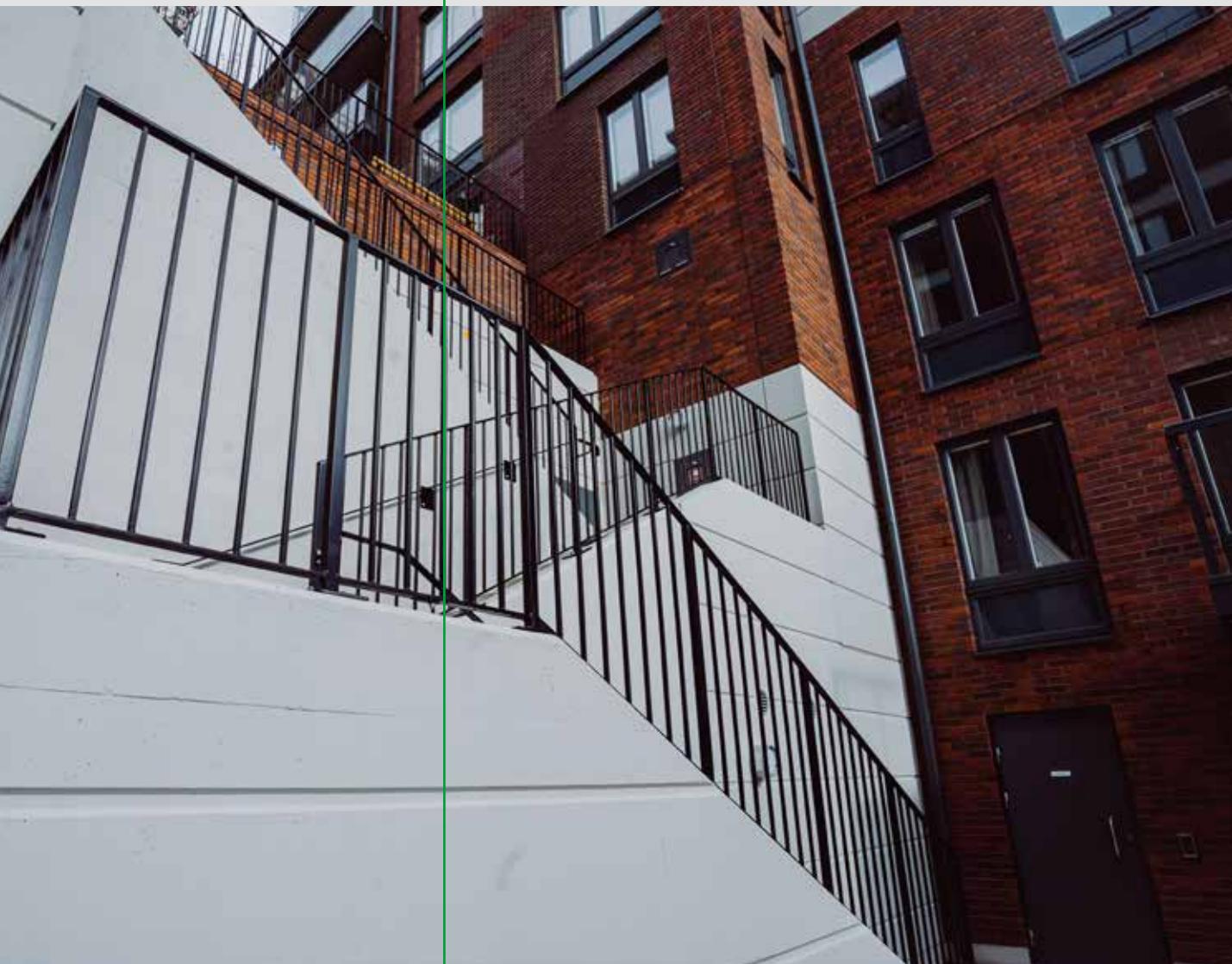




Integrated report

for the year ended
31 December 2019



Consolidated management report of the Pekabex Group

Table of contents

1. About the Group	6	5. Other management principles	92
1.1. Business model	16	5.1. Employees of the Pekabex Group	94
1.2. Markets and sources of supply.....	26	5.1.1. Policies applicable to employees.....	94
1.3. Value creation model	27	5.1.2. Employment structure and remuneration policy	95
1.4. Capital.....	28	5.1.3. Relations with employees	96
1.5. Significant contracts.....	34	5.1.4. Remuneration of members of the management and supervisory bodies	96
2. Strategy and development of the Pekabex Group	38	5.1.5. Ethics	96
2.1. Research and development	42	5.1.6. Occupational health and safety.....	97
2.2. Supply chain	45	5.1.7. Internal communication.....	101
3. Activity of the Pekabex Group in 2019	48	5.1.8. Internal integration.....	101
3.1. Events with a significant impact on the operations and financial results of the Pekabex Group	50	5.1.9. Employee development	102
3.2. Significant contracts	50	5.1.10. Diversity and social inclusion.....	102
3.3. Structure of Pekabex S.A. revenue – operating segments.....	55	5.1.11. Control system for employee programmes	103
3.4. Struktura przychodów ze sprzedaży Grupy Pekabex – segmenty operacyjne.....	56	5.1.12. Recruitment	103
3.5. Basic economic and financial data for the Pekabex Group	58	5.2. Environment	104
3.6. Basic economic and financial data for Pekabex S.A.....	61	5.2.1. Materials and raw materials	106
3.7. Financial resources management	67	5.2.2. Energy.....	106
3.8. Differences between financial results and financial forecasts.....	69	5.2.3. Water	107
3.9. Structure of main deposits and capital investments	69	5.2.4. Transport.....	108
3.10. Credit facilities and loans taken and terminated.....	70	5.2.5. Waste	109
3.11. Loans granted.....	72	5.2.6. Other environmental aspects	109
3.12. Significant transactions with related parties under conditions other than market conditions	72	5.3. Pekabex for society	110
3.13. Agreements providing for compensation for members of the management bodies in the event of their resignation or dismissal.....	72	5.3.1. Local communities and social engagement	110
3.14. Sureties and guarantees granted and received	74	5.3.2. Respect for human rights	111
4. Statement on the application of corporate governance principles	78	5.3.3. School and academic communities	111
4.1. Indication of the set of rules which Pekabex S.A. is subject to	80	5.4. Risk management	112
4.2. Shareholders of Pekabex S.A. holding significant blocks of shares.....	82	5.4.1. Significant risk factors and hazards	112
