 7 of the Ordinary General Meeting of Shareholders regarding the allocation of PLN 17,528 thousand. from the profit for 2018 to other capital. The value of other capital as at 31 December 2019 amounted to PLN 227,466 thousand. During 2020, the value of other capital was increased by PLN 94,575 thousand as a consequence of resolutions 7 and 8 of the Ordinary General Meeting on the distribution of the Company's net profit and the appropriation of retained earnings arising during 2019 (as a result of the recognition of the effects of revaluations of properties sold in 2019).

(in thousands of PLN)

22.4. Equity component of issued bonds convertible into shares

The equity component of the issued convertible bonds as at 31 December 2019 amounted to PLN 31 552 thousand. As at 31 December 2020, the value of the equity component of the convertible bonds issued was PLN 6,071 thousand. The change in the amount of these capitals results from accounting for a significant change in the terms of issue which took place on 28 December 2020. The transaction has been outlined in note 24.

22.5. Accumulated other comprehensive income

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

23. Bank loans, borrowings and other sources of financing

	As at 31 December 2020	As at 31 December 2019*
Short-term including:	**66,428**	**85,144**
Bank loans	60,123	76,737
Lease liabilities	6,305	8,407
Long-term including	**25,743**	**88,000**
Bank loans	–	76,816
Lease liabilities	25,743	11,184
Total bank loans and lease liabilities	**92,171**	**173,144**

** Data restated after the presentation change outlined in note 3.4*

The table below presents changes in the value of loan liabilities.

	As at 31 December 2020	As at 31 December 2019
The value of bank loan liabilities at the beginning of the period	**153,553**	**246,799**
Bank loans incurred	85,345	1,104
Accrued interest calculated at the effective interest rate	6,307	9,702
Interest payments	(33,201)	(34,566)
Capital payments	(151,881)	(69,486)
The value of bank loan liabilities at the end of the period	**60,123**	**153,553**

On 28 December 2020 Polimex Mostostal S.A. made an early repayment of all balance debt to the banks being parties to the Agreement regarding the terms of service of its financial debt concluded by the Company on 21 December 2012. The total repayment of debt resulting from loans and claims amounted to PLN 82,948 thousand including the principal of PLN 54,659 thousand and interest of PLN 28,289 thousand.

During 2020, the Parent Company obtained a short-term loan from Bank of China. The value of the contracted liability amounted to PLN 80,763 thousand. This loan was settled on 28 December 2020 by transferring the amount of the retained security deposit related to the Kozienice contract directly to Bank of China.

The parent company's loan financing for 2020 and 2019 was based on WIBOR 3M plus a weighted average margin of 1.40 pp. Financing under loans to other Group entities is based on WIBOR 1M + 2.5 pp. The Group has loans bearing interest at fixed rates.

The table below presents changes in the value of lease liabilities.

	As at	As at

	31 December 2020	31 December 2019
The value of lease liabilities at the beginning of the period (in accordance with IAS 17)		**2,134**
Recognition of lease liabilities in connection with the implementation of IFRS 16 as at 1 January 2019		**22,827**
The value of lease liabilities at the beginning of the period	**19,591**	**24,961**
Incurring leasing commitments	21,004	1,965
Acquisition of control over a new entity	–	830
Accrued interest calculated at the effective interest rate	1,275	1,617
Repayment of liabilities due to lease	(10,197)	(9,782)
Changes to leases	375	–
The value of bank loans, lease and borrowings liabilities at the end of the period	**32,048**	**19,591**

As regards lease agreements, the increase results mainly from the extension by the Group of the lease agreement for office space in the "Kaskada" building in Warsaw, ul. Aleja Jana Pawła II 12. The value of liability recognised due to the above is PLN 14,577 thousand.

