

# ERBUD CAPITAL GROUP

## Consolidated Financial Statement for the accounting year ended on 31 December 2020

drawn up in accordance with the International Financial Reporting Standards (IFRS) as endorsed for use in the European Union.

## CONSOLIDATED STATEMENT OF RESULT

| | | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|---|
| | **CONTINUING OPERATIONS** | | |
| Note 4.2.-4.3. | Revenues from sales of products and services | 2,228,344 | 2,313,363 |
| Note 4.2.-4.4. | Cost of products and services sold | 2,034,828 | 2,166,664 |
| | **Gross sales profit/(loss)** | **193,516** | **146,699** |
| Note 4.4. | Cost of sales | 9,009 | 6,003 |
| Note 4.4. | General and administrative (G&A) costs | 118,556 | 92,235 |
| | Other operating income | 11,700 | 20,827 |
| | Other operating expenses | 7,149 | 8,860 |
| Note 4.2. | Loss reversal/(impairment) of financial assets and contract valuation assets | 116 | (2,203) |
| | Share in net profits/losses of equity-accounted subsidiaries | - | 175 |
| Note 4.2. | **Operating profit** | **70,618** | **58,400** |
| | Financial income | 7,081 | 2,566 |
| | Financial expenses | 13,446 | 12,080 |
| | **Gross profit** | **64,253** | **48,886** |
| Note 4.8. | Income tax | 13,880 | 13,842 |
| | **Net profit for the accounting period** | **50,373** | **35,044** |
| | **Net profit /(loss) for the accounting period** | **50,373** | **35,044** |
| | Profit generated in accounting period appropriated to: | | |
| | Shareholders of Parent Company | 46,661 | 33,634 |
| | Non-Controlling Stakeholders | 3,712 | 1,409 |
| | Average weighted number of ordinary shares (in pcs.) | 12,780,128 | 12,811,859 |
| | Net profit/loss from continued operations per share (in PLN) | 3.94 | 2.74 |
| | **Net earnings per share from core activity (in PLN)** | **3.94** | **2.74** |
| | Average weighted number of ordinary shares (in pcs.) | 12,780,128 | 12,811,859 |
| | Diluted net earnings from continued operations per share (in PLN) | 3.94 | 2.74 |
| | **Diluted earnings per share (in PLN)** | **3.94** | **2.74** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| **Consolidated net profit** | **50,373** | **35,044** |
| Foreign exchange gains/losses resulting from translation of statements of foreign entities | 4,173 | (462) |
| Pricing of hedging instruments | - | (7) |
| **Comprehensive income (including tax effect) subject to reclassification into result** | **4,173** | **(469)** |
| **Comprehensive income in the accounting period** | **54,546** | **34,575** |
| Appropriated to: | | |
| Shareholders of Parent Company | 50,796 | 33,173 |
| Non-Controlling Stakeholders | 3,750 | 1,402 |
| Going concern operations | 50,796 | 33,173 |
| | **50,796** | **33,173** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| | **ASSETS** | **1,199,863** | **1,173,495** |
| Note 6.2. | Goodwill | 40,667 | 39,303 |
| Note 6.1. | Tangible fixed assets | 104,154 | 105,107 |
| Note 5.1. | Financial assets | 7,120 | 2,720 |
| Note 4.8. | Deferred tax assets | 45,778 | 33,524 |
| Note 2.2. | Receivables under building contracts - bid bonds | 12,004 | 9,080 |
| | **Fixed assets** | **209,723** | **189,734** |
| Note 6.4. | Inventory | 25,728 | 87,320 |
| Note 2.2. | Receivables under building contracts - bid bonds | 25,027 | 53,082 |
| Note 2.3. | Pricing of building contracts - assets | 179,106 | 202,460 |
| Note 6.5. | Trade receivables | 367,389 | 426,809 |
| Note 6.5. | Other receivables | 30,939 | 42,895 |
| Note 5.1. | Other financial assets | 10,633 | 3,461 |
| Note 3.8. | Cash and cash equivalents | 292,588 | 148,201 |
| Note 3.8. | Cash assets in VAT account | 30,753 | 12,918 |
| Note 3.8. | Cash with restricted availability. | 22,949 | 39 |
| | Short-term prepayments | 5,028 | 6,576 |
| | **Current assets** | **990,140** | **983,761** |
| | **LIABILITIES** | **1,199,863** | **1,173,495** |
| Note 3.1. | Share capital | 1,240 | 1,281 |
| | Supplementary capital | 195,497 | 211,931 |
| | Reserve capital | 17,822 | 11,385 |
| | Accumulated comprehensive income | 5,689 | 1,554 |
| | Retained earnings | 80,804 | 40,534 |
| | Equity of shareholders of the Parent Company | 301,052 | 266,685 |
| | Equity of non-controlling stakeholders | 9,441 | 8,131 |
| | **Shareholders' equity** | **310,493** | **274,816** |
| Notes 3.2.-3.5 | Debt | 35,873 | 100,786 |
| Note 6.7. | Provisions | 22,788 | 18,087 |
| Note 4.8. | Deferred tax liabilities | 1,133 | 1,573 |
| Note 2.2. | Liabilities vis-a-vis subcontractors - bid bonds | 15,901 | 19,428 |
| | **Long-term liabilities** | **75,695** | **139,874** |
| Notes 3.2.-3.5 | Debt | 91,589 | 131,661 |
| Note 6.7. | Provisions | 29,050 | 26,856 |
| Note 2.2. | Liabilities vis-a-vis subcontractors - bid bonds | 124,460 | 116,699 |
| Note 2.3. | Pricing of building contracts - liabilities | 234,463 | 169,775 |
| Note 6.9. | Trade payables | 258,673 | 234,297 |
| Note 6.9. | Other liabilities | 75,440 | 79,517 |
| | **Short-term liabilities** | **813,675** | **758,805** |

**Statement of Changes in Equity of the Shareholders of the Parent Company**

| | Share capital | Supplementary capital | Reserve capital | Foreign exchange gains/losses resulting from conversion of foreign unit | Pricing of hedging instruments | Retained earnings | Total | Equity of non-controlling stakeholders | Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **As of 1 Jan. 2019** | **1,281** | **211,931** | **11,103** | **2,022** | **(6)** | **6,843** | **233,174** | **7,737** | **240,911** |
| Net result in the accounting period | - | - | - | - | - | 33,635 | **33,635** | 1,409 | **35,044** |
| Comprehensive income in the accounting period | - | - | - | (468) | 6 | - | **(462)** | (7) | **(469)** |
| **Other comprehensive income** | **-** | **-** | **-** | **(468)** | **6** | **33,635** | **33,173** | **1,402** | **34,575** |
| Dividend | - | - | - | - | - | - | **-** | (623) | **(623)** |
| Acquisition and redemption of a stake in a subsidiary | - | - | 282 | - | - | - | **282** | (385) | **(103)** |
| Other | - | - | - | - | - | 56 | **56** | - | **56** |
| **As of 31 Dec. 2019** | **1,281** | **211,931** | **11,385** | **1,554** | **-** | **40,534** | **266,685** | **8,131** | **274,816** |
| **As of 1 Jan. 2020** | **1,281** | **211,931** | **11,385** | **1,554** | **-** | **40,534** | **266,685** | **8,131** | **274,816** |
| Net result in the accounting period | - | - | - | - | - | 46,661 | **46,661** | 3,712 | **50,373** |
| Comprehensive income in the accounting period | - | - | - | 4,135 | - | - | **4,135** | 38 | **4,173** |
| **Other comprehensive income** | **-** | **-** | **-** | **4,135** | **-** | **46,661** | **50,796** | **3,750** | **54,546** |
| Dividend | - | - | - | - | - | - | **-** | (2,031) | **(2,031)** |
| Net retained earnings carried forward | - | - | 6,437 | - | - | (6,437) | **-** | - | **-** |
| Acquisition and redemption of a stake in a subsidiary | - | - | - | - | - | (142) | **(142)** | (409) | **(551)** |
| Acquisition of own shares | (41) | (16,459) | - | - | - | - | **(16,500)** | - | **(16,500)** |
| Other | - | 25 | - | - | - | 188 | **213** | - | **213** |
| **As of 31 Dec. 2020** | **1,240** | **195,497** | **17,822** | **5,689** | **-** | **80,804** | **301,052** | **9,441** | **310,493** |

## CONSOLIDATED CASH FLOW STATEMENT

| | | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|---|
| | **OPERATIONAL CASH FLOWS** | | |
| | Gross profit/loss | 64,253 | 48,886 |
| | Amortization and depreciation | 22,941 | 21,295 |
| | Foreign exchange gains/losses | 4,288 | (438) |
| | Interest and share in profits (dividend) | 2,107 | 3,632 |
| | Other non-cash adjustments | (201) | (1,557) |
| | Income tax paid | (10,306) | (11,820) |
| Note 6.10. | Change in balance of working capital | 220,974 | (175,816) |
| | **Operational cash flows, net** | **304,056** | **(115,818)** |
| | **INVESTMENT ACTIVITY CASH FLOWS** | | |
| | Proceeds from the sales of interest in a subsidiary | - | 3 |
| Notes 5.1.2 | Inflows from credits/loans extended | 8 | 7,476 |
| | Other inflows | 948 | 2,479 |
| | Expenditures on the acquisition of tangible fixed assets | (13,414) | (14,471) |
| Notes 5.1.2 | Loans extended expense | (10,000) | - |
| | Expenditures on the acquisition of shares in companies | - | (106) |
| | Other | (513) | (251) |
| | **Investment activity cash flows, net** | **(22,971)** | **(4,870)** |
| | **FINANCIAL ACTIVITY CASH FLOWS** | | |
| Note 3.2. | Income from credits and loans taken | 27,712 | 126,265 |
| | Other inflows | - | 175 |
| Note 3.2. | Debt (principal) repayment expense | (129,849) | (50,795) |
| Note 3.2. | Debt (principal) repayment expense | (9,495) | (7,872) |
| Note 3.2. | Debt (interest) repayment expense | (6,527) | (4,876) |
| | Dividend payment | (2,031) | (615) |
| | Acquisition of own shares | (16,500) | - |
| | Other expenses | (8) | - |
| | **Financial activity cash flows, net** | **(136,698)** | **62,282** |
| | **NET CASH FLOWS** | **144,387** | **(58,407)** |
| | **Opening cash balance** | **148,201** | **206,608** |
| | Foreign exchange gains/losses concerning cash and cash equivalents | - | - |
| | **Closing cash balance** | **292,588** | **148,201** |

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The Financial Statement comprises icons that represent:

 Accounting Policy

 Estimates

# 1. BACKGROUND INFORMATION

## 1.1. INTRODUCTION

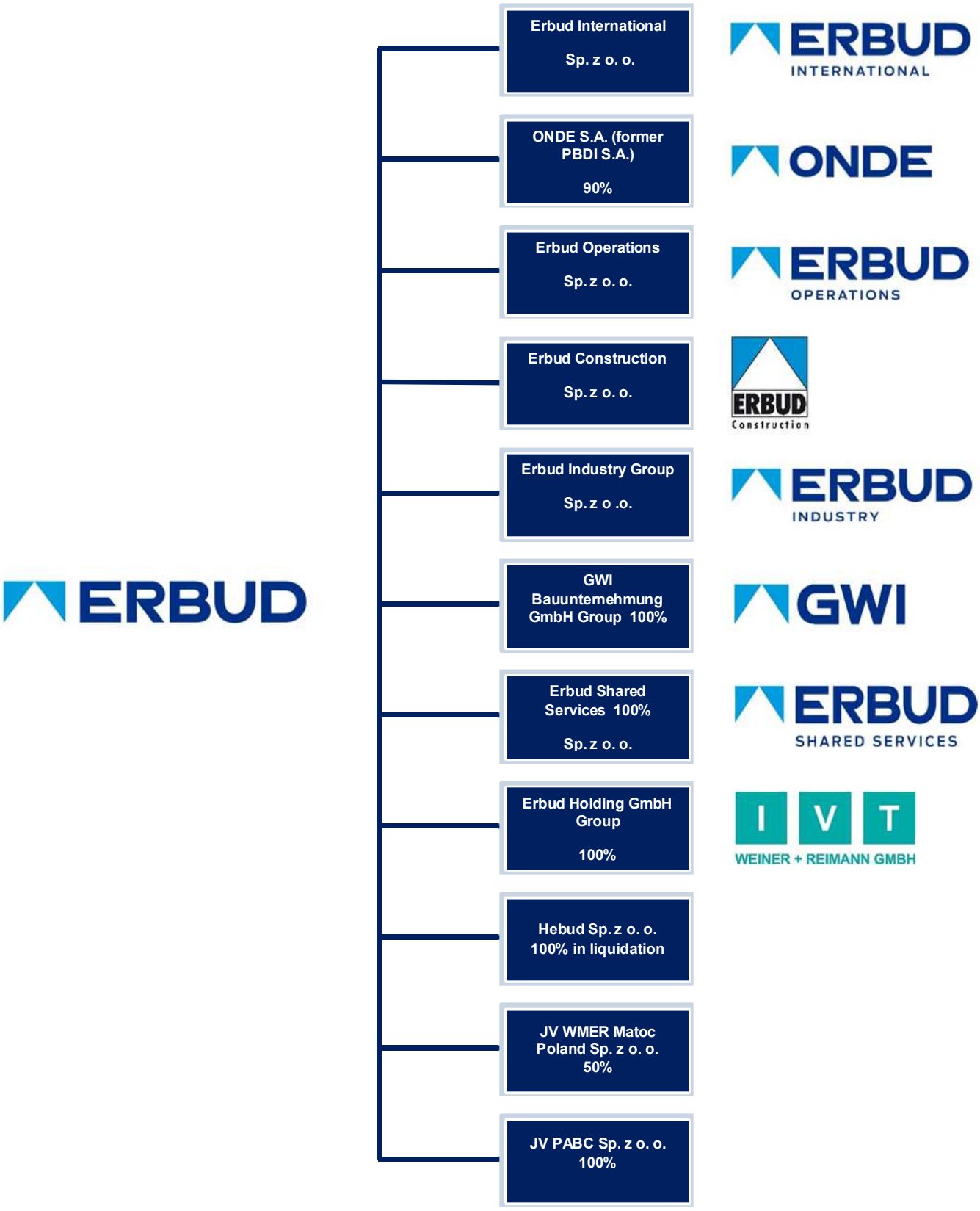
The Parent Company of Erbud S.A Capital Group ("Group") is Erbud S.A. ("Parent Company"), with its registered office in the City of Warsaw, at ul. Franciszka Klimczaka No. 1.

The Parent Company was entered into the National Court Register on 29 November 2006 under entry No. KRS 0000268667 (District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register). The Parent Company has been listed on the Warsaw Stock Exchange since 2007 and has been incorporated into the construction companies index "WIG Construction".

The scope of the Group's activities comprises broadly understood construction and erection services performed on general contractor basis in Poland and in foreign countries. In addition, Erbud S.A. plays the role of a management, advisory and financial centre within the Group. The Group operates in the Polish market and in the markets of other European Union countries.

The duration of the Parent Company and the Group member companies is indefinite.

## 1. BACKGROUND INFORMATION




Detailed organisational structure of the Group is presented in the Note 6.11

## 1.2. GROUNDS FOR DRAWING UP THE FINANCIAL STATEMENT

### IFRS Compliance Statement

The consolidated financial statements of the Group closed on 31 December 2020 were drawn up in compliance with the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union and as applicable at 31 December 2020.

The Consolidated Financial Statement is presented in Polish currency (Polish zloty, "PLN"), and all values are specified given in thousands of Polish zlotys.

The Financial Statement has been drawn up on historical cost basis, except for financial derivatives that were priced at fair value.

This Financial Statement was approved for publication by the Management Board on 7 April 2021.

### Going Concern

This Financial Statement has been drawn up following going concern principle applicable to the Group in the foreseeable future. As of the date of approval of this Financial Statement, no signs prevailed indicating a risk to the continuation of Company operations following a going concern principle.

### Impact of COVID-19

The Group has not experienced a material impact of COVID-19 on its current operations. The building contracts were carried out in adherence to the planned schedules, and no penalties for project delays were recorded. Additional costs related to providing necessary safety for the personnel were not significant and did not have material impact on the Company's 2020 performance. The coronavirus pandemic did not undermine Group's liquidity, and the Group maintained a stable, high cash balance throughout the year and paid its liabilities in a timely manner. The Group also experienced no change in the recoverability of accounts receivable, which were paid by the customers on an on-going basis with no significant delays.

### Pricing at fair value

The measure of fair value of an asset or liability the Group takes into consideration the properties of a certain asset or liability, if the market players take into consideration these characteristics when measuring the assets or liabilities at the measurement date. The Group classifies fair value measurement principles using the fair value hierarchy, reflecting the weight of source data used for measurement, pursuant to IFRS No. 13. As of the individual balance sheet dates, the Group has no items measured at fair value but discloses fair value for items measured at amortized cost.

### Conversion of items into foreign currencies

The items specified in the financial statements are measured in the currency of the core business environment where the entity carries out its operations ("functional currency"). The functional currency of Polish companies within the Group is PLN, whereas the functional currency of German companies is EUR, and the presentation currency of the financial statements is Polish zloty (PLN).

Transactions in foreign currencies are recorded in the books at the time of initial recognition in the value converted into PLN at the average NBP rate prevailing at the transaction date.

At the balancing date cash assets and liabilities denominated in currencies other than Polish zloty are converted into Polish zlotys using the appropriate average exchange rate, effective at the end of the accounting period, determined for a certain currency by the National Bank of Poland. The foreign exchange gains/losses are posted respectively into the line "financial gains (losses)" or in cases defined by accounting principles (policy), are capitalised in the assets value.

The non-cash assets and liabilities recognised at historic cost expressed in foreign currency are posted at historical exchange rate prevailing at the transaction date. Non-cash assets and liabilities carried at fair value expressed in foreign currency are converted using the exchange rate prevailing at the date of pricing at fair value.

## Change of data presentation

Effective from 31 December 2020, the Group started to present its balance sheet data in a different format. The aforementioned changes are presented below. There was no impact on the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows.

The changes relate to the separation of trade and other receivables into separate lines, the separation of trade and other payables into separate lines, the transfer of Provisions for short-term employee benefits into Other liabilities and the incorporation of advances received against the balance of construction contract liabilities.