4.3. Appointment and dismissal of members of the management bodies and their powers	84	5.4.2. Anti-corruption activities	123
4.4. Principles of amending the Articles of Association of Pekabex S.A.....	84	5.5. Changes in fundamental management principles	123
4.5. The General Meeting and shareholders' rights and how they can be exercised	86		
4.6. Pekabex S.A. bodies and their composition	86		
4.7. Internal control system and risk management	91		
6. Outlook	124		
6.1. Market position	126		
6.2. Conditions for further development of the Group	126		
6.3. Short-, medium- and long-term perspective	129		
7. Additional information	136		
7.1. Feasibility of investment plans and information on the Company's relations with other entities	138		
7.2. Extraordinary events affecting the operating profit (loss)	138		
7.3. Agreements which may result in changes in the shareholder structure.....	138		
7.4. Disputes and litigation	139		
8. About the report	142		
8.1. Methods and scope of the report	144		
8.2. Approval for publication	145		
9. Tables with GRI numerical indicators			
10. GRI content Index			

Letter from the President of Pekabex S.A.

On behalf of the entire Management Board of the Pekabex Group, I have the pleasure to present to you the individual and consolidated financial results of Poznańska Korporacja Budowlana Pekabex S.A., as well as the integrated report – the management report of Pekabex Group for 2019.

The past year again was marked by very good financial results, achieved in a highly volatile and difficult market environment.

Despite the fact that the first months in the production were weak, the operating profit for 2019 was PLN 39,396 thousand and the Group's net profit was PLN 30,496 thousand. These are worse results than those achieved in the record-breaking and exceptional year 2018, but better than those achieved in 2017: by 18.0% for net profit and 12.7% for operating profit.

The cash balance remained at record levels, which at the end of 2019 amounted to PLN 106,572 thousand, despite the implementation of significant projects, and the portfolio of contracts to be implemented this year is the best in history.

Further strengthening of Pekabex's market position as a leader in reinforced concrete prefabricated structures.

In December 2019, construction was completed and production started in Europe's most modern, fully automated, fifth prefabrication plant of the Pekabex Group, located in the Pomeranian Special Economic Zone in Gdańsk. The purchase of the processing line is Pekabex's response to the problems with access to labour, which are



noticeable in the construction and manufacturing sector, and the growing cost of employment and materials.