24. Bonds

	As at 31 December 2020	As at 31 December 2019
Liabilities under the issue of series E and F bonds	6,997	12,839
Liabilities under the issue of series A and B bonds	106,145	146,808
Liabilities under the issue of series C bonds	13,706	13,931
Total	**126,848**	**173,578**

The table below presents a breakdown of the bonds into long- and short-term portions:

	As at 31 December 2020	As at 31 December 2019
Long-term bonds	**113,364**	**86,857**
Liabilities under the issue of series E and F bonds	–	4,365
Liabilities under the issue of series A and B bonds	99,751	68,561
Liabilities under the issue of series C bonds	13,613	13,931
Short-term bonds	**13,484**	**86,721**
Liabilities under the issue of series E and F bonds	6,997	8,474
Liabilities under the issue of series A and B bonds	6,394	78,247
Liabilities under the issue of series C bonds	93	–
Bonds in total	**126,848**	**173,578**

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

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

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

(in thousands of PLN)

On December 28, 2020, with the holders of the issued series A, B and C bonds, it was agreed to modify the terms of issue of these bonds through the conclusion of agreements amending and unifying the relevant Terms of Bonds Issue covering, in particular, the change of the Final Redemption Date to December 31, 2026 in the case of series A and B bonds and December 31, 2024 in the case of series C bonds and the implementation of a new schedule for the mandatory redemption of series A and B bonds, under which, on the date of the transaction, the Company made :

- redemption of 35 A-series convertible bonds with a nominal unit value of PLN 500 thousand, together with interest accrued thereon,
- redemption of 100 B-series ordinary bonds with a nominal unit value of PLN 100 thousand, together with interest accrued thereon, and
- payment of interest accrued through September 30, 2020 with respect to the remaining 2014 Bonds.

The value of the above redemption was PLN 46,807 thousand (including PLN 27,500 thousand of bond redemption and PLN 19,307 thousand of interest repayment).

Under the new mandatory redemption schedule for the Series A and B Bonds, the Company will make quarterly redemptions of successive blocks of bonds beginning on September 30, 2021 until the Final Redemption Date on December 31, 2026.

In addition, other changes were introduced to the Terms of Bonds Issue in order to modify the rules of interest payment and to introduce changes postulated by the Company concerning modification of the existing provisions, including, among others, introduction of conditions concerning the rules of dividend payment by the Company, where the first resolution in this regard will be possible to be adopted after July 31st 2024 and the dividend payment itself will not exceed 30% of the amount of profit generated in a given financial year.

As a result of a significant change in the terms of the Series A and B bond issue, liabilities arising from the issue under the previous terms were removed from the balance sheet and liabilities arising from the issue under the new terms and conditions were recognised. Due to the removal of liabilities from the previous issue from the balance sheet, the following were recognised: (i) costs of change in terms amounting to PLN 2,596 thousand (ii) directly by equity the amount of PLN 1,678 thousand. The value of the remaining equity component of PLN 28,056 thousand was transferred to retained earnings. In connection with the recognition of liabilities following a material change in the terms of issue, an equity component of PLN 5,678 thousand was recognised. The value of liability due to the bond issue after the change of terms amounted to PLN 154,512 thousand.

During 2020, on: July 24, October 23 and 30, December 8 and 14 there were changes in the terms of the series A and B bonds issue which were not material. Changes made on subsequent dates moved the maturity date of the bonds. The total value of recognised effects of these changes amounted to PLN 2,793 thousand and was presented in financial income.

The table below shows the valuation of the Series A, B, C, E and F bonds at amortized cost and changes in the terms of the issue that occurred in 2020:

	Year ended on 31 December 2020	**Year ended on 31 December 2019**
The value of the liability at the beginning of the period	**173,578**	**176,469**
Changes to the terms of issue (1)		
Profit from change in cash flow	(2,793)	–
Material change in the terms of the issue dated 28/12/2020 (2)		
Removal from the balance sheet of liabilities according to the changed terms	(155,556)	–
Recognition of liabilities according to the changed terms	154,512	–
Accrued interest calculated at the effective interest rate	15,517	16,602
Interest payments	(26,356)	(8,284)

Redemption of bonds	(32,054)	(11,209)
The value of the liability at the end of the period	**126,848**	**173,578**

(in thousands of PLN)

25. Assets pledged as collateral

	As at 31 December 2020	As at 31 December 2019
Tangible fixed assets	326,608	347,678
Inventories	81,062	94,104
Investment property	14,576	14,576
Other	27,031	74,517
Total	**449,277**	**530,875**

(in thousands of PLN)