**STATEMENT OF FINANCIAL POSITION - ASSETS**

| | As of 31 Dec. 2019 | | |
|---|---|---|---|
| | Before | Adjustments | After |
| **ASSETS** | **1,173,495** | **-** | **1,173,495** |
| Goodwill | 39,303 | - | 39,303 |
| Tangible fixed assets | 105,107 | - | 105,107 |
| Financial assets | 2,720 | - | 2,720 |
| Deferred tax assets | 33,524 | - | 33,524 |
| Receivables under building contracts - bid bonds | 9,080 | - | 9,080 |
| **Fixed assets** | **189,734** | **-** | **189,734** |
| Inventory | 87,320 | - | 87,320 |
| Receivables under building contracts - bid bonds | 53,082 | - | 53,082 |
| Pricing of building contracts - assets | 202,460 | - | 202,460 |
| Trade receivables and other receivables | 469,704 | (469,704) | - |
| Trade receivables | - | 426,809 | 426,809 |
| Other receivables | - | 42,895 | 42,895 |
| Other financial assets | 3,461 | - | 3,461 |
| Cash and cash equivalents | 148,240 | (39) | 148,201 |
| Cash assets in VAT account | 12,918 | | 12,918 |
| Cash with restricted availability. | - | 39 | 39 |
| Short-term prepayments | 6,576 | - | 6,576 |
| **Current assets** | **983,761** | **-** | **983,761** |

**STATEMENT OF FINANCIAL POSITION - LIABILITIES**

| | As of 31 Dec. 2019 | | |
|---|---|---|---|
| | Before | Adjustments | After |
| **LIABILITIES** | **1,173,495** | **-** | **1,173,495** |
| Share capital | 1,281 | - | 1,281 |
| Supplementary capital | 211,931 | - | 211,931 |
| Reserve capital | 11,385 | - | 11,385 |
| Accumulated other comprehensive income | 1,554 | - | 1,554 |
| Retained earnings | 40,534 | - | 40,534 |
| Equity of shareholders of the Parent Company | **266,685** | **-** | **266,685** |
| Equity of non-controlling stakeholders | 8,131 | - | 8,131 |
| **Shareholders' equity** | **274,816** | **-** | **274,816** |
| Debt | 100,786 | - | 100,786 |
| Provisions | 18,087 | - | 18,087 |
| Deferred tax liabilities | 1,573 | - | 1,573 |
| Building contract liabilities - bid bonds | 19,428 | - | 19,428 |
| **Long-term liabilities** | **139,874** | **-** | **139,874** |
| Debt | 131,661 | - | 131,661 |
| Provisions | 44,653 | (17,797) | 26,856 |
| Liabilities vis-a-vis subcontractors - bid bonds | 116,699 | | 116,699 |
| Pricing of building contracts - liabilities | 156,021 | 13,754 | 169,775 |
| Trade payables and other liabilities | 299,643 | (299,643) | - |
| Trade payables | - | 234,297 | 234,297 |
| Other liabilities | - | 79,517 | 79,517 |
| Prepaid deliveries | 10,128 | (10,128) | - |
| **Short-term liabilities** | **758,805** | **-** | **758,805** |

## 1.3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS:

**Published standards and interpretations, which are not yet effective and have not been applied by the Group before.**

In these financial statements the Group has not decided to apply the following published standards, interpretations or amendments to existing standards before their effective date. The following standards and amendments are not expected to have a material impact on the Group in the current or future reporting periods.

### 1) IFRS 17 „Insurance Contracts" and amendments to IFRS 17

The IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on 18 May 2017 and amendments to IFRS 17 were published on 25 June 2020. The new amended standard is effective for annual periods beginning on or after 1 January 2023.

The new IFRS 17 "Insurance Contracts" will replace the current IFRS 4, which permits a variety of practices in the settlement of insurance contracts. IFRS 17 will change fundamentally the accounting of all entities that deal with insurance and investment contracts.

At the date of these financial statements, the new standard had not yet been endorsed by the European Union.

### 2) Amendments to IAS 1 "Presentation of Financial Statements"

The Council has published amendments to IAS 1 that clarify the issue of presentation of liabilities as long and short-term ones. The published amendments shall apply to financial statements for periods beginning on or after 1 January 2022.

At the date of preparation of these consolidated financial statements, the amendment in question had not yet been endorsed by the European Union.

### 3) Amendments to IFRS 3 "Business Combinations"

The published amendments to the standard are intended to update the relevant references to the Conceptual Assumptions in IFRS, without making material changes to business combinations accounting. At the date of preparation of these consolidated financial statements, the amendment in question had not yet been endorsed by the European Union.

### 4) Amendments to IAS 16 "Property, Plant and Equipment"

The amendment introduces a ban on adjusting the cost of production of property, plant and equipment by the amounts obtained from the sale of components produced during the period of preparation of the property, plant and equipment for operation in accordance with the management's intentions. Instead, the entity will recognise the above sales revenues and related costs directly in the income statement. The amendment shall apply to financial statements for periods beginning on or after 1 January 2022. At the date of preparation of these consolidated financial statements, the amendment in question had not yet been endorsed by the European Union.

### 5) Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets"

The amendments to IAS 37 provide an explanation of the costs that an entity takes into account when analysing whether a contract is an onerous contract. The amendment shall apply to financial statements for periods beginning on or after 1 January 2022. At the date of preparation of these consolidated financial statements, the amendment in question had not yet been endorsed by the European Union.

### 6) Annual Amendments to IFRS 2018 - 2020

"The annual revision of IFRS 2018-2020 introduces changes to the standards: IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and the illustrative examples for IFRS 16 "Lease".

The amendments contain clarifications and describe more precisely the guidelines for standards on recognition and measurement. At the date of preparation of these consolidated financial statements, the amendments in question had not yet been endorsed by the European Union.

### 7) Amendments to IFRS 4: Application of IFRS 9 "Financial Instruments"

The amendment to IFRS 4 "Insurance Contracts" postpones the application of IFRS 9 "Financial Instruments" until 2021. At the date of preparation of these consolidated financial statements, the amendment had not yet been endorsed by the European Union.

The Group does not run business lines affected by the above changes.

### 8) IFRS 14 "Regulatory Deferral Accounts"

This standard allows entities that drawn up financial statements for the first time (on or after 1 January 2016) pursuant to IFRS to recognize amounts resulting from operations with regulated prices, in compliance with the previously applied accounting principles. To enhance comparability with entities that already apply IFRS and do not post such amounts, under published IFRS 14, amounts resulting from operations with regulated prices should be presented separately in both the statement of financial position, in the profit and loss account and the statement of other comprehensive income.

IFRS 14 will not be endorsed by virtue of the European Union's decision.

This standard is not applicable to the Group's operations.

### 9) Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between the investor and its associates or joint ventures

The amendments solve the problem of the current inconsistency between IFRS 10 and IAS 28. Accounting recognition depends on whether non-monetary assets sold or contributed to an associate or joint venture are businesses or not.

Where a non-monetary asset is a 'business', the investor will show a full gain or loss from the transaction. If the assets do not meet the business definition criteria, the investor recognises a gain or loss excluding the portion that represents the interest of other investors.

The amendments were published on 11 September 2014. As of the date of drawing up these separate financial statements, the endorsement of this amendment is deferred by the European Union.

### 10) Amendments to IFRS 16 "Lease"

On 28 May 2020 the Council published an amendment to IFRS 16 in response to amendments to the lease contracts in connection with the coronavirus pandemic (COVID-19). Lessees have the right to take advantage of discounts and exemptions, which may take various forms, i.e. deferral or exemption from lease payments. Therefore, the Council has introduced a simplification in assessing whether these amendments represent modification of the lease. Lessees may benefit from the simplification of not applying the guidelines of IFRS 16 on modification of lease contracts. As a result, this will result in the recognition of lease allowances and exemptions as variable lease payments over the period in which the event or condition causing payment decrease occurs. The amendment is effective from 1 June 2020, with early application permitted.

These amendments will not have a material impact on the Group's financial statements.

### 11) • Amendments to IFRS 9, IAS 39 and IFRS 16 connected with the IBOR reform

In response to the expected reform of reference rates (IBOR reform), the International Accounting Standards Board has published the second part of amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. At the date of drawing up these consolidated financial statements, the amendment in question had not yet been endorsed by the European Union.

## 2. BUILDING CONTRACTS



The Group signs fixed-price contracts for the execution of construction contracts, mainly in the areas of apartment construction (including entire housing estates), hotels, SPA facilities, shopping malls, wind farms, power plants, production rooms, and highways.

Income and expenses generated by the building contracts underway are recognized by the Company in pace with the progress of works being made. Some Group member companies measure contract performance progress rate using the performance-based method, i.e. it determines the value of revenues and expenses under the performance of construction contracts in the period from the Contract Date to the balancing date proportionally to the progress rate of a certain contract performance by way of evaluation of the achieved results and milestones. Some of the Companies apply the method based on expenditures, i.e. they determine the value of revenue on execution of building contracts in the period from the contract date to the balance sheet date proportionally to the progress rate of execution of a certain contract by calculating the progress rate of works based on the ratio of costs recognized for the contract to the total cost budget prepared for the contract. From thus determined figures the Group deducts revenues and expenses, which affected the financial result in previous years, generating revenues and costs under building contracts executed in the current period. A change of the estimated progress rate of contract execution is treated as a change in estimate and affects the amount of revenues recognized in the period in which the change in estimate was made. If it is not possible to determine progress rate of non-finished service (including construction service) or expected total cost of service delivery in a reliable manner, then the revenues are determined at the level of costs born in a certain accounting period, however, not higher than costs, which are expected to be covered by the employer in the future.

On the other site the results of pricing (i.e., the determination of revenues and expenses using the progress rate method) are recorded as "Pricing of building contracts - assets (or liabilities)." The balances of assets under building contracts resulting from the excess of revenue recognized using the performance-based method over the invoiced revenues are subject to an impairment charge calculated similarly to the non-past due trade receivables. All building contract assets at the Level 2 of the impairment model and a simplified matrix approach (similar to trade receivables) are used to calculate the impairment loss on these assets. The write-off amount at the respective balance sheet date is presented in Note 2.3. Due to the manner in which balances on construction contract assets are recognized, they are not subject to aging and are treated entirely as current, not past due. The works performed under building contracts are invoiced in adherence to the schedule set forth in the contract. The Group recognizes invoiced revenues in the line "Trade and other receivables" (Note 6.5) The Contractors under building contracts signed with the Group withhold a part of the payments as a performance bond for the contracts. These figures are recognized as "Building contract receivables - bid bonds" (Note 2.2) and are refundable most often after project completion after the end of the warranty period.

The Group engages subcontractors to carry out work related to the execution of building contracts. The invoiced costs related to subcontractors' employment are recognized as "Trade payables and other liabilities" (Note 6.9) The Group retains a portion of payments to subcontractors in relation to contract performance bond, and recognizes it in the line "Building contract liabilities - deposits" (Note 2.2) The breakdown of revenues into revenues recognized in time and items recognized at point of time is presented in Note 4.2.

In connection with the execution of building contracts and the difference in time of revenues and expenses recognition for accounting and tax purposes, the deferred income tax assets and liabilities are recognized in the statement of financial position - see Note 4.8.

## 2. BUILDING CONTRACTS

The Group sets up provisions for contracts with negative margins when it has found out grounds to claim that a given building contract in progress will end with a loss. Provisions are charged into the costs of a given period at the full value of the expected loss on a given contract and are disclosed in the balance sheet under "Provisions" (Note 6.7.).

The Group provides only basic guarantees to its customers, which do not represent a separate duty to perform obligation. The warranty period varies depending on the contract under implementation and the components covered.

The Group engages subcontractors to carry out work related to the execution of building contracts. The Group acts as principal with respect to work performed by subcontractors. The invoiced costs related to subcontractors' employment are recognized as "Trade payables (Note 6.9). The Group retains a portion of payments to subcontractors in relation to contract performance bond, and recognizes it in the line "Liabilities vis-a-vis subcontractors - bid bonds" (Note 2.2)

For certain building contracts executed under joint contractual arrangements in which the Group is the consortium or assignment leader, the Group has assessed that it acts as an intermediary with respect to the work performed by the other partner and which the Group as leader invoices the Employer. The Group defines its role as that of an intermediary under a certain order where it identifies specific goods and services to be delivered and the Group has no control over them before they have been transferred to the customer. When the Group acts as an intermediary, it recognizes revenue upon the fulfillment of its obligation in the contractual amount of the fee or commission to which it will be entitled, in exchange for being commissioned by another party to provide specific services or goods. Due to the nature of the concluded consortia and orders, in which the Group acts as a leader, there are no fees and commissions as described above, hence no revenues are generated in the Group from commissions for invoicing to a customer work performed by another consortium member. The Group recognizes as revenues only the amount of remuneration due for the execution of its scope of work for the customer in adherence to the policy described above.

Payment terms for building contracts provided by the Group, range from 30 to 180 days from the invoice date and for other sales transactions are typically 30 days from the invoice date. Accordingly, the signed contracts do not contain a significant financing component except for amounts invoiced for building contracts, which are repaid at a later date as they represent deposits retained by the customer. The amounts retained under individual invoices represent a maximum of 10% of the remuneration for the contract execution and are subject to release for a period of up to 5 years once the contract has been completed. Revenues under the building contracts for the portion that is retained as a bid bond is recognized at a discounted amount. Accounting policy concerning bid bond receivables is presented in Note 2.2.

The breakdown of revenues into revenues recognized in time and items recognized at point of time is presented in Note 4.2.

The application of the performance-based or expenditure-based method to recognize revenues and expenses under the building contracts requires an estimated work progress rate under a certain contract, i.e., the measurement of completed work at the balance sheet date (performance-based method) or an estimate of the total cost budget under a certain contract (expenditure-based method).

Performance-based method:

The physical quantity survey, used to determine the progress in contract performance, is taken by the construction site personnel. The quantity survey is carried out separately for each scope of works, i.e. elements or stages of the contract underway, according to the measures assigned to them (mainly $m^2$, kg and pcs.).

The Company has adequate control processes in place to ensure that the calculation of actual project outcome is based on current and reliable estimates of the quantity survey, subject to verification and approval by designated persons. The quantity survey made by construction site personnel is subject to verification by the branch manager responsible for the construction site, and then additionally by the Group's internal audit department.

Expenditure-based method:

Cost budgets for certain contracts are prepared by the Group Management in the bidding phase and updated during the financial year or when the grounds for revision of the cost or revenue budget have been identified. If between official budget revisions there are events that have material impact on contract performance, the value of total revenues or contract costs is updated on an ongoing basis, i.e. changes in the scope of the contract are reflected in the Group's internal system immediately after they are negotiated by the Group with the customer.

The Group keeps track of projects being implemented - construction contracts in the internal system used for project management. Information concerning certain contract, its progress rate, is entered into the system by the Contract/Site Manager and then approved by the Branch Manager responsible for the construction site. The budgets of individual contracts are subject to the formalized updating process during the year, based on current information, and are approved by the Management Board. If between official budget revisions there are events that have material impact on contract performance, the value of total revenues or contract costs is updated on an ongoing basis, i.e. changes in the scope of the contract are reflected in the Group's internal system immediately after they are negotiated by the Group with the customer.

## 2.1. INCOME AND EXPENSES UNDER BUILDING CONTRACTS

The income and expenses figures under building contracts for the accounting period and on YTD basis are presented in the table below.

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| | Contracts in the period | Contracts in the period |
| **Figures recognised in the period** | | |
| Income under building contracts, YTD | 1,988,503 | 2,109,052 |
| Costs under building contracts, | 1,838,433 | 1,973,427 |
| **Net income before recognition and settlement of provisions for the contracts generating net liabilities** | **150,070** | **135,625** |
| Setting up provisions for the contracts generating net liabilities | - | 100 |
| Release /utilisation of provisions set up in the previous periods | - | 700 |
| **Gross profit/loss** | **150,070** | **135,025** |
| | | |
| **Gross profit margin** | | |
| excluding provisions for the contracts generating net liabilities | 8% | 6% |
| including provisions for the contracts generating net liabilities | 8% | 6% |

Gross profit margin is defined as gross profit on sales divided by sales revenues.

## 2.2. RECEIVABLES AND LIABILITIES UNDER BUILDING CONTRACTS - BID BONDS

Receivables under building contracts - bid bonds are held to collect contractual cash flows that comprise solely payment of principal and interest ('SPPI' Solely payment of principal and interest) and are measured at amortized cost subject to impairment allowance, if any. At initial recognition, these financial assets are recognised at nominal value, i.e. at amounts initially invoiced less the value of discounts. The discount value calculation methods is presented in Note 6.5. The value of bid bonds receivable is updated by the Group with impairment losses recognised in accordance with the Accounting Policy referred to in Note 6.5. and presented under "Impairment losses on financial assets" in the Statement of profit or loss.

Bid bonds liabilities are measured at initial recognition at fair value (i.e., the amount of payments discounted using the current market interest rate for such liabilities) and the cost of subcontractor services is recognized at that level. . In later periods, bid bond liabilities are measured at amortized cost, whereas interest expense is recognized in the line of financial expenses.

| | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Refund below 12 months | Refund above 12 months | Total | Maturity below 12 months | Maturity above 12 months | Total |
| **Receivables under building contracts - discounted bid bonds** | 25,734 | 13,425 | **39,159** | 54,442 | 10,094 | **64,536** |
| Revaluation write-off for impairment | (707) | (1,421) | **(2,128)** | (1,360) | (1,014) | **(2,374)** |
| **Receivables under building contracts - bid bonds** | **25,027** | **12,004** | **37,031** | 53,082 | 9,080 | **62,162** |
| **Liabilities vis-a-vis subcontractors - discounted bid bonds** | **124,460** | **15,901** | **140,361** | 116,699 | 19,428 | **136,127** |

For all customer deposit receivables, an impairment write-off was estimated based on a portfolio analysis using an write-off matrix based on historical data adjusted for the impact of future factors.

## 2.3. RECONCILLIATION OF FIGURES RELATED TO NON-COMPLETED BUILDING CONTRACTS

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Revenues under building contracts YTD | 2,817,785 | 3,129,335 |
| Invoiced receivables from customers, YTD (excl. advances) | 2,878,977 | 3,156,656 |
| **Balance of payments under non-completed building contracts** | **(61,192)** | **(27,321)** |
| including: | | |
| (1) Assets for completed, non-invoiced construction works, gross | 103,195 | 98,468 |
| Asset impairment write-off under building contracts | (977) | (690) |
| (1) Assets for completed, non-invoiced construction works, net | 102,218 | 97,778 |
| (1a) Payables for non-completed invoiced construction works - liabilities under building contracts | 163,410 | 125,099 |
| Costs related to building contracts, YTD | 1,795,705 | 2,893,047 |
| Losses posted on YTD basis | - | 100 |
| Subcontractor expense and own expenses on a YTD basis. | 1,832,720 | 2,966,807 |
| **Balance of payments under building contracts - expenses** | **37,015** | **73,760** |
| including: | | |
| (3) Assets for non-completed, invoiced construction works | 76,888 | 104,682 |
| (4) Liabilities for non-completed, invoiced construction works | 39,873 | 30,922 |
| | - | - |
| **Balance of payments under building contracts** | **(24,177)** | **46,439** |
| including: | | |
| **Pricing of building contracts - assets** | **179,106** | **202,460** |
| Pricing of building contracts - balance settlement (2)+(4) | 203,283 | 156,021 |
| Building contract liabilities - advanced paid | 31,180 | 13,754 |
| **Pricing of building contracts - liabilities - TOTAL** | **234,463** | **169,775** |

At all dates that are initial dates of the periods indicated in the table above, the total opening balances were recognized as revenues in the period.

The write-off factor calculated under the ECL method for contractual assets was 0.96% as of 31 December 2020, and 0.71% as of 31 December 2019.

Changes in the value of assets and liabilities from the pricing of contracts result from the specific nature of settlement of building contracts and invoicing schedules for individual contracts.

At closing of 2020, the value of invoiced revenues in relation to the revenues recognised under the measurement method was much higher, which translated into a decline in assets from contract pricing and an increase in liabilities from the contract pricing (overinvoicing) compared to 2019.

# 3. CAPITAL MANAGEMENT AND DEBT

## 3.1. CAPITAL MANAGEMENT



Share capital comprises common stock and is carried at the nominal value (in adherence to the Articles of Association of the Parent Company and an entry made into the National Court Register).

Share premium is the amount equal to the surplus of price for acquisition of shares in Parent Company above their nominal value. It is recognised in the line "Share premium reserve capital".

Other supplementary capitals are set up mainly from retained earnings including amounts obligatorily appropriated to the reserve capital in accordance with the requirements of the Commercial Companies Code.