Thanks to the construction of the plant, the Group extended its portfolio with an additional product and will become independent from suppliers, in particular with regard to contracts implemented in Scandinavia. The components produced in the new plant, Filigran floor slabs and walls made of double Filigran, will be used for housing construction, as well as for building offices and parking lots in Poland, but can also be exported, especially to Scandinavian countries.

Our ambition is to create trends in construction. We believe that modular structures are the future of construction.

In 2019, we continued the implementation of the JA_SIELSKA residential project in Poznań. Implementation and sale for the pilot stage I (two buildings) has been completed.

In the second stage, the Group built four further buildings, which are currently undergoing finishing works. Over 70% of the apartments in the second (last) stage are already occupied. Discussions with developers show that the advantages of prefabrication technology – significant reduction of construction time, quality and obtaining additional usable space that can be sold – have been noticed by the market.

Last year, Pekabex started two major export projects: the construction of a hospital in Odense in Denmark and the designer Am Tacheles project in Berlin. In the latter case, we provide components for the facility that will be the architectural showcase of the capital. Since the price of the components takes into account both the labour input and the skills needed to make them, transport costs play a less significant role. This considerably increases the economic attractiveness of Pekabex's expansion on the German market, and the Group's products are becoming an important architectural element.

In 2019, the foundations of the Pekabex System – Residential Buildings were laid, which we would like to be permanently embedded in the minds of architects, designers, construction companies, investors, but also the buyers of apartments themselves.

The stability of our organisation and its resilience to crises is largely due to the consistent diversification of our activities.

Another segment in which the Group has strengthened its position is the general contracting market for halls and enclosed structures. The Pekabex Group has worked for the largest logistics developers operating in Poland, including Prologis, MLP and Panattoni Europe. A significant success was also achieved by winning and effectively implementing contracts for the Kaufland retail chain, the Raben Group and Echo Investment, which set very high requirements for contractors regarding quality standards.

As a Team, we have proved that we can combine high quality of workmanship, short lead times and attractive prices.

The Pekabex Group has an increasingly significant impact on the environment.

How we operate has an impact on our Employees, Contractors and Suppliers as well as long-term social and environmental consequences.

We are paying more and more attention to environmental issues in our activities. However, we are aware that climate-friendly solutions will become commonplace when they are also economically viable. The walls of our buildings meet the most demanding thermal insulation standards, and thanks to the use of compressed technology, the structures are much lighter and more durable, require less concrete, which results in significantly lower carbon dioxide emissions associated with the construction of buildings. This is very important given that construction

accounts for almost one third of global greenhouse gas emissions. We encourage our Customers to install photovoltaic installations on the roofs of halls and factories constructed by us. Such a demonstration installation was made on the roof of the Pekabex plant in Mszczonów.

We are guided by the principles of sustainable development, expanding our activities for local communities. The Group is particularly committed to educational activities.

In 2019, we continued our cooperation with universities of technology throughout the country, as well as, among others, with the Poznań School of Logistics (dual studies), the State Construction Schools in Gdańsk, the Civil Engineering Schools and Technical School of Construction No. 1 in Poznań, where patronage classes are offered. Another edition of the competition for the best theses has already taken place.

The winners are awarded cash prizes and paid internships.

In the first quarter of 2020, the World Health Organisation declared the COVID-19 pandemic.

According to all available forecasts, the economic situation of the country and the European Union as a whole will deteriorate. At this point in time, the scale of the recession that will possibly be triggered by the spread of coronavirus and the measures taken by governments to stop the pandemic cannot be predicted, and thus the scale of the possible fall in demand for construction services cannot be determined. The task of the Pekabex Management Board is to prepare the Group for each of such scenarios, including the occurrence of a severe recession. It can certainly be stated that Pekabex now has the human and financial resources to go through this difficult period safely. Crises have never been and will never be easy, but besides the threats, they put us in front of opportunities that we will try to exploit together.

At this point we would like to thank all our Employees and Managers whose hard work and ideas have led to the successes and development of the Pekabex Group. We would also like to thank our Customers, Investors and Contracting Entities who are interested in innovative construction technologies and motivate us to continue our efforts.

I invite you to read the report.