26. Provisions

	Provisions for warranty repairs	Provision for litigations	Provision for penalties	Provisions for the costs of contracts	Provision for losses	Provision for sureties	Other provisions	Total
As at 01 January 2020	**42,653**	**20,714**	**813**	**7,189**	**19,534**	**142**	**1,117**	**92,162**
Created in the financial year	9,991	–	–	45	5,873	323	1,244	**17,476**
Used	(10,124)	(428)	(269)	(685)	4,765	(168)	(930)	**(7,839)**
Dissolved	(11,898)	(9,485)	–	(5,672)	(22,199)	(200)	(27)	**(49,481)**
Foreign exchange rate differences	–	–	–	–	–	–	63	**63**
As at 31 December 2020	**30,622**	**10,801**	**544**	**877**	**7,973**	**97**	**1,467**	**52,381**
Short-term as at 31 December 2020	14,599	4,120	544	877	7,973	97	1,455	**29,665**
Long-term as at 31 December 2020	16,023	6,681	–	–	–	–	12	**22,716**
As at 01 January 2019	**74,778**	**26,634**	**3,100**	**9,478**	**52,536**	**110**	**409**	**167,045**
Created in the financial year	7,524	–	15	14	2,806	667	1,637	**12,663**
Consolidation of a new subsidiary	115	5,260	–	535	100	–	–	**6,010**
Used	(4,339)	(890)	(975)	(1,927)	(24,554)	(319)	(987)	**(33,991)**
Dissolved	(35,425)	(10,290)	(1,327)	(911)	(11,354)	(316)	(7)	**(59,630)**
Foreign exchange rate differences	–	–	–	–	–	–	65	**65**
As at 31 December 2019	**42,653**	**20,714**	**813**	**7,189**	**19,534**	**142**	**1,117**	**92,162**
Short-term as at 31 December 2019	20,165	11,251	813	7,189	19,534	142	1,091	**60,185**
Long-term as at 31 December 2019	22,488	9,463	–	–	–	–	26	**31,977**

(in thousands of PLN)

27. Employee benefit liabilities

	As at 31 December 2020	As at 31 December 2019
Payroll liabilities	21,307	21,659
Social security liabilities	31,748	11,181
Bonuses and rewards	17,603	13,540
Unused holidays	15,213	12,481
Retirement and disability benefits	2,192	2,709
Liabilities due to employee benefits - short-term	**88,063**	**61,570**
Retirement and disability benefits	21,429	20,233
Liabilities due to employee benefits - long-term	**21,429**	**20,233**

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

27.1. The main assumptions adopted by the actuary

	31 December 2020	31 December 2019
Discount rate %	1.2%	2.0%
Expected inflation rate %	2.5%	2.5%
Expected wage growth rate %	3.5%	3.5%

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

	Year ended on 31 December 2020	Year ended on 31 December 2019
Cost of benefits:		
Current employment costs	1,838	1,492
Past service cost and profit / (loss) on settlement	(486)	(595)
Net interest expense	448	568
Components of defined benefit plan costs recognized in profit or loss	**1,800**	**1,465**
Revaluation of net liabilities due to defined benefits:		
Actuarial gains and losses resulting from changes in demographic assumptions	(771)	(620)
Actuarial gains and losses resulting from changes in financial assumptions	1,739	3,421
Other	(337)	(455)
Components of benefit plan costs recognized in other comprehensive income	**631**	**2,346**
Total	**2,431**	**3,811**

(in thousands of PLN)

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

	As at 31 December 2020	As at 31 December 2019
Liabilities due to defined benefits as at the beginning of the period	**22,942**	**18,911**
Acquisition of control over a new subsidiary	–	586
The cost of current benefits	1,849	1,410
Interest expense	458	582
(Profits) / revaluation losses:	**600**	**2,752**
Actuarial gains and losses resulting from changes in demographic assumptions	(691)	(599)
Actuarial gains and losses resulting from changes in financial assumptions	1,291	3,351
Past employment cost, including (losses) / gains on restrictions	201	120
Benefits paid	(2,016)	(1,412)
Other	(413)	(7)
Liabilities due to defined benefits as at the end of the period	**23,621**	**22,942**