Reserve capitals are created from retained earnings for the purposes indicated in the Articles of Association.

Equity allocated to the non-controlling interests represents a part of equities of subsidiaries covered with full consolidation that belongs to other stakeholders than the entities that are Group members.

Net profit (loss) of subsidiaries partially owned by the stakeholders other than members of the Group represents profit (loss) of the non-controlling interests.

The Group's supplementary capital is set up in accordance with the provisions of the Polish Commercial Companies Code and the decisions of the shareholders. Pursuant to the Commercial Companies Code, a supplementary capital should be set up to cover losses, that should account for at least 8% of the profit for a certain accounting year, until the supplementary capital reaches at least one third of the share capital. the supplementary capital set up in this manner is not subject to distribution. The General Meeting of Shareholders decides on the use of the supplementary and reserve capital, however, a part of the supplementary capital may be used only to cover the loss reported in the financial statements and is not subject to distribution into other purposes.

The Group manages its capital structure and as a result of changes in economic conditions, it modifies its capital structure.
In order to maintain or adjust the capital structure, the Group may manage appropriately the dividend payment to shareholders or issue to new shares.

The main objective of the Group's capital management is to maintain a good credit rating and safe equity ratios in order to support the Group's operations and enhance shareholders' value. The ratios are presented below.

**Return on Equity - ROE**

| | 31.12.2020 | 31.12.2019 | The level of ratio assumed by the Management Board |
|---|---|---|---|
| (1) Net profit attributable to shareholders of the Parent Company | 46,661 | 33,634 | |
| (2) Equity | 310,493 | 274,816 | |
| **ROE [(1)/(2) * 100%]** | **15.03%** | **12.56%** | **above 7%** |

**Debt ratio**

| | 31.12.2020 | 31.12.2019 | The level of ratio assumed by the Management Board |
|---|---|---|---|
| (1). Liabilities and provisions for liabilities | 889,370 | 898,679 | |
| (2) Total assets | 1,199,863 | 1,173,495 | |
| **Debt ratio [(1)/(2) * 100%]** | **74.12%** | **76.58%** | **not higher than 80%** |

*"Liabilities and provisions for liabilities" are the sum of all long-term liabilities and short-term liabilities recognised in the Statement of financial position.

In all the presented periods, the debt ratio was within the range defined by the Management Board as the ratio target level.

| Debt-to-equity ratio | 31.12.2020 | 31.12.2019 | The level of ratio assumed by the Management Board |
|---|---|---|---|
| (1). Liabilities and provisions for liabilities | 889,370 | 898,679 | |
| (2) Equity | 310,493 | 274,816 | |
| **Debt-to-equity ratio [(1)/(2)]** | **286.44%** | **313.66%** | **not higher than 350%** |

"Liabilities and provisions for liabilities" are the sum of all long-term liabilities and short-term liabilities recognised in the Statement of financial position.

In all the presented periods, the deb-to-equity ratio was within the range defined by the Management Board as the ratio target level.

The most important driver of the above ratios and their value as the Group's net profit.

## Share capital

As of 31 December 2020, the share capital consisted of 12 399 359 shares with a total value of PLN 1,239,935.90 thousand, and the structure of shareholders holding over 5% of the share capital and members of the Management Board and entities controlled by them was as follows:

| Shareholder | No. of shares | % shareholding in share capital |
|---|---|---|
| Wolff & Müller Baubeteiligungen GmbH & Co. KG + Wolff & Müller Holding GmbH & Co.KG | 4,012,025 | 32.36% |
| DGI Closed-End Investment Fund of Non-public Assets controlled by Dariusz Grzeszczak | 2,063,812 | 16.64% |
| NATIONALE - NEDERLANDEN Powszechne Towarzystwo Emerytalne S.A (Nationale-Nederlanden Universal Pension Society) (former ING PTE) | 1,200,000 | 9.68% |
| AVIVA Open-End Pension Fund Aviva Santander | 1,183,146 | 9.54% |
| Dariusz Grzeszczak | 747,654 | 6.03% |
| PKO BP Bank Open-Ended Pension Fund | 715,279 | 5.77% |
| Adler Properties Sp. z o.o. controlled by Józef Zubelewicz plus Józef Zubelewicz | 648,810 | 5.23% |
| Jacek Leczkowski | 5,174 | 0.04% |
| Agnieszka Głowacka | 3,938 | 0.03% |
| Albert Dürr | 27,508 | 0.22% |
| Other shareholders | 1,792,013 | 14.46% |
| **Total** | **12,399,359** | **100%** |

The Parent Company's Articles of Association do not grant the shareholders, referred to hereinabove, any personal rights vis-a-vis Erbud S.A., and in particular do not grant the right to appoint members of Erbud's Management or Supervisory Boards of the Parent Company.

The number of shares making up the approved capital equals to the number of shares issued. The par value per share for all share series is PLN 0.10. No shares were reserved for the purposes of the issue related to the exercise of put options. All issued shares are ordinary non-preference shares. There are no limitations on rights to shares or limitations on share transferability.

## Acquisition of own shares

On 20 July 2020 the buy-back of ERBUD S.A.'s own shares initiated by virtue of Resolution No. 15/2020 of the Erbud S.A.'s Ordinary General Meeting of Shareholders, dated 30 June 2020 on authorising the Erbud S.A.'s Management Board to acquire own shares for the purpose of their redemption and setting up a reserve capital earmarked for the acquisition of own shares for the purpose of their redemption and (ii) by virtue of the Resolution No. 32/2020 of the Erbud S.A.'s Supervisory Board of 28 May 2020 on giving consent to the buy-back of own shares, and (iii) by virtue of the Resolution No. 33/2020 of the Erbud S.A.'s Supervisory Board of 28 May 2020 on giving consent to transactions as part of the buy-back process of own shares.

On 1 July 2020, the Management Board of ERBUD S.A., pursuant to the aforementioned Resolutions, adopted Resolution No. 30/2020, which defines the terms and for the buyback of own shares:

1. The total amount for which the Erbud S.A. will acquire Own Shares, along with the costs of their acquisition, shall not exceed the total amount of: PLN 16,500,000 (in words: sixteen million five hundred thousand);
2. The total number of Own Shares to be acquired under the Tender offer shall not exceed: 412 500 shares; (in words: four hundred twelve thousand five hundred shares)
3. The price at which Own Shares shall be acquired: PLN 40.00 (in words: forty zloty per Own Share and was determined taking into account the terms and conditions set forth in the Resolution;
4. The buy-back of Own Shares shall be carried out in compliance with the following schedule:
   a) date of announcement of the Tender Offer: 1 July 2020,
   b) the start date for the acceptance of bids from shareholders: 6 July 2020,
   c) the end date for the acceptance of bids from shareholders: 17 July 2020,
   d) expected date of acquisition of Own Shares by Erbud S.A.: 22 July 2020

On 20 July 2020, mBank S.A. Brokerage House sent Erbud S.A. a summary of the share buy-back process.

As part of the purchase, sales offers were made for a total number of 12,163,339 shares of Erbud S.A. Due to the fact that the total number of the Erbud S.A.'s shares submitted by the Erbud S.A.'s shareholders for sale under the Erbud S.A.'s Tender offer exceeded the total number of shares Erbud S.A. intended to acquire under the Tender Offer, the Erbud S.A. made a proportional reduction of the Erbud S.A.'s share sales offers, applying the reduction rules defined in detail in the Tender Offer. The average reduction rate of the share sales offers submitted was 96.61%.

The Own Shares acquired by Erbud S.A. account for 3.22% of the Erbud S.A.'s share capital and of the total vote at the Erbud S.A.'s General Meeting of Shareholders.

The purpose of the acquisition of the Own Shares was to redeem Own Shares and subsequently to reduce the Erbud S.A.'s share capital, pursuant to Art. 359 of the Polish Companies' Code.

On 4 September 2020 the Extraordinary General Meeting of Shareholders of ERBUD S.A. is to adopt Resolution No. 5/2020 on the reduction of the Issuer's share capital from PLN 1,281,185.90 to PLN 1,239,935.90 i.e. by PLN 41,250. The redemption of shares shall be performed through the reduction of Erbud S.A.'s share capital.

On 1 December 2020, the District Court for the Capital City of Warsaw in Warsaw, 13$^{th}$ Commercial Division of the National Court Register registered amendments to the Articles of Association of Erbud S.A., including a reduction in the share capital adopted by virtue of Resolution No. 6/2020 of the Erbud S.A.'s Extraordinary General Meeting of Shareholders, dated 4 September 2020 on amendments to the Parent Company's Articles of Association in conjunction with Resolutions Nos.: (i) Resolution No. 3/2020 of the Erbud S.A.'s Extraordinary General Meeting of Shareholders, dated 4 September 2020 on redemption of own shares acquired by Erbud S.A., (ii) Resolution No. 4/2020 of the Parent Company's Extraordinary General Meeting of Shareholders, dated 4 September 2020 on change of designation of the series of Parent Company's shares, (iii) Resolution No. 5/2020 of the Erbud S.A.'s Extraordinary General Meeting of Shareholders, dated 4 September 2020 on reduction of share capital.

Given the above, on 1 December 2020, a reduction in share capital of Erbud S.A. by PLN 41,250 (forty-one thousand two hundred fifty zlotys) was registered, i.e. the capital was reduced from the level of PLN 1,281,185.90 (one million two hundred eighty-one thousand one hundred eighty-five zlotys and 90/100), to the level of PLN 1. PLN 239,935.90 (one million two hundred and thirty-nine thousand nine hundred and thirty-five zlotys and 90/100), by way of redemption of 412,500 (four hundred and twelve thousand five hundred) own shares of Erbud S.A. entitling to 412,500 (four hundred and twelve thousand five hundred) votes at the General Meeting of Shareholders. The redemption of own shares was performed by virtue of Resolution No. 3/2020 of the Extraordinary General Meeting of Shareholders dated 4 September 2020. Erbud S.A. acquired its own shares as part of its own share buy-back for redemption.

Thus the current share capital amounts to PLN 1,239,935.90 (one million two hundred and thirty-nine thousand nine hundred and thirty-five zlotys 90/100) and the share capital structure of Erbud S.A. is as follows:

- 12,399,359 (twelve million, three hundred and ninety-nine thousand, three hundred and fifty-nine) ordinary series A bearer shares, with a par value of PLN 0.10 (ten groszys) per share, ISIN code PLERBUD00012.

The total number of votes attached to all outstanding shares of the Parent Company is 12,399,359 (to each share one vote is attached), while the par value per Erbud S.A. share remains unchanged and amounts to PLN 0.10.

ERBUD S.A. shares are ordinary bearer shares and are not preferential shares. No special control rights are attached to the Parent Company's shares. The Articles of Association of ERBUD S.A. also does not impose any restrictions on the transfer of ownership of shares issued by the Parent Company, on exercising voting rights, and does not include provisions under which the equity rights attached to securities are separated from the ownership of securities. The Parent Company is not aware of any restrictions on the exercise of voting rights by holders of a specified proportion or number of votes, or any time limitations on the exercise of voting rights.



Basic earnings per share are calculated by dividing net profit /(loss) for the period, allocated to ordinary shareholders of the Company, by the weighted average number of the issued ordinary shares over the accounting period.

For purposes of calculating diluted earnings per share, net income/(loss) for the reporting period attributable to ordinary shareholders and the weighted average number of ordinary shares for the accounting period are adjusted for the effect of all diluting potential ordinary shares. Diluted earnings per share is equal to basic earnings per share as the Company has no dilutive instruments.

Stock split effected both during and after the accounting period adjust the weighted average number of ordinary shares for purposes of computing basic and diluted earnings per share for all periods presented.

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| Net profit | 46,661 | 33,634 |
| Average weighted number of ordinary shares (in pcs.) ) | 12,780,128 | 12,811,859 |
| **Basic and diluted earnings per share (in PLN)** | **3.65** | **2.63** |

## 3.2. NET DEBT

| | | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Note 3.8. | **Cash and cash equivalents and restricted cash (A)** | **315,537** | **148,240** |
| Note 3.3. | Credit and loan liabilities | 11,921 | 17,003 |
| Note 3.4. | Debt related to issued bonds | - | 52,000 |
| Note 3.5. | Lease liabilities | 23,952 | 31,783 |
| | **Long-term debt** | **35,873** | **100,786** |
| Note 3.3. | Credit and loan liabilities | 24,249 | 118,624 |
| Note 3.4. | Debt related to issued bonds | 52,000 | - |
| Note 3.5. | Lease liabilities | 15,340 | 13,037 |
| | **Short-term debt** | **91,589** | **131,661** |
| | **Total debt (B)** | **127,462** | **232,447** |
| | **(Net debt)/Cash and cash equivalents, net ((A)-(B))** | **188,075** | **(84,207)** |

The Group defines net debt as the balance of credits and loans borrowings and leases less cash and cash equivalents (including restricted cash classified as short-term assets). If there is an excess of cash and cash equivalents over debt, the net amount is defined by the Group as 'cash and cash equivalents'.

Changes in debt during the reporting periods presented were as follows:

| Debt related to: | Credits and loans | Issued bonds | Lease | Total debt |
|---|---|---|---|---|
| **As of 1 Jan. 2019** | 61,198 | 52,000 | 37,527 | **150,725** |
| Income from credits and loans taken - financing granted | 126,265 | - | 15,549 | **141,814** |
| Accrued interest on debt | 1,527 | 2,491 | 233 | **4,251** |
| Expenses related to debt taken out - principal repayment | 50,795 | - | 7,872 | **58,667** |
| Expenses related to debt taken out - interest repayment | 1,792 | 2,491 | 593 | **4,876** |
| FX differences related to the debt in foreign currencies | (776) | - | - | **(776)** |
| Other non-cash changes | - | - | (24) | **(24)** |
| **Change of debt in the accounting period** | **74,429** | **-** | **7,293** | **81,722** |
| **As of 31 Dec. 2019** | **135,627** | **52,000** | **44,820** | **232,447** |
| Income from credits and loans taken - financing granted | 27,712 | - | 8,606 | **36,318** |
| Accrued interest on debt | 2,004 | 2,343 | 1,455 | **5,802** |
| Expenses related to debt taken out - principal repayment | 129,849 | - | 9,495 | **139,344** |
| Expenses related to debt taken out - interest repayment | 3,280 | 2,343 | 904 | **6,527** |
| FX differences related to the debt in foreign currencies | 4,954 | - | 210 | **5,164** |
| Other non-cash changes | (998) | - | (5,400) | **(6,398)** |
| **Change of debt in the accounting period** | **(99,457)** | **-** | **(5,528)** | **(104,985)** |
| **As of 31 Dec. 2020** | **36,170** | **52,000** | **39,292** | **127,462** |

## 3.3. CREDIT AND LOAN LIABILITIES

Credit and loan liabilities are initially recognized at fair value less transaction costs. At each balancing date, credits and loans are priced at amortized cost using effective interest rate.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Long-term** | | |
| Bank loans | 11,921 | 17,003 |
| **Short-term** | | |
| Overdraft facilities | 3,742 | 115,845 |
| Bank loans | 19,567 | 2,235 |
| Loans | 940 | 544 |
| | 24,249 | 118,624 |
| **Total credit and loan liabilities** | **36,170** | **135,627** |

| | 31.12.2020 | 31.12.2020 | 31.12.2019 | 31.12.2019 |
|---|---|---|---|---|
| | In the functional currency | In foreign currency EUR | In the functional currency | In foreign currency EUR |
| **Loans and borrowings** | | | | |
| Long-term | 11,921 | - | 17,003 | - |
| Short-term | 24,249 | - | 118,624 | - |
| **Total** | **36,170** | **-** | **135,627** | **-** |

Loans shown as long-term and short-term interest bearing at 1M WIBOR + 1.5%-2.8% and 3M Euribor + 2.2%.

As of the specified balance sheet dates, the fair value of loans and advances was not materially different from the amortized cost measurement. The fair value of credits and loans is estimated using DCF models based on cash flows reflecting the repayment schedule of loans granted. The discount rate was assumed to be WIBOR 1M per day plus a fixed percentage expressing the risk premium. Long-term credits and loans measured at amortized cost are classified at Level 2 of the fair value hierarchy.

As of the balance sheet date of 31 December 2020 the ERBUD Group has access to bank and insurance multi-purpose lines with a total value of PLN 1,281,146 thousand , which can be used mainly for loans or bank and insurance guarantees. As at the balance sheet date of 31 December 2020, the ERBUD S.A. utilized PLN 35,213 thousand to take out loans and PLN 688,385 thousand to take out bank and insurance guarantees.

As at the balance sheet date of 31 December 2019, the Group has access to bank and multi-purpose insurance lines with the total value of PLN 1,197,814 thousand, which may be used mainly for bank loans or guarantees or for insurance guarantees. As at the balance sheet date, the Group utilized PLN 134,798 thousand to take out loans and PLN 627,676 thousand to take out bank and insurance guarantees.

### Covenants

During the year, as of 31 December 2020 and up to the date of approval of the financial statements, all covenants have been met, similar to the previous year.

## 3.4. DEBT RELATED TO ISSUED BONDS

Liabilities related to issued bonds are initially recognized at fair value less transaction costs. At each balancing date, the issued bond liabilities are priced at amortized cost using effective interest rate.

As of balance sheet date, the Group had the following outstanding debt in relation to issued bonds posted into short-term liabilities:

| Issue date | Type of issued bonds | Currency (specify whether functional or foreign currency) | Interest rate | Maturity date | Purpose of financing | Par value of shares | 31 Dec. 2020. | 31 Dec. 2019 |
|---|---|---|---|---|---|---|---|---|
| 27 Sept. 2017 | C series bearer shares, dematerialized, unsecured | functional | WIBOR 6M | 27 September 2021 | financing of an increased working capital requirement | 1 | 52,000 | 52,000 |
| | | | **Total short- and long-term liabilities (as of 31 December 2019 long-term)** | | | 1 | **52,000** | **52,000** |

## 3.5. LEASE LIABILITIES

Detailed disclosure on the implementation of IFRS 16 standard is presented in Note 6.1.

| Period | | 31.12.2020 Nominal value of minimum payments | 31.12.2019 Nominal value of minimum payments |
|---|---|---|---|
| Below 1 year | Short-term | 15,670 | 13,557 |
| Above 1 year | Long-term | 28,147 | 35,510 |
| **Nominal value of minimum payments** | | **43,817** | **49,067** |
| Lease financial costs | | 4,525 | 4,247 |
| **Present value of minimum payments** | | **39,292** | **44,820** |
| **Below 1 year** | Short-term | **15,338** | **13,033** |
| **Above 1 year** | Long-term | **23,954** | **31,787** |

## 3.6. ASSETS USED AS COLLATERALS FOR DEBT-RELATED LIABILITIES

As of 31 December 2020 and 31 December 2019, collateral for debt obligations on tangible fixed assets are presented below

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Tangible fixed assets | 18,811 | 16,420 |
| **Total** | **18,811** | **16,420** |

For information on credit and loan related debt, see Note 3.3.

## 3.7. CONTINGENT ASSETS AND LIABILITIES

| | Contingent assets | | Contingent liabilities | |
|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| **Other items** | | | | |
| Guarantees and sureties | 136,142 | 99,726 | 739,514 | 555,203 |
| Bills of exchange | 857 | 2,225 | 30,881 | 18,951 |
| Litigations | - | - | 46,682 | 46,682 |
| Including dispute against Warsaw Modlin Airport (MPL) | - | - | 34,381 | 34,381 |
| **Total** | **136,999** | **101,951** | **817,077** | **620,836** |

Contingent assets include guarantees and sureties received by the Group from subcontractors under performance bonds and implied warranties.