Best regards

**Robert Jędrzejowski
President of the Management Board**

1.0

About the Group



The Parent Company of the Pekabex Group

(“Capital Group”, “Group”) is Poznańska Korporacja Budowlana Pekabex S.A. (“Pekabex”, “Company”, “Parent Company”, “Issuer”).

This consolidated management report – integrated report (“Report”) meets the requirements for integrated reporting set out by the International Integrated Reporting Council (IIRC). The financial data was prepared in accordance with the International Financial Reporting Standards (IFRS), while the non-financial data was prepared in accordance with the Global Reporting Initiative guidelines in the GRI Standards version (core level). Pursuant to Article 55(2a) of the Accounting Act of 29 September 1994 (as amended), the Report contains the management report of the Group including the management report of the Parent Company, prepared as a single document together with the corporate governance statement, the non-financial statement and other information. Apart from cases where it is clearly indicated that the presented data concerns only PKB Pekabex S.A., it applies both to the Group and to the Company.

The Company was established in 1972 as Poznański Kombinat Budowy Domów (the Poznań House Building Combined Collective). In 1991, it was transformed into a company wholly owned by the State Treasury, operating under the name of Poznańska Korporacja Budowlana Pekabex S.A. On 30 December 1991, the Company was registered in section „B” of the Commercial Register maintained by the District Court in Poznań, 11th Commercial Registration Division, under No. RHB 6548.

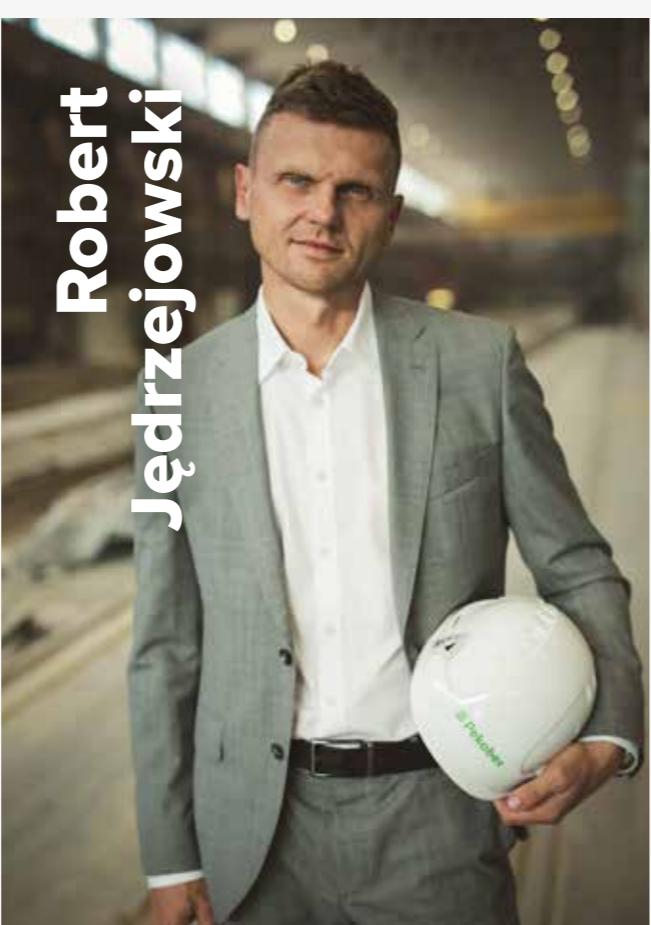
On 29 April 2002, the Company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for Poznań-Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, under KRS No. 000010109717. The Company was assigned the following REGON identification No.: 630007106.

The Company's headquarters are located in Poznań at ul. Szarych Szeregów 27.

The Company is the owner or perpetual usufructuary of real estate which it leases or rents (in whole or in part) mainly to the Group companies for the purpose of their business activities. In 2019, the Company implemented a project in the form of the construction of a development storage and logistics hall, which will be commercialised to companies outside the Group or sold to a third-party buyer.

The Company's governing bodies are: the Management Board, the Supervisory Board and the General Meeting

The composition of the Company's Management Board as at 31 December 2019, was as follows:



Robert Jędrzejowski

Functions performed in the Pekabex Group:

President of the Management Board of Pekabex S.A., Member of the Management Board of Pekabex Development sp. z o.o., Member of the Management Board of Pekabex Inwestycje II S.A., Member of the Supervisory Board of Pekabex Bet S.A., Member of the Supervisory Board of Pekabex Pref S.A., Member of the Supervisory Board of Kokoszki Prefabrykacja S.A.