27.2. Sensitivity analysis

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

	Liabilities due to retirement and disability benefits	Liabilities due to retirement and disability benefits
Change of assumption		
Discount rate – decrease by 0.5 p.p.	24,534	23,654
Discount rate – increase by 0.5 p.p.	22,280	21,485
Wages increase rate – decrease by 0.5 p.p	22,297	21,485
Wages increase rate – increase by 0.5 p.p	24,511	21,502

28. Trade and other liabilities

	As at 31 December 2020	As at 31 December 2019*
Trade receivables	**251,925**	**239,274**
Liabilities towards associated entities	2,939	855
Liabilities towards other entities	248,986	238,419
Accrued expenses	**111,117**	**111,086**
Total liabilities due to trade receivables	**363,042**	**350,360**
Tax, customs, social insurance and other liabilities		
VAT	24,838	10,434
Withholding tax paid at source	24	4
Personal income tax	4,549	4,279
PFRON (State Fund for Rehabilitation of Disabled People)	344	297
Social insurance liabilities	–	8,422
Other	180	70
Tangible fixed assets purchase liabilities	3,756	1572
Social fund	–	3
Other	127	262
Total other liabilities	**33,818**	**25,343**

Data after change in presentation - note 3.4

(in thousands of PLN)

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

Terms and conditions of payment of the above financial obligations:

Transactions with related entities are concluded on an arm's length basis (typical commercial transactions). Liabilities due to deliveries and services do not bear interest and are usually settled within 30 to 180 days.

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

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

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

29. Contingent liabilities

	As at 31 December 2020	As at 31 December 2019
Contingent liabilities	**637,353**	**482,107**
– granted guarantees and sureties	502,097	359,584
– promissory notes	82,351	53,362
– litigations	52,905	69,161

The increase in the value of guarantees issued is mainly due to the issuance of new performance bonds for contracts: Puławy (in the amount of PLN 105,990 thousand) and Dolna Odra (in the amount of PLN 47,360 thousand).

30. Information about transactions with related parties

Transactions with related entities are concluded on an arm's length basis (typical commercial transactions). The Group does not apply collaterals to receivables from related parties. The table below presents the total values of the transactions concluded with related parties for the period of a year ended on 31 December 2020 and as at that day and on 31 December 2019 and as at that day.

		For the period of 12 months		**Status as at the end of the reporting period**	
Group of entities		Income from related parties	Acquisitions from related parties	Receivables from related parties	Liabilities towards related parties
Other parties related through shareholders	2020	264,206	23,412	54,454	85,099
Unconsolidated subsidiaries	2020	24	86	261	823
Associates	2020	-	189	-	232
Total		**264,230**	**23,687**	**54,715**	**86,154**
Other parties related through shareholders	2019	588,067	26,381	103,916	46,084
Unconsolidated subsidiaries	2019	22	15	302	436
Associates	2019	2,396	35	-	-
Total		**590,485**	**26,431**	**104,218**	**46,520**

31. Transactions with parties related with the State Treasury

Polimex Mostostal Capital Group is a party in the transactions with entities related with the State Treasury. These transactions, which are also conducted with shareholders and parties related through shareholders, are presented in note 30 as transactions with parties related through shareholders. Transactions conducted with other parties related with the State Treasury are transactions concluded under market terms - these transactions are considered to be insignificant.

(in thousands of PLN)

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

	Year closed on 31 December 2020	Year closed on 31 December 2019
Management Board		
Short-term employee benefits (salaries and charges)	3,250	2,193
Supervisory Board		
Short-term employee benefits (salaries and charges)	766	669
Total	**4,016**	**2,862**

In the period from 31 December 2019 to the date of publication of this report, the acquisition of the Company's shares was carried out by Mr Konrad Milczarski, who was a member of the Supervisory Board until 31 May 2020. On 12 March 2020 Mr Milczarski purchased 30,000 shares for the total of PLN 36,419.60 and on 13 March 2020 he purchased 40,000 shares for the total of PLN 49,100.00. The members of the Management Board and the other members of the Supervisory Board have not informed the Company as at 31 December 2020 or as at the date of publication of this report that they hold or have sold its shares.

There have been no changes in the number of shares between 31 December 2020 and the date of the report going public.