Contingent liabilities of the Group relate primarily to orders to extend guarantees by the Group and banks to the Group's contractors to secure their claims under construction contracts, mainly performance bonds and bid bonds.

## 3.8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with maximum maturity of three months.

The Group has at its disposal cash with restricted availability. This group primarily includes funds pledged as security for bank guarantees issued in connection with building contracts executed by the Group.

The Group posts restricted cash in a separate line in the statement of financial position as it does not meet the definition of cash and cash equivalents due to its inability to be used in the short term for the Group's requirements.

Cash held in VAT bank accounts does not meet the criteria for presentation as cash and cash equivalents and is presented in a separate line in the balance sheet.

The classification adopted for presentation in the statement of financial position is consistent with the classification of these funds in the Cash Flow Statement.

Cash and cash equivalents and cash in VAT and bank accounts meet the SPPI test and the "held for collection" business model test, and are therefore measured at amortized cost with an impairment charge determined in accordance with the expected loss model (in compliance with the policy referred to in Note 6.5).

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash in hand | 119 | 57 |
| Cash at bank | 292,469 | 148,144 |
| **Total cash and cash equivalents** | **292,588** | **148,201** |

The amount of the impairment loss on cash is immaterial.

Cash on VAT bank accounts as at 31 December 2020 amounted to PLN 30,753 thousand. (as of 31 December 2019 they amounted to PLN 12,918 thousand).

Restricted cash in bank at end of 2020 represents the vast majority (PLN 22,919 thousand) of cash in an escrow account resulting from the implementation of the Joint Action (Note 4.9.). This cash has restricted management by the Group and are therefore not available for general use (see Note 4.9 for further information).

# 4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

## 4.1. ALTERNATIVE PERFORMANCE MEASURES

The Management Board analyses the segment results using Key Performance Indicators (KPIs) such as EBIT, EBIT and EBITDA margin. The Management Board of the Group considers the aforementioned measures as important additional performance measures and therefore presents them in the report next to the measures defined by IFRS. It should be borne in mind that EBIT, as well as EBIT and EBITDA margins these are not KPIs defined in IFRS and they do not represent standardized measures, therefore their calculation methods may differ from one entity to another in the market. Accordingly, these KPIs should not be analysed in isolation or as substitutes for measures defined by IFRS.

EBITDA and EBIT are measures showing the results achieved by the Group after eliminating the impact of income tax, financing costs and, in the case of EBITDA, depreciation and amortization.

EBITDA is defined as profit after tax (net income), plus income tax expense, finance costs and depreciation and amortization, less financial income.

The Group defines EBIT as a profit after tax (net income), plus finance costs and minus finance income.

The EBIT margin is a measure that shows the Company's profitability ignoring the impact of income taxes and finance costs and revenues. The Group defines EBIT margin as EBIT divided by sales revenues of goods and services.

| | 2020 | 2019 |
|---|---|---|
| **Net profit for the accounting period** | **50,373** | **35,044** |
| Income tax | 13,880 | 13,842 |
| **Gross profit** | **64,253** | **48,886** |
| Financial expenses | 13,446 | 12,080 |
| Financial income | 7,081 | 2,566 |
| **EBIT** | **70,618** | **58,400** |
| | | |
| Amortization and depreciation | 22,941 | 21,295 |
| **EBITDA** | **93,559** | **79,695** |
| | | |
| Revenues from sales of products and services | 2,228,344 | 2,313,363 |
| EBIT margin | 3% | 3% |

## 4.2. ACCOUNTING SEGMENTS

Based on the management accounting presented to the main operational decision-maker (i.e. the Management Board of the Parent Company), the Company identified four basic accounting segments:

- residential/commercial buildings at home,
- residential/commercial buildings in foreign countries,
- road engineering services
- industrial construction at home,
- other segments

The operations were broken down into individual segments by classifying the significance of operations into the segment. Such a breakdown corresponds to the distribution of the main risks and returns on expenses incurred.

The financial data prepared for the purposes of management reporting, which is the basis for data on reportable segments, follows the same accounting principles as those applied to the preparation of the Group's Separate Financial Statements.

The Management Board analyses the segment results using key performance indicators (KPIs) such as EBIT, EBIT and EBITDA margin. It should be borne in mind that these are not KPIs defined in IFRS and they do not represent standardized measures, therefore their calculation methods may differ from one entity to another in the market. The Group defines EBIT as gross profit increased by financial costs less financial revenues. The EBIT margin is defined as the ratio of EBIT to sales revenues expressed as a percentage. EBITDA is defined as EBIT increased by depreciation in the period.

**Basic information on segments in the accounting periods Jan. 2020 - Dec. 2020 and Jan. 2019 - Dec. 2019**

The Group operates in Poland and abroad (in Germany, Belgium, Norway, France and Sweden). Revenues from external customers and assets in any country other than Poland are not significant, therefore they were aggregated in the total line and disclosed as "Foreign operations".

| | For the period of 12 months, ended on 31 Dec. 2020 | | | For the period of 12 months, ended on 31 Dec. 2019 | | |
|---|---|---|---|---|---|---|
| | At home (Poland) | Foreign countries | Total | At home (Poland) | Foreign countries | Total |
| Sales to third party customers, of which: | 1,848,736 | 379,608 | **2,228,344** | 2,061,807 | 251,556 | **2,313,363** |
| Accrued and deferred income | 1,715,617 | 272,886 | **1,988,503** | 1,970,150 | 138,902 | **2,109,052** |
| Income recognized at a certain point in time | 133,119 | 106,722 | **239,841** | 91,657 | 112,654 | **204,311** |
| Fixed assets other than financial instruments and deferred tax assets | 107,637 | 44,304 | **151,941** | 107,159 | 39,971 | **147,130** |

## 4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Data concerning revenues and results as well as assets and liabilities in individual accounting segments are presented in the table below.

| | | | | | | | For the period of 12 months, ended on 31 Dec. 2020 |
|---|---|---|---|---|---|---|---|
| | Domestic building construction | Foreign building construction | Road engineering | Industrial construction segment at home | Industrial construction segment in foreign countries | Other segments | Total continued activities |
| **Total income** | | | | | | | |
| Cross segment sales | (100,405) | - | - | (14,500) | - | - | **(114,905)** |
| Sales to third party customers | 1,151,977 | 256,096 | 586,232 | 225,432 | 123,512 | - | **2,343,249** |
| **Total sales revenues** | **1,051,572** | **256,096** | **586,232** | **210,932** | **123,512** | **-** | **2,228,344** |
| **Segments' performance and reconciliation with (Loss)/Gross profit of the Group** | | | | | | | |
| Cost of goods sold (COGS) | 973,206 | 237,405 | 529,478 | 190,428 | 104,311 | - | **2,034,828** |
| Other operating profit/loss | (60,974) | (19,997) | (16,206) | (17,711) | (6,951) | (1,059) | **(122,898)** |
| **Segment performance – EBIT** | **17,392** | **(1,306)** | **40,548** | **2,793** | **12,250** | **(1,059)** | **70,618** |
| EBIT margin | 2% | (1%) | 7% | 1% | 10% | | **3%** |
| Profit (loss) on financial activities (financial income less financial expenses) | (3,446) | (1,156) | (228) | (536) | (973) | (26) | **(6,365)** |
| **Gross profit/loss** | **13,946** | **(2,462)** | **40,320** | **2,257** | **11,277** | **(1,085)** | **64,253** |
| Income tax | 2,089 | (1,482) | 8,307 | 710 | 4,137 | 119 | **13,880** |
| **Net profit/loss** | **11,857** | **(980)** | **32,013** | **1,547** | **7,140** | **(1,204)** | **50,373** |
| Amortization and depreciation | 6,521 | 1,985 | 5,663 | 5,392 | 2,902 | 478 | **22,941** |
| **Segment performance – EBITDA** | **23,913** | **679** | **46,211** | **8,185** | **15,152** | **(581)** | **93,559** |
| **Assets and liabilities** | | | | | | | |
| **Pricing of building contracts - assets** | **115,493** | **4,267** | **29,506** | **25,847** | **3,993** | **-** | **179,106** |
| **Other assets** | | | | | | | **1,020,757** |
| **Total assets** | | | | | | | **1,199,863** |
| **Pricing of building contracts - liabilities** | **97,393** | **9,099** | **96,542** | **30,896** | **533** | **-** | **234,463** |
| **Other liabilities** | | | | | | | **965,400** |
| **Total liabilities** | | | | | | | **1,199,863** |
| | | | | | | | |
| **Other material items** | | | | | | | |
| Impairment of financial assets | 967 | (1,147) | 762 | (443) | 26 | (49) | **116** |
| Capital expenditures on tangible fixed and intangible assets | 4,374 | 303 | 1,443 | 2,316 | 4,675 | 304 | **13,415** |
| Interest income | 3,246 | 23 | 624 | 97 | 2 | 5 | **3,997** |
| Interest expenses | 4,661 | 2,780 | 958 | 735 | 1,103 | 31 | **10,268** |

## 4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

| | Domestic building construction | Foreign building construction | Road engineering | Industrial construction segment at home | Industrial construction segment in foreign countries | Other segments | For the period of 12 months, ended on 31 Dec. 2019 Total continued activities |
|---|---|---|---|---|---|---|---|
| **Total income** | | | | | | | |
| Cross segment sales | - | - | (8,627) | (25,020) | - | - | **(33,647)** |
| Sales to third party customers | 1,473,498 | 137,746 | 388,213 | 233,641 | 113,810 | 102 | **2,347,010** |
| **Total sales revenues** | **1,473,498** | **137,746** | **379,586** | **208,621** | **113,810** | **102** | **2,313,363** |
| **Segments' performance and reconciliation with gross profit of the Group** | | | | | | | |
| Cost of goods sold (COGS) | 1,407,183 | 126,387 | 347,609 | 190,534 | 94,849 | 102 | **2,166,664** |
| Other operating profit/loss | (44,224) | (3,505) | (14,729) | (16,601) | (8,884) | (356) | **(88,299)** |
| **Segment performance – EBIT** | **22,091** | **7,854** | **17,248** | **1,486** | **10,077** | **(356)** | **58,400** |
| EBIT margin | 1% | 6% | 5% | 1% | 9% | | **2%** |
| Profit (loss) on financial activities (financial income less financial expenses) | (5,050) | (1,542) | (454) | (1,320) | (1,147) | (1) | **(9,514)** |
| **Gross profit/loss** | **17,041** | **6,312** | **16,794** | **166** | **8,930** | **(357)** | **48,886** |
| Income tax | 4,671 | 1,397 | 4,020 | 306 | 3,393 | 55 | **13,842** |
| **Net profit/loss** | **12,370** | **4,915** | **12,774** | **(140)** | **5,537** | **(412)** | **35,044** |
| Amortization and depreciation | 6,364 | 1,921 | 4,580 | 5,484 | 2,371 | 575 | **21,295** |
| **Segment performance – EBITDA** | **28,455** | **9,775** | **21,828** | **6,970** | **12,448** | **219** | **79,695** |
| **Assets and liabilities** | | | | | | | |
| **Pricing of building contracts - assets** | **161,408** | **2,628** | **23,701** | **6,832** | **7,891** | **-** | **202,460** |
| **Other assets** | | | | | | | **971,035** |
| **Total assets** | | | | | | | **1,173,495** |
| **Pricing of building contracts - liabilities** | **89,681** | **13,809** | **53,476** | **8,409** | **4,400** | **-** | **169,775** |
| **Other liabilities** | | | | | | | **1,003,720** |
| **Total liabilities** | | | | | | | **1,173,495** |
| **Other material items** | | | | | | | |
| Impairment of financial assets | 1,938 | (3,995) | 2,753 | 936 | 571 | - | **2,203** |
| Capital expenditures on tangible fixed and intangible assets | 3,292 | 1,065 | 1,500 | 2.086 | 4,091 | 406 | **12,440** |
| Interest income | 1,946 | (27) | 395 | 20 | 1 | 22 | **2,357** |
| Interest expenses | 5,128 | 803 | 629 | 1,278 | 1,062 | 23 | **8,923** |

## 4.3. SALES REVENUES

Approximately 90% of its revenues the Group generates from the performance of building contracts. Details on the recognition of this category of revenues are provided in Note 2.

The main revenue estimates concern the recognition of revenue from construction contracts. They are referred to in Note 2.

The following table provides information on the aggregate amount of transaction prices allocated to service obligations not performed or not fully performed as of the balance sheet date under building contracts.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Total value of opened contracts | 5,119,310 | 5,086,112 |
| Cumulative value of revenues under open contracts recognized through the reporting date | 2,817,785 | 3,129,335 |
| The revenues in value terms to be recognized in subsequent periods under open contracts | 2,301,525 | 1,956,777 |
| Long-term (revenues to be realized within one to three years from the balance sheet date) | 505,638 | 602,093 |
| Short-term (revenues to be realized below one year from the balance sheet date) | 1,795,887 | 1,354,684 |

Due to the specific nature of the long-term contracts under implementation, it is not possible to estimate precisely the time horizons within which the revenues from the contracts commenced as at a given balance sheet date will be recognized over a period longer than one year.

Revenues generated by the Group originate from the execution of construction works in Poland and the European Union and from other sales to local customers.

Figures concerning revenues are presented in note 4.2 Reporting segments.

## 4.4. COST OF GOODS SOLD (COGS)

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| Third party services | 1,261,944 | 1,559,223 |
| including third party construction works subcontractors | 1,160,334 | 1,372,652 |
| Material and energy consumption | 383,830 | 457,908 |
| Employee benefit expenses | 333,718 | 310,745 |
| Amortization and depreciation | 22,941 | 21,295 |
| Taxes and charges | 8,683 | 9,636 |
| Other cost categories | 20,433 | 23,006 |
| Value of merchandise and materials sold | 1,941 | 7,997 |
| **Total costs by category** | **2,033,490** | **2,389,810** |
| Change in the balance of products, work in progress and accrued expenses under building contracts | 128,903 | (124,908) |
| Cost of sales (negative value) | (9,009) | (6,003) |
| General management and administration costs (negative value) | (118,556) | (92,235) |
| **Manufacturing costs of products sold** | **2,034,828** | **2,166,664** |

## 4.5. EMPLOYEE BENEFIT EXPENSES

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| Wages and salaries | 271,175 | 251,438 |
| Expenses related to post-employment defined benefit plans | 572 | 3,882 |
| Social insurance and other employee benefits | 61,971 | 55,425 |
| **Total** | **333,718** | **310,745** |

## 4.6. OTHER OPERATING INCOME AND EXPENSES

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| **Other operating income** | | |
| Proceeds from the sales of non-financial fixed assets | 561 | 2,029 |
| Penalties, fines and damages | 2,307 | 7,144 |
| Revenues from subsidies received | 3,100 | - |
| Liabilities written off | 1,619 | - |
| Other | 4,113 | 11,654 |
| | **11,700** | **20,827** |

| | | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|---|
| | **Other operating expenses** | | |
| Note 6.5. | Set up / released provisions | 4,071 | 5,071 |
| Note 6.6. | Litigation costs | 84 | 193 |
| | Other | 2,994 | 3,596 |
| | | **7,149** | **8,860** |

## 4.7. FINANCIAL INCOME AND EXPENSES

| | | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|---|
| | **Financial income** | | |
| Notes 5.1.2 | Interest income | | |
| | Loans extended expense | 1,129 | 1,123 |
| | Other | 2,868 | 1,234 |
| | F/X gains/losses | 3,084 | 103 |
| | Other | - | 106 |
| | | **7,081** | **2,566** |

| | | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|---|
| | **Financial expenses** | | |
| | Interest income | | |
| Note 3.4. | Issued bond expense | 2,343 | 2,491 |
| Note 3.3. | List of credits and loans | 2,004 | 1,527 |
| Note 3.5. | Lease liabilities | 1,455 | 233 |
| | Other | 4,466 | 4,672 |
| | Arrangement fee on bank's overdraft facility | 2,218 | 2,110 |
| | F/X gains/losses | 199 | 507 |
| | Other | 761 | 540 |
| | | **13,446** | **12,080** |

## 4.8. TAXATION

The mandatory burdening of the financial result consists of two elements: current income tax and deferred tax.

Due to temporary differences between the value of assets and liabilities shown in the accounting books and their tax value and the tax loss deductible in the future, the Group, using the balance sheet method, sets up: deferred income tax liabilities in respect of positive temporary differences and determines deferred tax assets in respect of foreign exchange losses and tax losses, which can be deducted following the prudential principle.

Deferred income tax assets and liabilities are not recognized in the case of temporary differences arising upon initial recognition of an asset or liability in a transaction that is not a business combination and in case of transactions that have no impact on either the accounting or tax result.

Deferred tax assets and liabilities are offset if there is a legal right to set-off tax liabilities and current tax liabilities, and if the deferred tax concerns a tax imposed by the same tax authority on the same taxpayer. It implies that deferred income tax assets and liabilities are compensated in the Group financial statements.

The Group recognizes a tax asset only when projections of future financial results indicate that a tax gain will be realized to allow the asset to be realized in a specified future.

The balance sheet value of an deferred tax asset is verified at each balancing date and is reduced accordingly by as much as it probability dropped to reach taxable income sufficient for partial or total realisation of the deferred tax asset. An element of judgment regarding the recoverability of deferred tax assets is the Group's projected future financial performance and its impact on assets recoverability.

## 4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

The determination of the effective income tax rate is presented in the table below:

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| **Gross profit before taxation** | **64,253** | **48,886** |
| **Tax according to the statutory tax rate applicable in Poland - 19%** | **12,208** | **9,288** |
| Additional tax burden being a result of a rate exceeding 19% in Germany | 3,642 | 1,588 |
| Surplus of non-taxable income | (1,970) | - |
| Non-deductible permanent differences | - | 2,966 |
| **Tax recognized in the consolidated financial net profit/loss** | **13,880** | **13,842** |
| Current tax | 26,554 | 18,028 |
| Deferred tax | (12,674) | (4,186) |
| **Effective tax rate** | **21.59%** | **28.32%** |

## 4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

The table below presents changes in deferred tax assets and liabilities in the accounting year:

| | | | Impact on | | | Impact as of | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 Jan. 2019 | Net profit/loss | Other comprehensive income | 31.12.2019 | Net profit/loss | Other comprehensive income | 31.12.2020 |
| | **Deferred tax assets** | | | | | | | |
| | Pricing of building contracts - liabilities and taxable work in progress | 36,493 | 11,573 | - | 48,066 | 7,853 | - | 55,919 |
| | Provisions | 8,454 | 968 | - | 9,422 | 1,929 | - | 11,351 |
| | Tax loss | 11,736 | (4,068) | - | 7,668 | (3,479) | - | 4,189 |
| | Accrued wages and salaries, and charges | 513 | (92) | - | 421 | 294 | - | 715 |
| Note 6.3. | Receivables revaluation write-downs | 4,417 | 1,551 | - | 5,968 | 269 | - | 6,237 |
| | Other financial liabilities | 2,018 | (21) | - | 1,997 | 352 | - | 2,349 |
| | Deferred expenses | 1,784 | (1,660) | - | 124 | 569 | - | 693 |
| | Other | 570 | 1,225 | (34) | 1,761 | 683 | 256 | 2,700 |
| | **Total** | **65,985** | **9,476** | **(34)** | **75,427** | **8,470** | **256** | **84,153** |
| | **Deferred tax liabilities** | | | | | | | |
| | Pricing of building contracts - assets | 31,601 | 5,453 | - | 37,054 | (5,635) | - | 31,419 |
| | Asset revaluation | 4,772 | (298) | (57) | 4,417 | 506 | - | 4,923 |
| | Balance sheet pricing and liabilities discount | 161 | (4) | - | 157 | 652 | - | 809 |
| | Accrued interest on debt | 238 | (135) | - | 103 | 189 | - | 292 |
| | Accrued revenues | (3) | 632 | - | 629 | (50) | - | 579 |
| | Other | 1,503 | (358) | (29) | 1,116 | 134 | 236 | 1,486 |
| | **Total** | **38,272** | **5,290** | **(86)** | **43,476** | **(4,204)** | **236** | **39,508** |
| | Assets and liabilities set off | 38,272 | | | 43,476 | | | 39,508 |
| | **Post set off balance** | **27,713** | | | **35,097** | | | **46,911** |
| | Assets | 30,410 | | | 33,524 | | | 45,778 |
| | Liabilities | 2,697 | | | 1,573 | | | 1,133 |
| | **Net impact of changes in the period** | | **4,186** | **52** | | **12,674** | **20** | |

In the year ended on 31 December 2020 and 31 December 2019 there were no negative temporary differences on which no deferred tax assets were recognised.