A graduate of the Maria Curie-Skłodowska University in Lublin, the Faculty of Law and Administration with a Master's degree in Law obtained in 1996. Since 1994, he has held a securities broker licence, and in 2011 he was granted a trustee licence. He has many years of management experience, which he has gained both as a Managing Partner (CEO) of Sovereign Capital and as a member of the governing bodies of individual portfolio companies of Sovereign Capital. Since 2007, he has been a Member of the Management Board of Pekabex S.A., and since 2015 he has been the President of the Management Board.

Responsibility

Strategy and group management



Przemysław Borek

Functions performed in the Pekabex Group:

Vice-President of the Management Board of Pekabex S.A., President of the Management Board of Pekabex Bet S.A., Member of the Management Board of Pekabex Pref S.A., Member of the Management Board of Pekabex Inwestycje II S.A., Member of the Management Board of Pekabex Projekt Sp. z o.o., Member of the Supervisory Board of Kokoszki Prefabrykacja S.A.

He graduated from the Gdańsk University of Technology, the Faculty of Civil Engineering, majoring in Civil Engineering, with a Master of Science in Engineering degree in the field of construction and engineering structures in 1995. He used his practical skills in designing and analysing steel and reinforced concrete structures to run his own Design Studio, ARC Projekt. From 2002, he worked as a project manager in Egon Poland sp. z o.o., then in the years 2003-2007 he held the position of Commercial Director, building from scratch the structures and market position of a newly opened Polish branch of Egon. Since 2008, he has been working for the Pekabex Group, where he is the President of the Management Board of Pekabex Bet. Vice-President of the Management Board of Pekabex S.A. since 2015.

Responsibility

Sales and implementation



Beata Żaczek

Functions performed in the Pekabex Group:

Vice-President of the Management Board of Pekabex S.A., Member of the Management Board of Pekabex Bet S.A., Member of the Management Board of Pekabex Pref S.A., President of the Management Board of Kokoszki Prefabrykacja S.A., Member of the Management Board of Pekabex Inwestycje II S.A., President of the Management Board of Pekabex Projekt sp. z o.o.

A graduate of the Leon Koźmiński Academy of Entrepreneurship and Management, majoring in Marketing and Management, specialisation: Finance and Accounting; she also completed post-graduate studies in Financial Management at the aforementioned university. She completed the Management Programme at the University of California. She has knowledge of finance, controlling, accounting (including IAS/IFRS standards and transfer pricing), taxes, corporate law, as well as IT tools supporting analysis and reporting. She started her career in Hydrobudowa-6 S.A. (Bilfinger Berger group). Since 2009, she has been working for the Pekabex Group, first as a Member of the Supervisory Board and later as the Financial Director/Member of the Management Board/CFO in the Pekabex Group. Vice-President of the Management Board of Pekabex S.A. since 2015.

Responsibility

Finance and accounting, administration, logistics, IT, legal and personnel matters

Other key executives of the Group



Christophe Carion



Tomasz Seremet

Functions performed in the Pekabex Group:

President of the Management Board of CNP Sp. z o.o.

A graduate of De Nayer Instituut (Belgium). In 2000, he graduated with a Master of Science degree in Civil Engineering (Master of Science Building Engineering). He started his career as a project engineer at Ergon NV with headquarters in Belgium in the years 2000-2008. In Ergon Sp. z o.o., in the years 2002-2005 he provided support for the design department, and in the years 2005-2007 he held the position of the Production Director. In the Pekabex Group he is responsible for production and investments.

Functions performed in the Pekabex Group:

Member of the Management Board of Pekabex Bet S.A,
Member of the Management Board of Pekabex Pref S.A.

A graduate of the Poznań University of Technology, the Faculty of Civil Engineering, Architecture and Environmental Engineering, majoring in Civil Engineering, with a Master of Science in Engineering degree in the field of construction and engineering structures. In addition, he has a building licence to design and manage construction works without restrictions in the design and construction specialisation, as well as a Chartered Engineer of Engineers Ireland CEng MIEI certificate. He started his career as an assistant designer at the Pekabex S.A. Design Office in 1999-2000. In 2000-2005, he worked in the ProjektaSp. z o.o. Engineering Office, which belongs to the Dutch group Bartels Engineering BV. Since 2010, he has been working for the Pekabex Group.