33. Goals and principles of risk management

33.1. Interest rate risk

The 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 Company aims to reduce the volatility of future cash flows and minimise potential economic losses arising from the occurrence of events that may adversely affect profit or loss.

The Group holds cash on bank accounts, it has liabilities under bank loans and debt in the form of liabilities under the issued bonds. The above liabilities are based on a variable interest rate. The company monitors the situation on the financial market and analyses trends and forecasts in terms of the development of the reference market rates. As at 31 December 2020 the Group did not conclude derivative transactions securing the above-mentioned risk.

Analysis of sensitivity to interest rate changes

	Value exposed to risk	Increase/decrease by 0.50%	-0.50%
For the year ended on 31 December 2020			
Cash on bank accounts	367,754	1,839	(1,839)
Bank loans	60,123	301	(301)
Bonds	126,848	634	(634)
Other financial assets	3,448	17	(17)
Impact on the gross financial result		**2,791**	**(2,791)**
Deferred tax		(530)	530
Total		**2,261**	**(2,261)**

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

33.2. Foreign exchange risk

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

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

Fluctuations in the average euro exchange rate have a significant impact on the amount of revenue expressed in PLN from contracts concluded in foreign currency. On the basis of the signed and prospective contracts the Capital Group estimated the exposure to the currency risk in the period January - December 2021 as follows:

Specification	Q1-Q4 2021
Forecast inflows in foreign currency - equivalent in thousands of EUR	112,595
Forecast expenses in foreign currency - equivalent in thousands of EUR	41,508
Business exposure to foreign exchange risk in thousands of EUR	**71,087**

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

Exposure to foreign exchange risk

	31 December 2020			31 December 2019		
	EUR	*USD*	*RUB*	*EUR*	*USD*	*RUB*
Cash	4,841	61	3,830	4,977	9	–
Trade receivables	27,411	128	22,751	24,582	119	31,863
Secured bank loans, leasing liabilities	–	–	–	597	–	–
Trade receivables	5,968	224	–	3,526	131	–
Gross carrying amount	**26,284**	**(35)**	**26,581**	**25,436**	**(3)**	**31,863**
Estimated forecast of sales	112,595	–	–	122,015	–	–
Estimated forecast of purchase	41,508	38	–	23,783	2,666	–
Gross exposure	**71,087**	**(38)**	**–**	**98,232**	**(2,666)**	**–**
Net exposure	**97,371**	**(73)**	**26,581**	**123,668**	**(2,669)**	**31,863**

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

Foreign exchange risk sensitivity analysis as at 31 December 2020

	Carrying amount	*EUR/PLN*	
		Exchange rate (change 10 %)	*Exchange rate (change -10 %)*
Cash	22,791	2,233	(2,233)
Trade receivables	123,883	12,226	(12,226)
Trade receivables	(20,820)	(1,986)	1,986
Bank loans, borrowings and other external sources of financing	–	–	–
Impact on the gross financial result	**125,854**	**12,473**	**(12,473)**
Deferred tax	(23,912)	(2,370)	2,370
Impact on the net financial result	**101,942**	**10,103**	**(10,103)**

The above analysis includes a sensitivity analysis with respect to EUR exchange rate fluctuations. Fluctuations of other currencies - due to low exposure - are not a significant risk factor.

(in thousands of PLN)

Foreign exchange risk sensitivity analysis as at 31 December 2019

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

The above analysis includes a sensitivity analysis with respect to EUR exchange rate fluctuations. Fluctuations of other currencies - due to low exposure - are not a significant risk factor.

33.3. Credit risk

Credit risk is minimised by cooperation with reliable commercial partners, the application of instruments available on the market that enable the insurance of trade receivables from foreign recipients and the acquisition of collateral for payments from the contractors. In relation to domestic recipients that do not meet internal credit and financial reliability criteria, collateral in the form of sureties, agreement on the transfer of ownership, registered pledge or bill of exchange is applied when the recipients have restrictions on the availability of bank or insurance guarantees.

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

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

The credit risk related to liquid funds is limited because the Group's counter parties are banks with a high credit rating assigned by international rating agencies.