The table below shows the periods of realisation of deferred income tax assets and liabilities.

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Short-term | 55,497 | 27,688 | 21,058 | 443 |
| Long-term | 28,656 | 11,820 | 12,466 | 1,130 |
| **Total** | **84,153** | **39,508** | **33,524** | **1,573** |

## 4.9. JOINT CONTRACTUAL ARRANGEMENTS

Under IFRS 11 *"Joint Contractual Arrangements"*, involvement in joint contractual arrangements over which the partners have joint control is divided into joint operations and joint ventures.

The subsidiary ONDE S.A. has only joint contractual arrangements classified as joint operations. Classification as a joint operations is based on the fact that the contractual arrangement is not conducted in a separate entity, each party has obligations with respect to costs it incurs separately to perform its scope of work, and the contractual arrangement indicates that each party is entitled to a portion of the compensation from the Employer.

With respect to its interest in a joint operation, the subsidiary ONDE S.A. reports in its financial statements its assets, liabilities, revenues and expenses and its interest in all jointly owned or incurred assets, liabilities, revenues and expenses.

Since 2019, the subsidiary company ONDE S.A. (formerly PBDI S.A.) has been executing a construction contract as a member of the consortium with TOR-KRAK" Rail Engineering Company Sp. z o.o. ONDE S.A. acts as a leader of a consortium, which does not have a separate legal form, but is only an agreement functioning for the purpose of implementation of a contract for the construction of a tramway route along with the expansion of the road system in Bydgoszcz. The subsidiary ONDE S.A., together with a Consortium member, exercises joint control over 50% of the shareholding each in the Steering Committee of the Consortium.

There are no obligations taken, but not recognized as of the accounting date relating to the Subsidiary's involvement in the Joint Action.

The Consortium Agreement indicates the scope of work to be performed by each consortium member. Each consortium member performs its work using its own assets; there are no shared assets used to perform this contract. Each consortium member shall bear its own costs of performing its own scope of work and shall have obligations to cover those costs; there shall be no obligations or costs incurred jointly. As part of the work performed as part of a consortium, the subsidiary ONDE S.A. recognizes in the statement of profit or loss only revenues and costs directly attributable to the scope of work to be performed under the contract attributable to the subsidiary. Each Consortium member is responsible for performing its scope of work as agreed upon between the consortium members in the consortium agreement. The transaction price attributable to the subsidiary ONDE S.A. for the execution of this agreement is PLN 69.5 million. The Consortium members bear joint and several liability vis-a-vis Employer for works performed by the consortium and for warranty repairs, and if the Employer has exercised its right against ONDE S.A. with respect to works performed by TOR-KRAK, the subsidiary Company has a recourse claim against TOR-KRAK to the same extent.

Each of the consortium members is entitled to its share of remuneration from the Employer for carrying out its part of the construction works. With respect to works performed by TOR-KRAK, which are invoiced by the subsidiary ONDE S.A. as a consortium leader, to the Employer, the Company acts as an agent (in accordance with the accounting policy presented in Note 2.1.) and therefore does not recognize revenues and costs concerning works performed by TOR-KRAK. TOR-KRAK revenues and expenses of works performance are shown under revenues and costs of performing construction contracts in the road engineering segment.

Under this contract, the subsidiary ONDE S.A. as the consortium leader receives payments from the Employer to a separate escrow account, kept for the ONDE S.A., from which the funds release requires joint consent of both consortium members. The cash balance as of 31 December 2020 amounts to PLN 22,919 thousand and is reported as restricted cash on the Group's balance sheet (Note 3.7). These funds will be released after the final contract settlement by the consortium members and the investor, due in 2021. These funds will be released after the final settlement of the contract by the consortium members and the investor, which falls in 2021.At the same time, the amount due to TOR-KRAK is shown as a liability.

# 5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

## 5.1. FINANCIAL ASSETS AND LIABILITIES

Pursuant to IFRS 9 the Group classifies financial instruments, into the following categories:

- Assets priced at amortized cost;
- Financial assets priced at fair value through financial profit or loss;
- Financial liabilities priced at amortized cost;
- Derivative instruments determined as hedging instruments in hedge accounting.

In the above categories, the Group has only items measured at amortized cost

**Financial assets priced at amortized cost** include primarily:

| | |
|---|---|
| Notes 5.1.2 | Financial Assets - Loans Extended |
| Note 2.2. | Receivables under building contracts - bid bonds |
| Note 6.5. | Trade receivables |
| Note 6.5. | Other receivables |
| Note 2.3. | Assets under building contracts |
| Note 3.8. | Cash and cash equivalents |
| Note 3.8. | Cash assets on the VAT account |
| Note 3.8. | Cash with restricted availability. |
| Note 5.1. | Other financial assets (including extended loans) |

**Financial liabilities priced at amortized cost** comprise mainly:

| | |
|---|---|
| Note 2.2. | Liabilities vis-a-vis subcontractors - bid bonds |
| Note 2.3. | Liabilities under building contracts |
| Note 6.9. | Trade payables |
| Note 6.9. | Other liabilities |
| Notes 3.2. – 3.5. | Debt |

## 5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below shows the carrying amount of key groups of financial assets and financial liabilities by category. The carrying value of financial assets and financial liabilities held by the Group presented in the tables below did not differ significantly from their fair value in both presented periods.

| | | Financial instrument classes | | | |
|---|---|---|---|---|---|
| | A line in the Statement of Financial Position | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Lease liabilities | Total key categories |
| | **31.12.2020** | | | | |
| Notes 5.1.2 | Financial Assets - Loans Extended | 14,503 | - | - | **14,503** |
| | Financial assets - other | 2,532 | - | - | **2,532** |
| Note 2.2. | Receivables under building contracts - bid bonds | 37,031 | - | - | **37,031** |
| Note 6.5. | Trade receivables | 367,389 | - | - | **367,389** |
| Note 6.5. | Other receivables | 30,939 | - | - | **30,939** |
| Note 2.3. | Pricing of building contracts - assets | 179,106 | - | - | **179,106** |
| Note 3.8. | Cash and cash equivalents | 315,537 | - | - | **315,537** |
| Note 3.8. | Cash on VAT accounts | 30,753 | - | - | **30,753** |
| Note 2.2. | Liabilities vis-a-vis subcontractors - bid bonds | - | 140,361 | - | **140,361** |
| Note 2.3. | Pricing of building contracts - liabilities | - | 234,463 | - | **234,463** |
| Note 6.9. | Trade payables | - | 258,673 | - | **258,673** |
| Note 3.2.-3.5. | Debt | - | 88,170 | 39,292 | **127,462** |
| | **Total** | **977,790** | **721,667** | **39,292** | **1,738,749** |

* Cash and cash equivalents and restricted cash

| | A line in the Statement of Financial Position | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Lease liabilities | Total key categories |
|---|---|---|---|---|---|
| | **31.12.2019** | | | | |
| Notes 5.1.2 | Financial Assets - Loans Extended | 3,462 | - | - | **3,462** |
| | Financial assets - other | 2,018 | - | - | **2,018** |
| Note 2.2. | Receivables under building contracts - bid bonds | 62,162 | - | - | **62,162** |
| Note 6.5. | Trade receivables | 426,809 | - | - | **426,809** |
| Note 6.5. | Other receivables | 42,895 | - | - | **42,895** |
| Note 2.3. | Pricing of building contracts - assets | 202,460 | - | - | **202,460** |
| Note 3.8. | Cash and cash equivalents | 148,240 | - | - | **148,240** |
| Note 3.8. | Cash on VAT accounts | 12,918 | - | - | **12,918** |
| Note 2.2. | Liabilities vis-a-vis subcontractors - bid bonds | - | 136,127 | - | **136,127** |
| Note 2.3. | Pricing of building contracts - liabilities | - | 169,775 | - | **169,775** |
| Note 6.9. | Trade payables | - | 234,297 | - | **234,297** |
| Note 3.2.-3.5. | Debt | - | 187,627 | 44,820 | **232,447** |
| | **Total** | **900,964** | **727,826** | **44,820** | **1,673,610** |

* Cash and cash equivalents and restricted cash

| | | Financial instrument classes | | |
|---|---|---|---|---|
| | | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Total key categories |
| | **31.12.2020** | | | |
| | **Impact on P&L** | | | |
| Note 4.7. | Financial income /(financial expenses) – interest | 1,015 | (7,286) | **(6,271)** |
| Note 4.7. | Financial income/(financial expenses) - FX gains/losses | 2,424 | 461 | **2,885** |
| Note 4.2. | Loss reversal/(impairment) of financial assets and contract valuation assets | 116 | - | **116** |
| | **Total** | **3,555** | **(6,825)** | **(3,270)** |

| | | Financial instrument classes | | |
|---|---|---|---|---|
| | | Loans and receivables | Financial liabilities measured at amortized cost | Total key categories |
| | **31.12.2019** | | | |
| | **Impact on P&L** | | | |
| Note 4.7. | Financial income /(financial expenses) – interest | 602 | (7,168) | **(6,566)** |
| Note 4.7. | Financial income/(financial expenses) - FX gains/losses | (220) | (184) | **(404)** |
| Note 4.2. | Loss reversal/(impairment) of financial assets and contract valuation assets | (2,203) | - | **(2,203)** |
| | **Total** | **(1,821)** | **(7,352)** | **(9,173)** |

### 5.1.1. FINANCIAL ASSETS

As of 31 December 2020 and as of 31 December 2019 the Group was in the possession of the following items disclosed in the Statement of Financial Position as financial assets:

| | | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Notes 5.1.2 | Loans extended | 14,503 | 3,462 |
| | Other | 3,250 | 2,719 |
| | **Total** | **17,753** | **6,181** |
| | Long-term | 7,120 | 2,720 |
| | Short-term | 10,633 | 3,461 |

### 5.1.2. FINANCIAL ASSETS – LOANS EXTENDED

Debt instruments held to collect contractual cash flows that comprise solely payment of principal and interest ('SPPI') are priced at amortized cost. Upon initial recognition, these financial assets are recognized at fair value plus transaction costs. Interest income is measured using the effective interest rate method and disclosed under "Interest income" in financial income. The impairment losses are presented under "Reversal of impairment/(loss) of value of financial assets and assets from valuation of contracts with customers".

The value of financial assets is updated by an impairment loss calculated using the expected credit loss method ). The Group uses a three-step impairment model for financial assets:

- Level 1 - balances for which credit risk has not increased significantly since initial recognition or have low credit risk. Expected credit losses are determined based on the probability of default within 12 months (i.e., the total expected credit loss is multiplied by the probability that the loss will occur within the next 12 months);
- Level 2 - includes balances for which there has been a significant increase in credit risk since initial recognition but no objective evidence of impairment; expected credit losses are determined based on the probability of default over the contractual life of the asset.
- Level 3 - includes balances with objective evidence of impairment.

If the loans granted have low credit risk, the allowance for expected credit losses recognized during the period is limited to 12 months of expected credit losses.

To the extent that it is necessary to assess whether there has been a significant increase in credit risk under the above model, the Group considers the following considerations in making this assessment:

- the loan is at least 30 days past due,
- legislative, technological or macroeconomic changes have occurred that have a significant negative impact on the debtor,
- there has been information about a significant adverse event relating to a loan or another loan of the same debtor from another lender, e.g. termination of a loan agreement, breach of its terms or renegotiation of its terms due to financial difficulties, etc.,
- the debtor has lost a significant customer or supplier or experienced other adverse changes in its market.

Financial assets are written off, in whole or in part, when the Group has exhausted virtually all collection efforts and determines that the receivable can no longer be reasonably expected to be recovered. This typically occurs when an asset is at least 360 days past due.

| Borrower | Loan currency | Interest rate | Maturity date | 31.12.2020 | 31.12.2019 |
|---|---|---|---|---|---|
| Lake Hill | PLN | 12% | 25 June 2021 | 10,602 | - |
| Pflege Beteiligungs | EUR | 4% | 31 December 2022 | 3,870 | 3,443 |
| Personnel | | 0 - 0.5% | 31 December 2021 | 10 | 19 |
| Avista Invest Sp. z o.o. | PLN | WIBOR 3M + 5.3% | 31 June 2021 | 21 | - |
| **Total including:** | | | | **14,503** | **3,462** |
| Long-term | | | | 3,870 | 3,462 |
| Short-term | | | | 10,633 | - |

Loans are not overdue as of the balance sheet date. There is credit risk and currency risk associated with the loans, which are described in Note 5.2, respectively. Loans granted are classified at Level 1 of the impairment model. The loans are, in the Company's opinion, assets with a high credit quality rating for purposes of the ECL model.

As of the specified balance sheet dates, the fair value of loans and advances was not materially different from the amortized cost measurement. The fair value of credits and loans is estimated using DCF models based on cash flows reflecting the repayment schedule of loans granted. The discount rate was assumed at WIBOR rate for PLN-denominated loans and at EURIBOR rate for EUR-denominated loans as of a given date plus a fixed percentage reflecting the risk premium. Loans measured at amortized cost are classified at Level 2 of the fair value hierarchy.

Loans are classified at Level 1 of the impairment model at all balance sheet dates presented. All loans granted as of the respective balance sheet dates were considered to be instruments with low credit risk and therefore the allowance for expected credit losses recognized during the period is limited to 12-month expected credit losses. The expected credit loss was calculated based on the probability of default, the repayment profile agreed to in the loan agreement and an assessment of recoveries from the collateral. As of particular balance sheet dates, the amount of impairment loss and its changes in the presented periods were insignificant in terms of amounts, therefore the Group does not present movements on the impairment loss. The increase in the loan balance as a result of new loans granted did not significantly contribute to the change in the impairment allowance.

The loan extended to the Lake Hill Company was repaid with accrued interest on 15 January 2021 and on 1 February 2021.

## 5.2. FINANCIAL RISK MANAGEMENT PRINCIPLES

While running its operations, the Group is exposed to the following significant types of financial risk: market risk (including currency risk, interest rate risk), credit risk and liquidity risk. The ERBUD S.A.'s Management Board is responsible for determining the rules for the management of such risks and for verifying them.

### 5.2.1. MARKET RISK – CURRENCY RISK

While performing its core operations, the Group does not enter into building contracts that are denominated in EUR.

With regard to receivables and liabilities arising from material purchase contracts concluded under which payments will be made in EUR and with respect to EUR-denominated loans granted, the Group has determined that risk is immaterial.

| | | Exposure to currency risk ('000 PLN) | Impact on the Statement of Result ('000 PLN | |
|---|---|---|---|---|
| | | | exchange rate change +10% | exchange rate change - 10% |
| | **Assets** | | | |
| Note 3.8. | Cash and cash equivalents | 29,047 | 2,905 | (2,905) |
| Note 6.5. | Trade receivables and other receivables | 15,192 | 1,519 | (1,519) |
| Note 2.2. | Receivables under building contracts - bid bonds | 4,440 | 444 | (444) |
| | **Liabilities** | | | |
| Note 6.9. | Trade payables and other liabilities | (15,734) | (1,573) | 1,573 |
| Note 2.2. | Building contract liabilities - bid bonds | (25) | (3) | 3 |
| | **Impact of exchange rate changes - total assets and liabilities** | **36,790** | **3,679** | **(3,679)** |

| | | Exposure to currency risk ('000 PLN) | Impact on the Statement of Result ('000 PLN | |
|---|---|---|---|---|
| | | | exchange rate change +10% | exchange rate change -10% |
| | **Assets** | | | |
| Note 3.8. | Cash and cash equivalents | 19,208 | 1,921 | (1,921) |
| Note 6.5. | Trade receivables and other receivables | 16,126 | 1,613 | (1,613) |
| Note 2.2. | Receivables under building contracts - bid bonds | 3,088 | 309 | (309) |
| | Pricing of building contracts - assets | 1,503 | 150 | (150) |
| | **Liabilities** | | | |
| Note 6.9. | Trade payables and other liabilities | (7,573) | (757) | 757 |
| Note 2.2. | Pricing of building contracts - liabilities | (570) | (57) | 57 |
| | **Impact of exchange rate changes - total assets and liabilities** | **31,782** | **3,179** | **(3,179)** |

### 5.2.2. MARKET RISK – INTEREST RATE RISK

The interest rate risk occurs mainly in connection with debt financing, i.e. bank credits and loans (Note 3.3), issued bonds (Note 3.4) and financial lease products (Note 3.5), used by the Group.

In addition, the Group invests idle cash partly into variable interest rate deposits and extends mainly variable interest rate loans.

Assets and liabilities bearing interest at variable interest rates expose the Group to the risk of cash flow volatility. Meanwhile assets and liabilities bearing fixed rate (extended loans - Note 5.1.2.) expose ERBUD to the risk of fair value volatility, however, owing to the fact that the Group does not measure these items at fair value, this impact is not reflected in the financial statements.

The Company monitors the exposure to interest rate risk and develops interest rate forecasts.

The analysis of sensitivity of items bearing a variable interest rate to interest rate changes is presented in the table below.

| | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Carrying amount of the item bearing interest at a variable interest rate | Impact on the Statement of Result | | Carrying amount of the item bearing interest at a variable interest rate | Impact on the Statement of Result | |
| | | +100 bp | -100 bp | | +100 bp | -100 bp |
| Cash and cash equivalents | 71,582 | 716 | (716) | 35,585 | 356 | (356) |
| Financial Assets - Loans Extended | 21 | - | - | - | - | - |
| Credit and loan liabilities | 36,170 | 362 | (362) | 62,159 | 622 | (622) |
| Debt related to issued bonds | 52,000 | 520 | (520) | 52,000 | 520 | (520) |
| Lease liabilities | 22,342 | 374 | (374) | 22,251 | 135 | (135) |
| **Total impact** | | **1,972** | **(1,972)** | | **1,633** | **(1,633)** |

* Cash and cash equivalents and restricted cash

The table below presents items bearing fixed interest rate.

| | 2020 | 2019 |
|---|---|---|
| | Balance sheet value of items not subject to market risk | Balance sheet value of items not subject to market risk |
| Cash and cash equivalents* | 243,955 | 112,655 |
| Financial Assets - Loans Extended | 14,482 | 3,462 |
| Credit and loan liabilities | - | 73,468 |
| Lease liabilities | 16,950 | 22,569 |
| | **91,660** | **7,103** |

* Cash and cash equivalents and restricted cash

### 5.2.3. CREDIT RISK

The Group's financial assets, which are exposed to credit risk are mainly items listed in the table below.

| | | Maximum exposure to credit risk corresponding to the carrying amount of the item | |
|---|---|---|---|
| | | 31.12.2020 | 31.12.2019 |
| Note 3.8. | Cash and cash equivalents | 315,537 | 148,240 |
| Notes 5.1.2 | Financial Assets - Loans Extended | 14,503 | 3,462 |
| Note 6.5. | Trade receivables | 367,389 | 426,809 |
| Note 2.2. | Receivables under building contracts - bid bonds | 37,031 | 62,162 |
| Note 2.3. | Pricing of building contracts - assets | 179,106 | 202,460 |
| | **Total** | **913,566** | **843,133** |

* Cash and cash equivalents and restricted cash

## Cash and cash equivalents

ERBUD minimizes credit risk related to cash and cash equivalents through diversification of banks with which investment transactions are made. The Group works jointly with highly reliable financial institutions as indicated in the table below. There is a significant concentration of credit risk at individual accounting dates - information on the amount of cash balances held at one financial institution is shown below.