Responsibility

Production and investments

Responsibility

Implementation of contracts as a general contractor

Composition of the Supervisory Board of PEKABEX S.A. as at 31 December 2019

The competences and principles of work of the Supervisory Board of Pekabex S.A. are defined by: (i) the Articles of Association (available on its website), (ii) the Regulations of the Supervisory Board (as above), (iii) the Commercial Companies Code.

In 2019, one more member joined the Supervisory Board; On 24 June, the Ordinary General Meeting of the Company adopted a resolution on appointing Mr. Lesław Kula to the Supervisory Board. As at 31 December 2019, and as at the publication date of this report, the Supervisory Board of Pekabex S.A. was composed of the following members:

Piotr Taracha, Chairman of the Supervisory Board

A graduate of the Catholic University of Lublin. In 1993, he graduated from the Faculty of Law with a Master's degree in Law. In 2001, he completed the MBA Programme at the Leon Koźmiński Academy of Entrepreneurship and Management. He lectured at the Department of Civil Law at the Catholic University of Lublin. Chairman of the Supervisory Board in AUTO-EURO S.A., Secretary of the Supervisory Board in PEPEES S.A., Vice-Chairman of the Supervisory Board in Zakłady Przemysłu Ziemniaczanego "Lublin" sp. z o.o., Chairman of the Supervisory Board in Przedsiębiorstwo Przemysłu Ziemniaczanego "Bronisław" sp. z o.o. In the years 1998-2002, he was

the Director of the Lublin Post Office District in PPUP Poczta Polska. Since 2003, he has been the President of the Management Board of Intrograf Lublin S.A. A Member of the Supervisory Board of Pekabex S.A. meeting the statutory independence criteria.

Piotr Cyburt, Vice-Chairman of the Supervisory Board

A graduate of the Warsaw School of Economics. In 1980, he graduated with a Master's degree in Economics; in 1987, he received his Ph.D. degree in Economics from the Institute of National Economy. A scholarship holder at, among others, Georgetown University and Harvard University, a researcher at the Institute of National Economy. He has many years of experience in banking and real estate financing, gained in the largest financial institutions on the Polish market. In the years, 1995-1998, he was the Vice-President of the Management Board of Polski Bank Rozwoju. From 1992 to 1995 he worked in managerial positions at Powszechny Bank Kredytowy S.A., including from 1994 as a Member of the Management Board and Director. A Member of Supervisory Boards of many commercial companies/partnerships, including the Warsaw Stock Exchange. The President of the Management Board of mBank Hipoteczny, managing the company since 1999, when the first specialist mortgage bank in post-war Poland, RHEINHYP-BRE Mortgage Bank (transformed into BRE Bank Hipoteczny, and then into mBank Hipoteczny S.A.) began its operation. A Member of the Council of the Polish Bank Association and a Vice-Chairman of the Programme Council of the Mortgage Credit Foundation. Since 2002, he has also been a Member of the Supervisory Board of Hochtief Polska S.A. A Member of the Supervisory Board of Pekabex S.A. meeting the statutory independence criteria.

Ryszard Klimczyk, Member of the Supervisory Board

A graduate of the Faculty of Law and Administration at the University of Gdańsk, with a Master's degree in Law

(1998). In 2005, he completed his legal adviser training at the District Chamber of Legal Advisers in Gdańsk. He started his career as a political assistant to the Secretary of State at the Political Cabinet of the Minister of Justice in the years 1998-1999.

In 1999-2008, he worked as a lawyer in Kancelaria Radców Prawnych Żelaznowski & Główski s.c. (Żelaznowski & Główski Legal Advisers' Office) in Sopot. Since June 2005, he has been running his own legal practice – Kancelaria Radcy Prawnego Ryszard Klimczyk (Ryszard Klimczyk Legal Adviser's Office). In the years 2002-2006, he was a councillor of the City of Gdańsk, in the years 2006-2008 he was, among others, a Member of the Supervisory Board of Zarząd Morskiego Portu Gdańsk S.A., in the years 2007-2008 – of Międzynarodowa Korporacja Gwarancyjna sp. z o.o., and in the years 2015-2017 – of LOT Polish Airlines S.A.. Since 2002, apart from his legal practice, he has also held positions in supervisory and management bodies of commercial companies/partnerships.