33.4. Liquidity risk

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

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

(in thousands of PLN)

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

As part of its activities, on 28 December 2020 the Issuer concluded with a group of financial creditors a package of annexes to existing agreements and new financial agreements including, in particular:

a) obtaining new guarantee financing under:
   i. a new guarantee line agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which the Company obtained a revolving guarantee limit from PKO BP in the amount not exceeding PLN 90 million,
   ii. a new guarantee line agreement with Bank Ochrony Środowiska S.A., under which the Company has obtained a revolving guarantee limit from BOŚ in the amount not exceeding PLN 20 million, and
   iii. a new guarantee line agreement with Bank Pekao S.A., under which the Company obtained a revolving guarantee limit from Pekao in the amount not exceeding 17 million.

b) early repayment of all balance-sheet liabilities due to financing banks covered by the provisions of the Agreement on the Principles of Servicing Polimex Mostostal S.A.'s Financial Debt of 21 December 2012, as amended ("ZOZF Agreement") (see note 20),

c) modification of the provisions of the Terms of Issue of the Series A and B Bonds issued on 1 October 2014 ("2014 Bonds") and the Terms of Issue of Series C Bonds issued on 27 September 2017 (the "2017 Bonds") by introducing new redemption schedules for each series of bonds linked to the extension of the bond program to December 31, 2026 (the new final redemption date for Series A and B Bonds) (see note 21),

d) adjustment of provisions of other financial contracts in a way that reflects agreements between the parties concerning the implementation of a new concept of debt financing of the Issuer's Capital Group,

The conclusion of the package of documents indicated above enabled an early settlement of the ZOZF Agreement, which constitutes a definitive end to the financial restructuring of the Company started in 2012. At the same time, thanks to an agreement with the Company's long-term financial partners, namely, Towarzystwo Finansowe Silesia sp. z o.o., Bankowe Towarzystwo Kapitałowe S.A. and Agencja Rozwoju Przemysłu S.A., the terms for servicing debt financing in the form of the 2014 Bonds and 2017 Bonds were optimised, with new final redemption dates set for the 2014 Bonds (31 December 2026) and 2017 Bonds (31 December 2024). Moreover, the Guarantee Lines Agreement concluded as part of this transaction for the total amount of PLN 127 million will constitute another source of guarantee financing for projects which are in the implementation stage and planned to be acquired by Polimex Mostostal Capital Group.

The Group's current order portfolio less sales attributable to consortium members amounts to approximately PLN 5,316 million and includes concluded contracts or offered projects for which the Group's offer was selected. The current order portfolio for particular years is as follows: 2021 PLN 2,197 million, 2022 PLN 1,435 million and the subsequent years PLN 1,684 million.

The table below presents the Group's financial liabilities as at 31 December 2020 and as at 31 December 2019 by maturity based on contractual undiscounted payments.

Liquidity risk as at 31 December 2020

	Upon request	*Less than 3 months*	*Between 3 and 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*

Bank loans, borrowings and other external sources of financing including:	175	8,235	61,992	16,173	15,365	101,940
- Leasing	175	2,700	5,906	16,173	15,365	40,319
Bonds	–	–	13,391	122,000	–	135,391
Trade liabilities, deposits due to the construction contracts and other liabilities	54,197	229,159	20,414	21,766	5,744	331,280
	54,372	**237,394**	**95,797**	**159,939**	**21,109**	**568,611**

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

Liquidity risk as at 31 December 2019

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

34. Financial instruments

34.1. Classificaton of financial instruments

	As at 31 December 2020	**As at 31 December 2019**
	Financial assets measured at amortized cost	
Financial assets		
Other financial assets	3,448	3,304
- long-term	694	2,643
- short-term	2,754	661
Trade receivables	516,493	288,401
Deposits due to the construction contracts	90,612	158,296
Cash and cash equivalents	367,754	285,013
	Financial liabilities measured at amortized cost	
Financial liabilities		
Bonds	126,848	173,578
Bank loans and borrowings including:		
- long-term bearing variable interest rate	–	76,737
- short-term bearing variable interest rate	60,123	76,816
- short-term bearing fixed interest rate	–	1,803
Lease liabilities	32,048	19,591
- long-term	25,743	11,184
- short-term	6,305	8,407
Trade receivables	251,925	239,274
Deposits due to the construction contracts	72,802	59,794

(in thousands of PLN)