A breakdown of cash and cash equivalents balances by credit rating grades is shown in the table below. Rating AA-, A-, BBB+, BBB according to Euro Rating is the investment level. BB+ rating, is out of investment grade, nonetheless the amount of cash in these institutions is marginal.

| According to the Euro Rating agency | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Banks rated AA- | 0.0% | 0.00% |
| Bank ranked A- | 50.0% | 0.0% |
| Banks rated BBB+ | 45.0% | 50.6% |
| Banks rated BBB+ | 5.0% | 24.5% |
| Banks rated BB+ | 0.0% | 24.9% |
| | **100.0%** | **100.0%** |

As of 31 December 2020, the value of cash assets and their equivalents located in one financial institution did not exceed 50% of the total balance.

As of 31 December 2019, the value of cash assets and their equivalents located in one financial institution did not exceed 50% of the total balance.

The entire balance of cash and cash equivalents as of the respective balance sheet dates is included in Degree 1 of the impairment model (i.e., balances for which credit risk has not increased significantly since initial recognition).

The allowance for impairment of cash and cash equivalents was determined individually for each balance related to the financial institution. External bank ratings and publicly available information on default rates for a given rating determined by Euro Rating were used to assess credit risk. The analysis showed that these assets have low credit risk at the accounting date. The Group has taken advantage of the simplification allowed by the standard and the impairment loss has been determined on the basis of 12-month credit losses. The calculation of write-off showed an immaterial amount of impairment loss.

### Trade receivables and building contract assets

To protect against credit risk resulting from receivables under construction contracts (i.e. trade receivables, receivables under construction contracts - bid bonds and valuation of construction contracts), the Group has in place a policy of assessing and verifying credit risk related to all contracts, both at the offering phase and during contract execution. Before signing a contract, each counterparty is evaluated in terms of its ability to meet its financial obligations. In the event of a negative assessment of the counterparty's payment capability, entering into the contract depends on the establishment of adequate financial or asset collaterals. Moreover, contracts with investors contain clauses providing for the right to suspend the execution of works, if there is a delay in the transfer of payments for services rendered. If possible contractual clauses are also developed to condition payments to subcontractors on the receipt of funds from the investor.

The Group has no credit risk concentration in relation to trade receivables and receivables under construction contracts - in relation to bid bonds and valuation of construction contracts.

Changes in the write-down of receivables and the age structure of past due receivables are presented in Note 6.5.

#### 5.2.4. LIQUIDITY RISK

In order to reduce the risk of liquidity loss, the Group maintains an appropriate amount of cash and transferable securities as well as enters into credit line agreements, which serve as additional liquidity security. To finance investment purchases, the Group uses own funds or long-term financial lease contracts, ensuring adequate sustainability of the financing structure for this type of assets.

The Group pursues a policy limiting credit exposures to individual financial institutions and issuers of debt securities, which are acquired as part of periodic investments of surplus cash.

Liquidity management is supported by the existing liquidity forecast reporting system by the Group.

The table below shows the Group's financial liabilities as of 31 December 2020 by maturity date based on contractual non-discounted payments.

| | | | | | | 31.12.2020 |
|---|---|---|---|---|---|---|
| | Below 3 months | 3-12 months | 1-5 years | Above 5 years of age | Total non-discounted flows | Balance-sheet values |
| Credit and loan liabilities | 5,527 | 18,722 | 12,170 | - | **36,419** | **36,170** |
| Debt related to issued bonds | - | 54,195 | - | - | **54,195** | **52,000** |
| Lease liabilities | 1,053 | 14,682 | 20,877 | 7,205 | **43,817** | **39,292** |
| Building contract liabilities - bid bonds | 6,772 | 118,258 | 13,691 | 2,521 | **141,242** | **140,361** |
| Trade payables | 148,287 | 110,386 | - | - | **258,673** | **258,673** |
| **Total** | **161,639** | **316,243** | **46,738** | **9,726** | **534,346** | **526,496** |

The table below shows the Group's financial liabilities as of 31 December 2019 by maturity date based on contractual non-discounted payments.

| | | | | | | 31.12.2019 |
|---|---|---|---|---|---|---|
| | Below 3 months | 3-12 months | 1-5 years | Above 5 years of age | Total non-discounted flows | Balance-sheet values |
| Credit and loan liabilities | 21,797 | 96,827 | 17,376 | - | **136,000** | **135,627** |
| Debt related to issued bonds | - | 2,343 | 54,195 | - | **56,538** | **52,000** |
| Debt related to financial lease | 1,758 | 11,279 | 31,726 | 4,304 | **49,067** | **44,820** |
| Building contract liabilities - bid bonds | 1,801 | 120,160 | 14,881 | 196 | **137,038** | **136,127** |
| Trade payables | 71,841 | 162,456 | - | - | **234,297** | **234,297** |
| **Total** | **97,197** | **393,065** | **118,178** | **4,500** | **612,940** | **602,871** |

# 6. OTHER NOTES

## 6.1. TANGIBLE FIXED ASSETS

The most important items of tangible fixed assets are means of transport as well as technical equipment and machinery used primarily for the construction of public, commercial, residential and industrial facilities. In addition, the Group is also in the possession of buildings and structures.

Tangible fixed assets are carried at purchasing price /manufacturing cost less depreciation and all impairment write-offs. When the Group identifies indications that property, plant and equipment may be impaired, it performs an impairment test based on an estimate of the recoverable amount of the property, plant and equipment. Recoverable amount is determined as the higher of the value that is realizable upon sale of a given non-current asset less costs to sell or the value in use calculated based on the discounted cash flows to be generated by a given non-current asset or group of assets.

The initial value of tangible fixed assets comprises their purchasing price plus all costs connected directly with the purchase and adaptation of the asset to the condition fit for use. The initial value also comprises the cost of spare parts of machinery and equipment when incurred, if the recognition criteria are met, i.e. a member company of Erbud Group expects that spare parts will be used for more than one year and it is possible to assign them to a specific item of tangible fixed assets.

Costs incurred after the date of commissioning of a fixed asset such as maintenance and repair costs, are recognized in the net financial income when incurred.

The Group annually verifies the residual value, useful life and depreciation methods of tangible fixed assets. The revisions performed as of 31 December 2019 and 31 December 2020 did not result in a change to the remaining estimated useful lives, depreciation methods or residual values of property, plant and equipment.

Depreciation rates are by class of fixed assets (including the right to use assets that belong to a particular category):

- Buildings and structures – 2% - 4,5%
- Technical equipment and machinery – 6% - 30%
- Means of transport – 12,5% - 20%
- Other – 10% - 33%
- Lands are not depreciated.

The rights to use the assets are amortized over a period that reflects the effective term for which contracts have been signed. For leased assets of the Group, depreciation rates coincide with depreciation rates for its own assets belonging to the same category because the lease term corresponds to the economic useful life of the asset (including renewal options) or the contract includes an option to purchase the asset and it is reasonably certain that the Group will exercise the option.

Fixed assets under construction are priced at the level of costs connected directly with their acquisition or manufacturing including costs of financing, less write-downs for impairment. Fixed assets under construction are not depreciated until their construction has been completed.

Lease accounting policy effective from 1 January 2019:

Leases are recognized as right-of-use assets and obligations to pay for those rights at the date the leased assets are available for use by the Group. Right-of-use assets are presented in Note 6.1.

At the lease start date, the lease obligations are measured at an amount equal to the present value of the following lease payments for the right to use the underlying asset during the lease term:

- fixed lease payments (including substantially fixed payments), less any lease incentives payable,
- variable lease payments that depend on an index or rate;
- amounts expected to be paid by the Lessee under the guaranteed residual value,
- the exercised price of a call option, if it can be assumed with reasonable certainty that the lessee will exercise the option,
- financial penalties for lease termination, if the lease terms and conditions provide that the Lessee may exercise the lease termination option

Lease payments are discounted using the lease interest rate, if that rate can be readily determined, or the lessee's incremental debt rate.

Each lease payment is allocated between a liability and a finance expense. After initial recognition, lease liabilities are measured using the effective interest rate. The carrying amounts of the liabilities are updated to reflect the change in estimated lease term, option to redeem, change in lease payments and guaranteed residual value and lease contract modifications.

The lease term is a non-cancelable lease term; periods covered by renewal and early termination options are included in the lease term if there is a reasonable certainty that the lease will be renewed or the lease will not be terminated early.

As of 31 December the Company held the following categories of tangible fixed assets including the right to use the assets:

| | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| **Tangible fixed assets category** | **Gross value** | **Write-offs and revaluations** | **Net value** | **Gross value** | **Write-offs and revaluations** | **Net value** |
| Lands (including right of perpetual usufruct to land) | 14,556 | 1,003 | 13,553 | 14,482 | 765 | 13,717 |
| Buildings and structures | 57,018 | 27,245 | 29,773 | 53,851 | 20,051 | 33,800 |
| Technical appliances and machinery | 50,369 | 35,008 | 15,361 | 46,631 | 28,767 | 17,864 |
| including lease | 10,351 | 3,150 | 7,201 | 18,439 | 9,220 | 9,219 |
| Means of transport | 56,143 | 29,775 | 26,368 | 49,327 | 25,255 | 24,072 |
| including lease | 26,342 | 9,096 | 17,246 | 32,024 | 14,466 | 17,558 |
| Other fixed assets | 15,187 | 10,038 | 5,149 | 14,587 | 10,813 | 3,774 |
| Fixed assets under construction | 1,942 | - | 1,942 | 5,713 | - | 5,713 |
| Other | 18,691 | 6,683 | 12,008 | 12,153 | 5,986 | 6,167 |
| **Total** | **213,906** | **109,752** | **104,154** | 196,744 | 91,637 | 105,107 |

The Group concluded lease contracts for an average period of 3 to 5 years. Leases include mainly means of transport and leases of offices, warehouses and rights of perpetual usufruct to land. These contracts mostly (except for perpetual usufruct rights) contain an option of contract renewal after the end of the basic period. Additionally, under the concluded lease contracts for the means of transport the Group is entitled to repurchase the leased asset at the end of contract life.

Debt related to lease contracts is referred to in Note 3.5.

| | Lands including right of perpetual usufruct to land | Buildings and structures | Technical appliances and machinery | Means of transport | Other fixed assets | Fixed assets under construction | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Net value as of 1 Jan. 2019** | **14,299** | **40,201** | **12,904** | **23,129** | **3,329** | **194** | **6,911** | **100,967** |
| **Increases:** | | | | | | | | |
| Acquisition | - | 245 | 1,615 | 2,637 | 1,928 | 5,764 | 251 | **12,440** |
| Lease | - | - | 8,074 | 7,478 | - | - | - | **15,552** |
| Acceptance of fixed assets | - | - | - | - | - | - | - | **-** |
| Other, including reclassification adjustments | - | - | (53) | 53 | - | - | - | **-** |
| **Decreases:** | | | | | | | | |
| Amortization and depreciation | 219 | 6,582 | 4,133 | 7,963 | 1,448 | - | 950 | **21,295** |
| Disposal and liquidation | 356 | - | 222 | 1,496 | 6 | - | - | **2,080** |
| Internal transfers | - | - | 318 | (282) | (4) | 234 | - | **266** |
| Other | 7 | 64 | 3 | 48 | 33 | 11 | 45 | **211** |
| **Net value as of 31 December 2019** | **13,717** | **33,800** | **17,864** | **24,072** | **3,774** | **5,713** | **6,167** | **105,107** |
| **Net value as of 1 Jan. 2020** | **13,717** | **33,800** | **17,864** | **24,072** | **3,774** | **5,713** | **6,167** | **105,107** |
| **Increases:** | | | | | | | | |
| Acquisition | - | 583 | 1,928 | 2,468 | 2,345 | 3,355 | 2,736 | **13,415** |
| Lease | - | - | 135 | 9,191 | 85 | - | - | **9,411** |
| Acceptance of fixed assets | - | - | - | - | - | (991) | 1,453 | **462** |
| Other, including reclassification adjustments | - | 1,386 | (35) | - | 259 | (4,511) | 2,900 | **(1)** |
| **Decreases:** | | | | | | | | **-** |
| Amortization and depreciation | 230 | 6,583 | 5,090 | 8,012 | 1,705 | - | 1,321 | **22,941** |
| Disposal and liquidation | - | - | (12) | 1,390 | 6 | 1,205 | 50 | **2,639** |
| Internal transfers | - | 2 | (445) | 386 | (177) | 480 | 258 | **504** |
| Other | - | (1) | (76) | - | 77 | - | - | **-** |
| FX gains and losses from translation | 67 | 588 | 26 | 424 | 297 | 61 | 382 | **1,844** |
| **Net value as of 31 December 2020** | **13,554** | **29,773** | **15,361** | **26,367** | **5,149** | **1,942** | **12,009** | **104,154** |

## Amortization and depreciation

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| General and administrative (G&A) costs | 10,781 | 12,585 |
| Costs of products and services sold | 12,160 | 8,710 |
| **Total** | **22,941** | **21,295** |

## Right to use assets under lease, lease liabilities

The right to use assets includes lease assets in compliance with the requirements of IFRS 16 standard. The standard has been applied for the first time in 2019, a simplified method of implementation has been adopted (modified retrospective approach, i.e. with recognition of the cumulative effect from the first application of IFRS 16 in equity (retained earnings) as of 1 January 2019 without restatement of comparative data), therefore the data as of 1 January 2018 and 31 December 2018 are prepared using IAS17 are not comparable. The application of IFRS 16 did not result in an impact on equity as of the date of initial application, 1 January 2019.

The following simplifications allowed by IFRS16 have been adopted:

- no lease contracts for low-value assets (below PLN 15 thousand) are activated,
- contracts that will be terminated during the current year are omitted,

During the periods covered by these financial statements, the Group did not enter into any lease agreements for a period shorter than 12 months. The signed lease contracts did not comprise a variable fee for the Lessor.

Charges associated with all short-term leases and leases of low-value assets are recognized as an expense in the financial net income on a straight-line basis. At the time of initial application of the standard, for all lease contracts, except for short-term leases and leases of low-value assets, previously classified as operating leases:

- as of 1 January 2019, the Group recognized a lease liability for the current amount of the remaining lease payments discounted using the Group's incremental debt interest rate as of 1 January 2019;
- for all leases, the Group has elected to recognize a right-of-use asset at an amount equal to the lease liability adjusted for prepaid or accrued lease payments recognized in the Statement of financial position just before the initial application of IFRS 16, if any.

The value of the lease liability as of 1 January 2019 was calculated based on the following assumptions:

- discount rate for other leased assets was assumed at the level of 3.36%

The Group's leased assets activated from 1 January 2019 comprised:

- buildings and structures

Right-of-use assets are reported under property, plant and equipment in the statement of financial position.

Data regarding the first-time adoption of IFRS 16 is presented in the tables below.

| | LANDS | BUILDINGS AND STRUCTURES | TECHNICAL EQUIPMENT AND MACHINERY | MEANS OF TRANSPORT | OTHER FIXED ASSETS | TOTAL |
|---|---|---|---|---|---|---|
| **Net value as of 1 Jan. 2019** | **4,656** | **23,120** | **3,000** | **17,908** | **-** | **48,684** |
| Increase due to opened lease contracts | - | - | 7,703 | 6,593 | - | 14,296 |
| Increase due to expenditures for tangible fixed assets under construction and advances for tangible fixed assets | - | - | 78 | 183 | - | 261 |
| Decrease due to reclassification - from right-to-use leased assets to tangible fixed assets | - | - | (114) | - | - | (114) |
| Amortization and depreciation | (190) | (5,578) | (1,448) | (7,126) | - | (14,342) |
| **Net value as of 31 Dec. 2019** | **4,466** | **17,542** | **9,219** | **17,558** | **-** | **48,785** |
| Increase due to opened lease contracts | - | - | 135 | 9,191 | 85 | 9,411 |
| Increase due to expenditures for tangible fixed assets under construction and advances for tangible fixed assets | - | - | 26 | - | - | 26 |
| Decrease due to reclassification - from right-to-use leased assets to tangible fixed assets | - | - | (9) | (3,054) | - | (3,063) |
| Amortization and depreciation | (190) | (5,628) | (2,170) | (6,449) | (3) | (14,440) |
| FX gains and losses from translation | - | 158 | - | - | - | 158 |
| **Net value as of 31 December 2020** | **4,276** | **12,072** | **7,201** | **17,246** | **82** | **40,877** |

### 6.1.1. AMOUNTS OF CONTRACTUAL OBLIGATIONS TAKEN TO ACQUIRE TANGIBLE FIXED ASSETS

As of 31 December 2020 and December 31, 2019. The Group had no contractual commitments related to fixed asset purchase agreements and entered into lease agreements as to which the lease period has not yet commenced and are not shown in lease commitments in this regard.

## 6.2. GOODWILL

Goodwill arises as a result of accounting for the acquisition of projects using the acquisition method - details are provided below).

Accounting principles concerning goodwill impairment are described in Note 6.3.

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| **Opening balance of goodwill** | **40,130** | **39,462** |
| FX gains and losses from translation | 537 | (159) |
| **Closing balance of goodwill** | **40,667** | **39,303** |
| **Including acquisitions:** | | |
| Przedsiębiorstwo Budownictwa Drogowo – Inżynieryjnego S.A. (*Road Engineering Company S.A.*) | 18,274 | 18,274 |
| Erbud Holding GmbH | 17,699 | 16,335 |
| Other | 4,694 | 4,694 |

## 6.3. FIXED ASSETS IMPAIRMENT

The Group carries out test for fixed asset impairment, if there are reasons for impairment and additionally it carried out a test for goodwill once a year. Recoverable amount is determined at the lowest possible level, i.e. for an individual asset or for the cash-generating centre to which the asset belongs.

### Tangible fixed assets impairment

At each balancing date the it is evaluated if there are any objective reasons indicating a risk of asset or asset category impairment. If there are such reasons, the estimated recoverable value is agreed for the asset and an impairment loss is written off, in the amount equal to the difference between the recoverable value and balance sheet value. The recoverable value corresponds the higher of the following two values: fair value less costs closing sales or value in use. The impairment loss is posted into profit and loss account. As of each balancing date, the Group also assesses whether there are any indications that the impairment loss recognised in previous periods should be reduced or completely reversed.

### Goodwill impairment

Goodwill is tested for impairment at least once a year. Potential impairment is recognized immediately as a decrease in goodwill and recognized in the Profit and Loss Account, additionally it is not subject to reversal in subsequent reporting periods.

To carry out possible impairment test, the goodwill is allocated to the cash generating units. In the event of a disposal of an operation within a cash-generating centre to which goodwill has been allocated, the goodwill associated with the disposal shall be included in the carrying amount of the operation when determining the gain or loss on disposal.

### Goodwill impairment

Goodwill is allocated to the Group's cash-generating centres. For goodwill arising on the acquisition of ONDE S.A. shares (former Road Engineering Company S.A.) by Erbud S.A. is assumed to be the cash-generating centre of the entire engineering and road segment of ONDE S.A. (former Road Engineering Company S.A., PBDI S.A. in short)

The recoverable amount of a cash-generating centre is determined based on its fair value less selling transaction costs. These calculations use cash flow projections over a three-year period. The cash flows going beyond the three-year period were estimated to be at a constant level. The growth rate does not exceed the long-term average growth rate for the construction sector where the cash-generating centre operates. The calculations assume an average gross margin of 8.7%, while the discount rate used was 5.3%. The Management Board established the budgeted gross margin on the basis of historical performance and its own projections of market development. Weighted average growth rates are in line

with the forecasts presented in the industry reports. The discount rate used is a rate that reflects each segment specific risks.

Goodwill arising on the acquisition of the Erbud Holding Group by Erbud SA is assumed to be the cash-generating centre of the entire industrial segment abroad related to the Erbud Holding Group.

The recoverable amount of a cash-generating centre is determined based on its fair value less selling transaction costs. These calculations use cash flow projections over a three-year period. The cash flows going beyond the three-year period were estimated to be at a constant level. The growth rate does not exceed the long-term average growth rate for the construction sector abroad where the cash-generating centre operates. The calculations assume an average gross margin of 16.7%, while the discount rate used was 3.2%. The Management Board established the budgeted gross margin on the basis of historical performance and its own projections of market development. Weighted average growth rates are in line with the forecasts presented in the industry reports. The discount rate used is a rate that reflects each segment specific risks.

In 2020 and 2019, an analysis was carried out and no grounds were found to set up an impairment write-down for a loss of an asset or group of tangible assets.

The goodwill impairment test, which was carried out as of 31 December 2020, did not indicate any need to make an impairment write-off.

## 6.4. INVENTORY



The following items are mainly recognized in individual inventory categories:

- Materials – items kept at storage sites to be used in manufacturing processes, especially in construction activities;
- Work in progress
- Finished goods: the main product is bituminous mass used in production processes and for sale.

Materials are valued at the purchase price, and their expenditure is accounted for using the FIFO ("first in-first out") method. Work in progress and finished goods are prices at the cost of direct materials and labor, together with an appropriate mark-up of indirect production costs determined based on the assumption of normal utilization of production capacity, excluding costs of external financing. At the balancing date the inventory is priced taking lower of the two values: purchasing price or the cost of manufacturing and net selling price.

Under materials the Group posts construction site stored inventories for general purposes, low processing degree that could be used in a straightforward manner and without incurring material costs for other contracts or sold (if they turn out to be redundant in case of execution of a certain contract). The inventory items are not items stored on construction sites with a specific use on a certain construction site or processed on the company own or by the subcontractor, generally these are items where it is not certain whether they could be used for other contracts or sold. Such items are posted directly into contract costs and thus they are included into contract pricing taking into consideration their progress rate (details provided in Note 2).

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Materials | 24,046 | 7,783 |
| Work in progress | 1,718 | 79,480 |
| Finished goods | 316 | 367 |
| **Gross value of inventory** | **26,080** | **87,630** |
| Impairment write-offs for inventory | 352 | 310 |
| **Net value of inventory** | **25,728** | **87,320** |

## 6.5. TRADE RECEIVABLES AND OTHER RECEIVABLES

In the trade receivables as well as other receivables category the ERBUD Group recognised mainly trade receivables from non-related entities (mainly due to issued invoices in relation to the construction contracts executed by the Group) and budget receivables, including corporate income tax receivables and tax on goods and services receivables.

**Trade receivables** , with maturity typically from 30 to 180 days, are recognized at their nominal value, i.e. according to the amounts originally invoiced. Trade receivables are held for collection and meet the SPPI test, therefore, as of the balance sheet date, these items are measured at amortized cost, including any write-off.

IFRS 9 requires the estimation of expected loss for trade receivables, regardless of whether there was any indication of impairment or not. For trade receivables, the Group uses the simplified approach and measures impairment losses at the amount of credit losses expected over the life of the receivable from moment of initial recognition. For trade receivables that have been assessed as not impaired based on the portfolio analysis performed, the estimation of impairment losses, if any, is based on the use of an write-off matrix where write-offs are calculated for trade receivables classified into different aging categories (past due periods) using a default rate. The default rate is determined based on historical data (calculated on the basis of the last 5 years) adjusted for the impact of future factors.

In the same manner the Group calculates the allowance for expected credit losses for deposit receivables and construction contract assets in an analogous manner; balances that are not past due are included in the "not past due" category in the write-off matrix, and the write-off is calculated taking into account the default rate for not past due receivables.

For trade receivables with indications of impairment (e.g. disputed receivables), specific additional write-offs were set up depending on the assessment of their recoverability.

If the value of money in time is material (applies to the bid bonds receivables) the value of receivables is determined through discounting projected future cash flows to the present value, using a gross discount rate reflecting current

| | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Gross value | Write-down | Net value | Gross value | Write-down | Net value |
| Trade receivables from non-related entities | 403,531 | 36,142 | 367,389 | 465,090 | 38,281 | 426,809 |
| Receivables from corporate income tax | 355 | - | 355 | 9,458 | - | 9,458 |
| Other budget receivables | 11,565 | - | 11,565 | 11,650 | - | 11,650 |
| Other receivables | 20,229 | 1,210 | 19,019 | 22,997 | 1,210 | 21,787 |
| **Total** | **435,680** | **37,352** | **398,328** | **509,195** | **39,491** | **469,704** |

Modifications of the write-off for trade receivables are presented in the table below.

| | For the period of 12 months, ended on 31 Dec. 2020 | For the period of 12 months, ended on 31 Dec. 2019 |
|---|---|---|
| **Opening balance of write-downs** | **39,491** | **44,332** |
| Setting up individual write-offs (Level 3 of the impairment model) | 4,432 | 12,435 |
| Setting up /(reversal) of write-offs according to write-off matrix | (1,291) | 15 |
| Reversal of individual write-offs | (2,500) | (10,766) |
| Use of individual write-offs | (3,645) | (6,507) |
| Other | 671 | - |
| FX gains and losses from translation | 194 | (18) |
| **Closing balance of write-downs** | **37,352** | **39,491** |
| Write-off calculated based on matrix | **3,211** | **9,022** |
| Individual write-off | **34,141** | **30,469** |

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Non-past due receivables:** | **285,787** | **245,921** |
| **Past due receivables:** | **81,602** | **180,888** |
| Below 1 month | 24,426 | 64,222 |
| 1-3 months | 9,923 | 27,920 |
| 3-6 months | 863 | 24,617 |
| 6 months - 1 year | 2,530 | 15,145 |
| Above 1 year | 43,860 | 48,984 |
| **Total trade receivables, net** | **367,389** | **426,809** |

As of 31 December 2020 the amount of past due receivables includes disputed receivables, including PLN 8,188 thousand secured by mortgages from Kępska S.A. and PLN 4,317 thousand from COM Jarosław. Partial write-offs were created for disputable receivables based on estimated discounted cash flows. The aforementioned entities are the subject of disputes described in Note 6.6.

For the remaining disputable receivables write-offs were set up based on estimated discounted cash flows.

For the aforementioned receivables write-offs were set up in the full amount.

For the remaining disputable receivables write-offs were set up based on estimated discounted cash flows.

The Group is exposed to credit risk and foreign currency risk arising from trade receivables. However, there is no concentration of credit risk related to trade receivables since the Group has a large number of domestic customers. All receivables, except for those individually written off, are rated by the Group as having the highest internal credit rating. For all receivables except those written-off individually, the Group estimates a write off for expected credit losses in an amount equal to 12 months expected credit losses.

## 6.6. OTHER ASSETS

The **Insurance** line comprises prepayments made by the Group under insurance contracts concerning future reporting periods. They are recognized in the income statement proportionally to the time expired.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Insurance | 4,292 | 5,670 |
| Other | 736 | 906 |
| **Total** | **5,028** | **6,576** |

## 6.7. PROVISIONS

The Provisions category mainly comprises provisions for warranty repairs, provisions for employee benefits and post-employment benefits, and provisions for litigations and disputes.

### Provisions for warranty repairs

Provisions for warranty repair costs result from the Group's warranty extended for construction services. Provisions are set up in the amount determined with percentage rate, which is a quotient of historically incurred costs for warranty repairs and historically posted revenues generated by the execution of building contracts. The costs of provision for warranty repairs are posted into costs of services sold. In the case of non-construction services, mainly maintenance services, the provision for the costs of warranty repairs is set up on the basis of historical data and a reliable estimate of the amount of the related obligation. The assumptions used to calculate the provision for warranty repairs as of 31 December 2020 were based on the records of warranty repairs between 2016 and 2020 and as of 31 December 2019 - between 2015 and 2019 respectively.

### Provision for benefits in the post-employment period

This category comprises provisions for retirement and pension severance pays, to be paid by the Group under the effective law and the remuneration rules and regulations. The amount of the provision is determined at the present value using actuarial techniques requiring the adoption of certain assumptions. Assumptions vital to pricing include the levels of discount rates, projected rates of return on assets (ROA), forecast wage increases. Due to pricing complexity, the assumptions made, its long-term nature, the liabilities related to the above mentioned benefits are very sensitive to assumption changes. All the above assumptions are verified and updated at the end of each reporting period.

### Provisions for litigation and disputes

Detailed analysis of potential risks related to litigation, making decisions about a need to reflect the impact of such litigation in the Group's financial statements and the amount of the provision are made by the legal departments and the Management Board.

Categorized provisions are presented in table below:

| | Provisions for warranty repairs | Provision for employee benefits in the post-employment period | Provisions for litigations and disputes | Other | Total |
|---|---|---|---|---|---|
| **As of 1 Jan. 2019** | **20,103** | **15,225** | **1,477** | **5,039** | **41,844** |
| Increase | 5,836 | 571 | 533 | 5,158 | 12,098 |
| Dissolution | 444 | - | - | 1,005 | 1,449 |
| Utilisation | 2,000 | 326 | 498 | 4,681 | 7,505 |
| FX gains and losses from translation | (28) | - | - | (17) | (45) |
| **As of 31 Dec. 2019** | **23,467** | **15,470** | **1,512** | **4,494** | **44,943** |
| short-term | 19,245 | 1,858 | 1,512 | 4,241 | 26,856 |
| long-term | 4,222 | 13,612 | - | 253 | 18,087 |
| **As of 1 January 2020** | **23,467** | **15,470** | **1,512** | **4,494** | **44,943** |
| Increase | 3,891 | 287 | 895 | 4,445 | 9,518 |
| Dissolution | 365 | - | - | 480 | 845 |
| Increase due to acquisition | - | | - | 341 | 341 |
| Utilisation | 808 | 35 | - | 1,729 | 2,572 |
| FX gains and losses from translation | 231 | - | 28 | 194 | 453 |
| **As of 31 Dec. 2020** | **26,416** | **15,722** | **2,435** | **7,265** | **51,838** |
| short-term | 19,186 | 558 | 2,319 | 6,987 | 29,050 |
| long-term | 7,230 | 15,164 | 116 | 278 | 22,788 |

## 6.8. LITIGATION

| Party to the litigation | Description of Works under litigation | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **Actions brought against the Group** | | | |
| Plaintiff: Mazowiecki Port Lotniczy Warszawa-Modlin Sp. z o.o. (*Warsaw Modlin Aiport*) ("MPL")<br><br>Defendant: ERBUD S.A. in Warsaw<br><br>Date of servicing an action to ERBUD S.A.: 23 May 2014<br><br>Value of the dispute: PLN 34 381 374.64 | On 12 May 2014, a statement of claim was delivered to ERBUD S.A. in which the Warsaw Modlin Airport (MPL) requested payment of PLN 34,381,374.64 for damages along with statutory interest and litigation costs. The damages claimed by the Warsaw Modlin Airport (MPL) consists of losses and benefits incurred by the claimant and lost as a result of allegedly improper performance by ERBUD of the Contract of 14 September 2010 for the construction of the Warsaw-Modlin Airport No. PLM/K/96/2010 and suspension of air traffic on a part of the airport runway.<br><br>11 October 2014 ERBUD S.A. submitted a reply to the statement of claim in which it requested that the Warsaw Modlin Aiport's (MPL) claim be dismissed in its entirety and that the costs of the proceedings be reimbursed. At the same time, irrespective of the claim lodged by the claimant, the Company instituted a counterclaim against Warsaw Modlin Airport (MPL), requesting that the amount of PLN 19,892,366.30 with statutory interest be awarded to the Company. The counterclaim consists of costs incurred by ERBUD S.A. for repairs of the airfield surface at the Warsaw-Modlin airport.<br><br>The case has a complicated factual state of affairs and extensive evidence has been submitted during the proceedings. It will be necessary take several proofs from the expert opinions.<br><br>At the same time, ERBUD S.A. supports the assessments presented in the earlier memoranda, according to which the risk of awarding a claim in favour of MPL is lower than the chance of claim dismissal. However, even if the Court found MPL's claim justified, the amount of awarded damages would be significantly lower than the amount claimed in the action brought by MPL, since ERBUD S.A. is able to question almost every element of the claim lodged by MPL. | Posted as conditional liability | Posted as conditional liability |

**Actions brought by the Group**

| | | | |
|---|---|---|---|
| Defendant: Bank Millennium S.A. in Warsaw<br><br>Date of filing a lawsuit: 22 December 2010<br><br>Value of the dispute: PLN 71,065,496 | In 2008 Bank Millennium S.A. advised ERBUD S.A. to conclude FX option transactions to hedge against FX risk under the contracts denominated in EUR executed by the Issuer. The Bank's proposal was driven by a need of the Issuer to obtain security adequate to its situation. According to the Company, the product was not optimally adjusted to the ERBUD S.A. needs. In Q4 2008, as a result of a drastic revaluation of Polish zloty (PLN) in the PLN/EUR pair, Bank Millennium S.A. informed the Issuer about a negative valuation of the exposure held at that time.<br><br>At the same time, a dispute arose over the content of FX option transactions, mainly with respect to the exclusion of option structures. During numerous discussions, the Issuer presented its position to the Bank, in which it demanded that the transaction be carried out with the undertaking of actions aimed at enforcing of existing claims. In order to limit the amount of potential loss, the disputed transactions were restructured and the Bank was informed about legal actions taken in the future to remedy the loss resulting from FX option transactions. The restructuring details were presented by the Issuer in RP 43/2008 on 21 November 2008 and in the 2008 Financial Statements. The Issuer never agreed with the position of Bank Millennium S.A. and therefore called upon the Bank twice demanding the Bank to pay the amount of PLN 71,065,496, which consists of the amounts collected by the Bank from the Issuer's bank account, foregone profits and costs of legal and financial advisors. In connection with the above, the Issuer decided to bring an action for payment of compensation for the loss.<br><br>On 16 September 2016 the Management Board of ERBUD S.A. was informed by its legal counsels about the decision taken by the District Court in Warsaw. Pursuant to the decision, the Court dismissed the Issuer's claim in its entirety.<br><br>On 4 November 2016, the Issuer filed an appeal against the decision. The decision was appealed against in its entirety, and the appeal allegations focus in particular on incorrect findings and conclusions of the Court of First Instance regarding the incorrect determination by the Court of First Instance of the content of the disputed transactions, as well as incorrect interpretation of documents, including documents confirming transactions. In addition, a reference was made to numerous rulings of the District Court and the Court of Appeal in Warsaw, issued in similar cases when the Courts issued rulings favourable to the customers of Bank Millennium under circumstances similar to those of the Issuer.<br><br>The above ruling does not have any influence on the financial position of the Issuer because the entire loss related to options was settled in the year of its occurrence, i.e. in 2008.<br><br>On 29 May 2018 the Court of Appeal in Warsaw announced the ruling in the case filed by ERBUD S.A. against Bank Millennium S.A., in which it upheld the appeal of the Company.<br><br>The Court of Appeal in Warsaw, in its decision of 29 May 2018, overruled the appealed decision of the District Court in Warsaw of 16 | No impact. | No impact |

| | | | |
|---|---|---|---|
| | September 2016 and referred the case back to that court for re-examination together with the decision about the costs of the appeal proceedings.<br><br>On 13 July 2018 the Company was informed about a complaint filed by Bank Millennium S.A. with the Supreme Court against the ruling of the Court of Appeal in Warsaw of 29 May 2018 concerning the action brought by ERBUD S.A. against Bank Millennium S.A.<br><br>In its complaint Bank Millennium questions the advisability of repealing the ruling and referring the case back to the District Court in Warsaw for re-examination, indicating that the Court of Appeal should decide the case itself. on behalf of the Company its Legal advisors submitted a response to the complaint.<br><br>On 28 September 2018 the Supreme Court issued a decision about the case brought by the Issuer against Bank Millennium S.A., in which it accepted the complaint of Bank Millennium S.A. By virtue of its decision of 28 September 2018 the Supreme Court, overruled the appealed decision of the Court of Appeal in Warsaw of 29 May 2018 and referred the case to the Supreme Court for further consideration together with the decision on the costs of the appeal proceedings.<br><br>On 3 June 2020 the Court of Appeals in Warsaw decided to admit ex officio the evidence of a court expert in finance, economics and banking and ordered the court expert to prepare a written opinion within 2 months. Further decisions the court is going to take after the expert's opinion has been drawn up. Until the date of publication of the financial statements, the status of the case has not changed. | | |
| Defendant: DSH – Dopravni Stavby, a.s., Brno in the Czech Republic<br><br>Date of filing a lawsuit: 14 February 2013<br><br>Value of the dispute: PLN 26,923,644.16 | Current state of the affairs: On 27 May 2014 ERBUD S.A. extended the claim by the amount of PLN 22,925,604.52 claiming additionally the reimbursement of costs of substitute performance. In a letter dated 27 April 2014 and delivered on 1 July 2014, the defendant filed a counterclaim for the amount of PLN 5,651,633. On 6 November 2015, a hearing was held. The parties have agreed to request the cancellation of the hearing in order to continue the settlement proceedings. The settlement talks were fruitless. All witnesses requested by the Parties have been interviewed. Upon the unanimous request of the Parties, the Court set a 30-day time limit for the expert to specify the proof of evidence and to submit detailed questions to the opinion. On 17 August, CEMEX notified about its accession on ERBUD S.A. side as a secondary intervener. At the main hearing held on 12 December 2018, the court dismissed both oppositions. ERBUD S.A. requested the delivery of the decision along with rationale. Once the written rationale has been examined, a decision will be made to lodge a complaint. The date of hearing is missing. | No impact | No impact |
| Defendant: Kępska S.A. with its registered office in Warsaw<br><br>Date of filing a lawsuit: 22 April 2014<br><br>Value of the dispute: PLN 9,877,132<br><br>. | The Issuer is claiming from Kępska S.A. the payment of remuneration for the execution of construction works. Action brought on 22 April 2014. The Issuer requested that Kępska S.A. be adjudicated to pay the above amount.<br><br>In the course of the case examination, a court expert opinion and two complementary opinions were prepared. According to these opinions, Erbud performed the works under the contract in compliance with deadlines amended by the annexes and by virtue of additional agreement.<br><br>By virtue of its decision of 24 April 2018, the Court allowed the claim for payment and adjudicated Kępska S.A. to pay Erbud the amount of PLN 9,877,131.31 with statutory interest. In the rationale, the Court stated that the defects of the works referred to by the defendant did not entitle the defendant to withdraw from the agreement and that Erbud should be paid for works performance.<br><br>On 6 November 2018, as a result of appeals filed by Erbud and Kępska S.A. against the court decision, the Court of Appeal in Wrocław recognized, by virtue of its ruling, the termination of the general contractor agreement by Erbud SA to be effective, adjudicated the amount of PLN 4,316,464.11 plus interest from Kępska S.A. to Erbud SA, set aside the court decision for re-examination with regard to the receivables awarded therein in the amount of PLN 5,560,667.20, and dismissed the appeals of the Parties to the remaining extent. | A partial write-down was set up based on discounted cash flows. | A partial write-down was set up based on discounted cash flows. |