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

Year ended on 31 December 2020

	Interest income / (expenses)	Profits / (losses) due to exchange differences	Release / (recognition) of impairment write-offs	Other	**Total**
Financial assets					
Financial assets at amortized cost through profit or loss	4,711	10,264	(15,009)	5,402	**5,368**
Financial liabilities					
Financial liabilities measured at amortized cost	(23,763)	(2,296)	–	(3,166)	**(29,225)**
Total	**(19,052)**	**7,968**	**(15,009)**	**2,236**	**(23,857)**

Year ended on 31 December 2019

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

35. Fair values of individual categories of financial instruments

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

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

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

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

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

(in thousands of PLN)

36. Capital management

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

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

As at 31 December 2019 and 31 December 2020 the Parent Company had positive equity capital.

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

	As at 31 December 2020	**As at 31 December 2019**
Bank loans, borrowings and bonds	186,971	327,131
Trade and other liabilities	396,860	384,524
Minus cash and cash equivalents	367,754	285,013
Net debt	216,077	426,642
Equity	788,121	732,450
Equity and net debt	**1,004,198**	**1,159,092**
Leverage ratio (net debt / capital and net debt)	22%	37%

37. Employment structure

Average employment in the Group as at 31 December 2020 and as at 31 December 2019 was as follows (after rounding to whole numbers):

	As at 31 December 2020	**As at 31 December 2019**
Management Board of the Parent Company	3	3
Management Boards of the entities within the Group	19	20
Support division	838	846
Operations division	3,695	3,656
Total	**4,555**	**4,525**

38. Litigations regarding receivables and liabilities

As at 31 December 2020 there was an ongoing counterclaim proceeding initiated by Mostostal S.A. with the registered office in Warsaw (the "Defendant"). The counterclaim has been filed against the Company and Mostostal Siedlce Sp. z o.o. Sp.k. The counterclaim presents the position of the Defendant in the case filed by the Issuer and by Mostostal Siedlce Sp. z o.o. Sp.k. in June 2017 for Issuer cancellation of the sales agreement pertaining to two Mostostal trademarks: the figurative trademark “Mostostal” registered under number R 87887 and the verbal trademark “Mostostal” registered under number R 97850. The sales agreement for the trademarks was concluded in 2007 by the administrative receiver of one of the entities using the trademarks. The Defendant was the purchaser in this transaction. The value of the subject matter under dispute is PLN 96,908,719. The amount indicated by the Defendant constitutes the compensation for the violation of the protective rights with regards to the specified trademarks. The Defendant is claiming compensation of PLN 83,717,995 from the Company and PLN 13,190,724 from Mostostal Siedlce Sp. z o.o. Sp.k. The position of the Management Board of the Company is that the counterclaim and the value of the compensation have no legal merit and the counterclaim was filed merely in a reaction to the lawsuit initiated by the Parent Company in June 2017. As indicated by the analysis undertaken by the Company, the Company has subjective rights to Mostostal, as well as the prior user right to the trade name “Mostostal”, which take precedence over the above-mentioned Mostostal trademarks under dispute.

Apart from this case, as at 31 December 2020 there were no ongoing court proceedings with the values relevant from the standpoint of financial statements.

39. Events after the balance sheet date

- On 5 January 2021, an annex was concluded with Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A. ("ERGO Hestia") to the Agreement on Cooperation in the Scope of Granting Insurance Guarantees within the allocated guarantee limit concluded on 8 July 2020 ("Agreement"), pursuant to which the total guarantee amount for guarantees issued under the Agreement is increased from PLN 20,000,000.00 to PLN 83,000,000.00 ("Limit"). The limit available to the Company under the Agreement is renewable and is valid until 31 December 2021. Under the Agreement, the Company is entitled to apply for insurance guarantees with a validity period of up to 84 months from the date of issue.

  Blank promissory notes issued by the Issuer along with promissory note declarations serve as collateral for repayment of potential ERGO Hestia claims. In cases specified in the Agreement, ERGO Hestia may require establishment of additional security.

  ERGO Hestia may terminate the Agreement in the event of inadequate performance by the Issuer of its obligations under the Agreement, in particular i) failure to submit the securities required under the Agreement, ii) failure by the Company to satisfy claims due to ERGO Hestia under the Agreement, iii) breach of other obligations of the Company under the Agreement.