| | | | |
|---|---|---|---|
| | Upon the Issuer's request, the Court Enforcement Officer runs enforcement proceedings to obtain the cash benefit awarded to Erbud.<br><br>At the same time, on the basis of the obtained executive title, the Issuer filed for initiation of enforcement proceedings against a part (secured with a mortgage) of the legally awarded amount of PLN 2,901,964.11 from the real estate at ul. Kępska 8 in the City of Opole, encumbered with a compulsory mortgage established in favour of Erbud. Proceedings to this extent are run by the Court Enforcement Officer at the District Court in the City of Opole.<br><br>On 24 January 2019 the Court Enforcement Officer suspended the enforcement proceedings pursuant to Article 146 of the Bankruptcy Law. By virtue of decision of 4 September 2020 the Regional Court in Opole adjudicated the amount of PLN 5,440 thousand along with the statutory interest to the Plaintiff. Erbud's claims are secured up to the amount of PLN 6,773 thousand with a compulsory mortgage established on the right of perpetual usufruct of the property. | | |
| Defendant: Platinum Resort Sp. z o.o.<br><br>Date of filing a lawsuit: 3 December 2018<br><br>Value of the dispute: 16.301.236,97 | Erbud filed a request with the District Court in Szczecin to secure a cash claim in the amount of PLN 5,455,851.09 in relation to the contractual penalty for withdrawal from the Construction Works Contract of 26 January 2017 for the execution of the project titled "Construction of a four-star hotel complex consisting of: Three hotel buildings with land development in Żeromskiego Street in the City of Świnoujście" by encumbering the properties belonging to Platinum Resort Sp. z o.o. with a joint compulsory mortgage. Pursuant to its Decision of 19 November 2018 the Court granted security by entering the compulsory mortgage into the land and mortgage registers of the aforementioned real estate, as well as by the attachment of bank accounts of Platinum Resort Sp. z o.o.<br><br>On 3 December 2018 the Issuer filed a lawsuit for payment of PLN 16,301,236.97 together with interest in the writ of payment proceedings for remuneration and other claims related to the execution of the aforementioned investment together with an additional request for securing claims.<br><br>Platinum Resort Sp. z o.o. filed a complaint against the decision on security. The Issuer's attorneys replied to the complaint. To date, the Szczecin Court of Appeal has not heard the complaint.<br><br>The Szczecin District Court found that there were no grounds for issuing a payment order and referred the case to be examined in ordinary proceedings. The claim was forwarded for servicing to the defendant. By virtue of decision of 22 February 2019 The District Court secured the claim of Erbud S.A. for another amount of PLN 3.5 million by establishing a compulsory mortgage on the property. | Not applicable | Not applicable |
| Defendant 1: ADV Por Property Investment S.A. sp. k.<br><br>Defendant 2: Outlet Center Bydgoszcz Retail Management S.A. sp.k.<br><br>Value of the dispute: PLN 2.409 thous. | On 11 March 2019, the Company filed a statement of claim in proceedings by writ of payment against ADV Por Property Investment S.A. sp. k. for payment of the amount of PLN 2,469 thousand as contractual compensation for construction works performed, i.e. implementation of road works in the City of Bydgoszcz under the Agreement of 3 November 2017 concluded by the parties, together with statutory interest for delay.<br><br>All the works under the contract were accepted by ADV without any reservations - the parties signed the final acceptance certificate.<br><br>After the final acceptance, ADV Por Property Investment S.A. sp. k. refused to pay the due amount in question based on groundless and factually incorrect claims.<br><br>In the letter dated 5 April 2019, the Company withdrew partially its claim, i.e. with respect to the amount of PLN 59 thousand, while maintaining the suit with respect to the amount of PLN 2,409 thousand. By virtue of a decision of 11 May 2019, the Court discontinued the proceedings in part, i.e. with respect to the amount of PLN 59 thousand.<br><br>On 11 May 2019, the Court issued a payment order requiring the Respondent to pay the Company the amount of PLN 2,409 thousand plus statutory interest for late payment and court fees. | The receivables were written off in full amount. | The receivables were written off in full amount. |

On 24 June 2019, ADV Por Property Investment S.A. sp. k. filed an objection to the payment order.

On 5 November 2019, the Company summoned OUTLET CENTER Bydgoszcz Retail Management S.A. sp.k. to participate in the case as a defendant. By virtue of a decision of 10 January 2020, the Court decided to call OUTLET CENTER Bydgoszcz Retail Management S.A. sp.k. to participate in the case as a defendant.

On 24 February 2020, OUTLET CENTER Bydgoszcz Retail Management S.A. sp.k. requested that the action be dismissed in its entirety.

The date of the next trial was set for June 2021.

## 6.9. TRADE PAYABLES, OTHER LIABILITIES

Trade payables and other liabilities include primarily trade payables to non-related parties, advances received, payroll liabilities and tax liabilities.

**Trade payables** are initially carried at fair value (corresponding to the nominal value) and as of the balance sheet date they are priced at amortized cost.

**The received advance payments** refer mainly to payments from contractors for the performance of construction contracts and are recognized at the nominal value of the payment received.

**Wage and salary payables** are recognized at the value due for the work performed, calculated in accordance with the concluded contracts.

**Tax liabilities** (including tax on goods and services, corporate income tax, personal income tax) are recognized at the amount requiring payment by the Group in compliance with the effective and applicable legislation.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Trade payables | **258,673** | **234,297** |
| including to related entities | 217 | 2,283 |
| Liabilities vis-a-vis budget in relation to: | **37,992** | **36,201** |
| VAT tax | 3,372 | 12,219 |
| corporate income tax | 17,375 | 9,742 |
| personal income tax | 4,055 | 3,776 |
| Social Insurance Institution | 11,596 | 9,019 |
| State Fund for the Rehabilitation of the Disabled | 183 | 172 |
| holiday accrual (Belgium tax) | 750 | 703 |
| Other | 661 | 570 |
| Other liabilities | **37,448** | **43,316** |
| wages and salaries | 9,962 | 9,304 |
| accruals | 586 | 7,113 |
| Other | 2,615 | 9,102 |
| Short-term employee benefit liabilities | 24,285 | 17,797 |
| **Total** | **334,113** | **313,814** |

## 6.10. EXPLANATORY NOTES TO THE CASH FLOW STATEMENT

Reconciliation of the change in working capital balance for the period from 1 January to 31 December 2020 and for the period from 1 January to 31 December 2019

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| | Change in balance of Cash Flow Statement in the period from January 2020 to December 2020 | Change in balance of Cash Flow Statement in the period from Jan. 2019 to Dec. 2019 |
|---|---|---|
| Change in provision balance | **13,383** | 3,491 |
| Change in inventory balance | **61,592** | (66,635) |
| Change of receivables balance | **7,935** | (16,592) |
| Change in balances of short-term liabilities, excluding credits and loans | **68,916** | (108,044) |
| Change in settlement of assets and liabilities under building contracts | **88,042** | 27,427 |
| Change in balance of prepayments and accruals | **(18,894)** | (15,463) |
| **Change in balance of working capital** | **220,974** | **(175,816)** |

## 6.11. GROUP STRUCTURE AND TRANSACTIONS WITH RELATED ENTITIES

### Interests and shares in subsidiaries and jointly controlled entities

Interests and shares in subsidiaries and jointly controlled entities are recognized at historical cost less possible impairment losses.

### Non-financial fixed assets impairment

At every date closing the accounting period, the Company verifies whether there are any circumstances indicating impairment of any item of the assets. When such circumstances have been identified or when an annual impairment test needs to be carried out, the Group's estimates the recoverable value of a given asset.

The recoverable amount of an asset corresponds to the fair value of that asset or cash-generating centre less selling costs or its value in use, whichever is higher. This value is determined for individual assets, unless a certain asset does not generate cash inflows on its own, which are mostly independent from those generated by other assets or asset categories. If the carrying amount of an asset in the balance sheet is higher than its recoverable amount, impairment occurs and a write-down it made up to the determined recoverable amount.

For the estimation of the value in use, the projected cash flows are discounted to their present value using a discount rate before taxation that reflects current market estimation of the time value of money and the risk typical for a given asset. Impairment losses on non-financial assets used in operations are recognised as Other Expenses.

## Group Structure

As of 31 December 2020, the Group comprised the Parent Company Erbud S.A. and fully consolidated subsidiaries and subsidiaries consolidated on the equity method basis.

| | | | | Parent Company's share in equity (equal to the voting rights held) | |
|---|---|---|---|---|---|
| # | Name of entity | Registered office | Scope of activities | 31.12.2020 | 31.12.2019 |
| | **Shares held directly** | | | | |
| 1 | Erbud International Sp. z o.o. | Toruń | Construction services | **100.00%** | 100.00% |
| 2 | ONDE S.A. Przedsiębiorstwo Budownictwa Drogowo - Inżynieryjnego S.A. | Toruń | Road engineering | **90.00%** | 90.00% |
| 3 | Erbud Operations Sp. z o.o. | Rzeszów | Construction services | **100.00%** | 100.00% |
| 4 | Erbud Construction Sp. z o.o. | Toruń | Construction services | **100.00%** | 100.00% |
| 5 | Erbud Industry Sp. z o.o. | Toruń | Engineering services | **100.00%** | 100.00% |
| 6 | GWI GmbH | Düsseldorf, Germany | Construction services | **100.00%** | 97.86% |
| 7 | Erbud Shared Services Sp. z o.o. | Warsaw | Support services | **100.00%** | 100.00% |
| 8 | Erbud Holding GmbH | Düsseldorf, Germany | Management services | **100.00%** | 100.00% |
| 9 | Hebud Sp. z o.o. in liquidation | Minsk, Belorussia | Construction services | **100.00%** | 100.00% |
| 10 | Toruńska Sportowa in liquidation Sp. z o.o.* | Toruń | Sports, entertainment and leisure services | **39.00%** | 39.00% |
| 11 | JV WMER Matoc Poland Sp z o.o | Warsaw | Construction services | **50.00%** | 50.00% |
| 12 | JV PABC Sp. z o.o. | Warsaw | Construction services | **100.00%** | 100.00% |

| | | | | Shares of Parent Company held indirectly (corresponding to the voting rights held) | |
|---|---|---|---|---|---|
| # | Name of entity | Registered office | Scope of activities | 31.12.2020 | 31.12.2019 |
| | **Shares held indirectly** | | | | |
| 1 | Erbud Industry Centrum Sp. z o.o. | Łódź | Maintenance services in the industrial segment | **99.01%** | 99.01% |
| 2 | Erbud Industry Pomorze Sp. z o.o. | Gdańsk | Maintenance services in the industrial segment | **100.00%** | 100.00% |
| 3 | ERBUD Industry Południe Sp. z o.o. | Będzin | Maintenance services in the industrial segment | **99.29%** | 99.29% |
| 4 | PDI Dusseldorf Malmedyerstrasse Ost GmbH | Düsseldorf, Germany | Construction services | **43.35%** | 43.35% |
| 5 | PDI Dusseldorf Malmedyerstrasse West GmbH | Düsseldorf, Germany | Construction services | **43.35%** | 43.35% |
| 6 | Erbud Beteiligungs GmbH | Düsseldorf, Germany | SPV | **100.00%** | 100.00% |
| 7 | IVT Weiner + Reimann GmbH | Oberhausen, Germany | Maintenance services in the industrial segment | **100.00%** | 100.00% |
| 8 | IVT Menzenbach GmbH | Oberhausen, Germany | Maintenance services in the industrial segment | **100.00%** | 100.00% |
| 9 | PflegeQuatier Düren GmbH | Düsseldorf, Germany | Construction services | **43.35%** | 43.35% |

## 6.12. Transactions with related entities

### Transactions with related entities

The following tables show the totals of transactions made by the Group with Erbud S.A. Group member companies in the period ended on 31 December 2020 and in the period ended on 31 December 2019.

| | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Joint ventures | Other relation | Total | Joint ventures | Other relation | Total |
| Trade receivables | - | - | - | 1,585 | 42 | **1,627** |
| Trade payables | - | 217 | **217** | 1,002 | 263 | **1,265** |
| Sales revenues | - | 567 | **567** | 663 | - | **663** |

### Transactions with key members of management staff

The remuneration paid to the members of the Management Board of the Parent Company and to the members of the Supervisory Board received from the Group for the accounting year is presented in the table below:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Management Board** | | |
| Short-term employee benefits (wages & salaries) | 8,007 | 7,124 |
| **Supervisory Board** | | |
| Short-term employee benefits (wages & salaries) | 351 | 402 |
| **Total** | **8,358** | **7,526** |

At individual balance sheet dates the managing persons (members of the Management and Supervisory Boards) held the following number of shares (all shares are ordinary shares):

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| **Shareholder** | No. of shares /votes | % of shareholding in the share capital counted in votes at the General Meeting of Shareholders | No. of shares /votes | % of shareholding in the share capital counted in votes at the General Meeting of Shareholders |
| Dariusz Grzeszczak | 747,654 | 6.04% | 773,900 | 6.04% |
| Józef Adam Zubelewicz | - | - | 259,500 | 2.03% |
| Jacek Leczkowski | 5,174 | 2.03% | - | - |
| Agnieszka Głowacka | 3,938 | 0.03% | 4,077 | 0.03% |
| Albert Dürr | 27,508 | 0.22% | 28,000 | 0.22% |
| **Total** | **784,274** | **8.32%** | **1,065,477** | **8.32%** |

As of the date of submission of these financial statements, the Management Board members and proxies do not hold any share-based benefits.

Mr Józef Zubelewicz was a member of the Management Board of Erbud S.A. as of 31 December 2019 and the number of shares held by him as of that date is disclosed in the table hereinabove. Meanwhile as of 31 December 2020 Mr Józef Zubelewicz did not serve as a member of the Management Board and, therefore, no information on the number of shares held by him was disclosed in the above note.

## POST-ACCOUNTING PERIOD EVENTS

On 11 March 2021 an application was filed with the National Court Register for registration of a new subsidiary company under the name of SPVDM Sp. z o.o. with its registered office in Ostaszewo, at the address Ostaszewo 57, 87-148 Łysomice. (SPVDM is a subsidiary in 100% controlled by ERBUD S.A.). The company was established to implement the Group's strategy for the fabrication of modular buildings. The Memorandum of the Company was drawn up on 5 March 2021. On 23 March 2021 the District Court in Toruń registered the Company under the name SPDVM Sp. z o.o. with its registered office in Ostaszewo, Toruń Municipality. Reg. No. KRS 0000890465 Share capital of SPVDM Sp. z o.o. totals PLN 5 000.00.

On 31 March 2021 ERBUD S.A. concluded with GRAFITH-NIERUCHOMOŚCI sp. z o.o. ("Seller") a conditional property sales agreement (the "Agreement"). Conclusion of the Agreement is the next stage of implementing the strategy of developing a new business segment related to fabrication, sale and assembly of modular facilities.

The Company, as the buyer, undertook to enter into agreement on the sale of real estate located in Ostaszewo within the Pomeranian Special Economic Zone: (i) an industrial site with the total area of 5.2018 ha developed with a manufacturing and warehousing facility, and (ii) arable land with the total area 9.9643 ha (jointly referred to as the "Property"). The price for the Property amounts to PLN 39 million net (plus VAT).

The Parties set the deadline for handing over the Property until 31 May 2021. The Parties undertook to enter into a contract transferring the ownership title to the Property after the day when the condition is fulfilled, i.e. Pomorska Specjalna Strefa Ekonomiczna Sp. z o.o. (*The Pomeranian Special Economic Zone*) does not exercise its statutory pre-emptive right or makes a declaration that it will not exercise its statutory pre-emptive right to purchase the Real Property, however, not earlier than after filing a request for deletion of the joint contractual mortgage encumbering the Property and not later than on 30 April 2021.

On 26 March 2021 ERBUD S.A.'s subsidiary, ONDE S.A., filed a prospectus with the Polish Financial Supervision Authority in connection with the planned public offering of shares. The objective of ERBUD S.A. is to raise capital to implement the ERBUD Group strategy, while maintaining control over ONDE S.A.

On 31 March 2021 the subsidiary Erbud Industry Centrum Sp. z o.o. acquired 100% of shares in SATCHWELL POLSKA Sp. z o.o. for PLN 4,950 thousand. The objective of the shares acquisition is to expand the competence of the Industry Group in the field of electrical systems and industrial automation.

### 6.13. ABANDONING THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS IN XHTML FORMAT MARKED WITH XBRL TAGS

The current Regulation 2019/815 specifies XHTML as the format for issuers' annual reports, which include financial statements and consolidated financial statements (based on Directive 2004/109/EC). In addition, consolidated financial statements prepared in accordance with IFRS must be labelled as required by this regulation. Regulation 2019/815 and Directive 2004/109/EC shall apply to annual financial reports containing financial statements for accounting years beginning on or after 1 January 2020.

The Ministry of Finance, jointly with the Office of the Financial Supervision Authority, issued a communiqué on 15 December 2020, notifying that the two institutions have decided to push back by one year the obligation to use the ESEF in the issuers' financial reporting. At the same time, the ability to report in this format as early as 2020 will be maintained. The European Union Parliament adopted a regulation stating that a member state should be allowed to delay for one year the application of the requirement to prepare and disclose annual financial reports using a uniform electronic reporting format. In order to benefit from this option, the Member State should notify the Commission of its intention to authorise such a delay and that intention should be duly substantiated. The regulation is due to be published before the end of February in the Official Journal of the EU, and will enter into force 20 days after its publication.

According to information obtained from the Department of Financial Market Development at the Ministry of Finance, on 9 February 2021, at a meeting of the Public Finance Committee of the Lower Chamber of Parliament (Seym) of the Republic of Poland, an amendment was made to the government draft law amending the Banking Law and some other laws. This amendment adds a provision to the Act to allow issuers not to use the ESEF format for annual reports and consolidated annual reports for 2020 and to prepare those reports under the current rules. This amendment was passed by the Upper Chamber of the Polish Parliament (Senate) on 25 March 2021. The law enters into force on the day following its promulgation in the Official Gazette, which will take place after the law is signed by the President of Poland. As of the date of approval of the financial statements, the Act was pending the President's signature.

This provision will also apply to annual reports prepared before the effective date. Accordingly, the Management Board of the Parent Company has abandoned the preparation of the consolidated financial statements in XHTML format marked with XBRL tags.

**Signatures of all Management Board members:**

| | |
|---|---|
| Dariusz Grzeszczak<br>/A Management Board member/ | Jacek Leczkowski<br>/A Management Board member/ |
| Agnieszka Głowacka<br>/A Management Board member/ | Radosław Górski<br>/A Management Board member/ |

Warsaw, 7 April 2021