  The agreement is concluded for an indefinite period.

- On 10 February 2021, an Guarantee Line Agreement (“Agreement”) was concluded with Intesa Sanpaolo S.p.A. with its registered office at Piazza San Carlo 156, 10121 Turin, Italy, acting through its branch Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland, with its registered office at ul. Książęca 4, 00-498 Warszawa ("Bank"). Under the terms of the Agreement the Bank granted the Company a limit for bank guarantees in the amount of PLN 186,000,000.00 ("Limit") with a maximum validity period of the guarantees issued under the Agreement not longer than until 30 June 2024. Within the framework of the Agreement, the Company obtained in particular the guarantees required for financing the contract, about which the Issuer informed in current report no. 6/2020 of January 30, 2020 ("Dolna Odra Contract")

  In compliance with the Agreement, the receivables of the Bank have been secured by: (i) assignment to the Bank of cash receivables due to the Company under contracts being financed by the Bank, in particular the Dolna Odra Contract, (ii) registered pledge on receivables under the bank account agreement regarding bank accounts opened with the Bank and (iii) financial and registered pledge on cash and claims for cash payments from accounts opened with the Bank. In addition, the Company submitted a statement of submission to enforcement, compliant with Article 777(1), point 5 of the Civil Procedure Code.

  On the basis of the Agreement, the Company assumed a standard range of obligations for this type of transactions, including information obligations concerning, inter alia, the provision of information on financial statements, concluded contracts and other significant events. The Agreement also provides, inter alia, for restrictions on the scope of activities (e.g. no change in the core business) or on the trading of assets and collateral.

  The Bank may terminate the Agreement in the event of the Issuer's improper performance of its obligations under the Agreement, in particular i) failure to submit the securities required under the Agreement, ii) failure by the Company to satisfy the Bank's matured receivables under the Agreement, iii) breach of other obligations of the Company under the Agreement.

- On 18 February 2021, Polimex Budownictwo spółka z ograniczoną odpowiedzialnościa sp.k. with its registered office in Siedlce (a subsidiary of the Issuer) received from Janikowo GP GmBH sp.k. with its registered office in Dąbrowa (formerly E&W spółka z ograniczoną odpowiedzialnością sp.k.) a contract for the execution of Phase II of the project consisting in comprehensive construction, in the "turnkey" formula, of the “Janikowo Wind Farm” comprising 30 turbines of the total capacity of 60MW.

- On 9 April 2021, an agreement ("Agreement") was concluded between the Capital City of Warsaw ("Ordering Party") and a consortium ("Contractor") consisting of: Polimex Mostostal S.A. and Polimex Infrastruktura sp. z o.o. with its registered office in Warsaw (wholly owned by the Issuer).

The subject matter of the Agreement is the performance of construction works on the extension of voivodeship road No. 631 in the scope of the construction of a bridge facility in the course of Marsa - Żołnierska streets along with the reconstruction of the existing road system and land development network as part of the investment task entitled "Modernization of Marsa-Żołnierska Streets, section from Marsa intersection to city border" ("Assignment"). The deadline for completion of the Assignment has been set as 20 months from the day of concluding the Agreement. The remuneration for the completion of the Assignment is a cost estimate, the offer price amounts to PLN 46,441,302.41 net ("Offer Price"), and the value of the contractual remuneration, exceeding of which results in the need to conclude an annex to the Agreement, amounts to PLN 55,729,562.89 net. The Remuneration will be paid in instalments after the completion of respective implementation stages provided for in the Assignment Implementation Schedule. The Parties to the Agreement have agreed that the Contractor shall provide a warranty for defects in the subject matter of the Agreement for a period of 96 months. In order to secure the Ordering Party's potential claims, the Contractor provided the Ordering Party with a performance bond in the amount of 5% of the Offer Price. The Agreement provides for contractual penalties for, inter alia, delay in the performance of construction work. The Agreement provides for a limitation of contractual penalties to 20% of the Offer Price. The Agreement provides for the possibility of withdrawal from the Agreement by the Ordering Party or the Contractor in specific cases.

Warsaw, 28 April 2021

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

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