Maciej Grabski, Member of the Supervisory Board

A graduate of the Faculty of Law and the Faculty of Social Sciences (Economics section) at the Catholic University of Lublin (1992). He is experienced in investing in companies at early stages of development. In the 1990s, he made investments in the automotive market and in tourism. He was the first investor and co-creator of the Wirtualna Polska website and negotiated the acquisition of strategic investors, including INTEL and Prokom. He is one of the founders of Business Angel Seedfund, a seed capital fund investing in innovative ICT and biotechnology start-up projects. Since 2010, as an investor, he has been implementing a project consisting in the creation of a modern office complex in Gdańsk, known as Olivia Business Centre.

Stefan Grabski, Member of the Supervisory Board

He graduated from the Gdańsk

University of Technology (Faculty of General Civil Engineering) in 1974, with a degree of designengineer. In 1967, he trained as a marine equipment technologist at the "Conradinum" college and started his professional career as a technician in Przedsiębiorstwo Instalacji Przemysłowych in Gdańsk. Until 1980, he worked for Instal in Gdańsk, most recently as a Sites Manager, for a few years leading the so-called Start-up Group, dealing with the start-up of technological installations in industrial facilities in northern Poland. Since 1989 he has been running his own business under the name of AutoEuro Stefan Grabski, among others, renting out his own facilities, providing technical advice and running car washes. In 1998, he was elected to the City Council of Gdańsk, where he held the position of the Vice-Chairman, and, at the same time, the Chairman of the Ad Hoc Committee for Trade, Craft and Services. In the 2006-2010 term of office, he was the Chairman of the Audit Committee. In addition, since 2002, he has held positions in supervisory and management bodies of commercial companies/partnerships.

Marcin Szpak, Member of the Supervisory Board

A graduate of the Faculty of Management at the University of Gdańsk (1995). In 2003, he received his Ph.D. degree in Economics. A graduate of Advanced Management Program IESE Business School at the University of Navarra. The founder and long-term President of DS Consulting, a company specialising in strategic, financial and investment consulting. For 5 years the Deputy Mayor of Gdańsk for Economic Affairs, responsible for strategy, management of the entire investment programme and economic development. For 9 years he was responsible for strategic investment programmes, strategy, development and M&A in the Energa Group. A Member of Supervisory Boards of many commercial companies/partnerships. An expert on infrastructure funding of the United Nations Development Programme.



Lesław Marek Kula, Member of the Supervisory Board

A graduate of the Faculty of Law and Administration and the Faculty of History at the University of Warsaw (1985).

In 1982, he started working at Ośrodek Dokumentacji i Studiów Społecznych (Centre for Documentation and Social Studies) as a scientific secretary, editor at Instytut Prasy i Wydawnictw NOVUM (NOVUM Institute of Press and Publishing) and editor-in-chief at Instytut Wydawniczy SONOR (SONOR Publishing Institute). He held managerial positions, among others as the President of the Management Board of Polartis S.A. and EMIASTA. PL S.A. In the past, he was a Member of Supervisory Boards in state-owned companies and public companies. Since 2001, he has been working for Wszechnica Polska University in Warsaw. He has held, among others,

the position of Postgraduate Studies Manager, Secretary of the "Active strategies for labour market entities" project and a Rector's Representative for project management; a lecturer of subjects related to the law, and since 2003 also a member of the University Senate.

A liquidator at WFTS POLLENA PP, in the years 1994-2007 a trustee and court supervisor at the Warsaw Commercial Court, in the years 2000-2008 cooperated with the Ministry of State Treasury in the field of promotion and privatisation of state-owned companies. Since 1997, the President of the Management Board of VARENA GROUP sp. z o.o., a company rendering consulting and comprehensive legal services for business entities. He took part in the Study of Debt Enterprise Advisors, organised by the International Development Law Institute based in Rome.

The Group offers comprehensive services in the field of prefabricated concrete structures, related to the design, production, delivery and assembly of prefabricated elements and reinforced and prestressed concrete elements. Additionally, the Group offers comprehensive implementation of construction contracts, mainly in the area of enclosed structures, including halls. The Group has five production plants in Poland, a branch in Germany owned by Pekabex Pref S.A. and a branch in Sweden owned by Pekabex Bet S.A.

Since 8 July 2015, Pekabex S.A. shares have been listed on the main market of the Warsaw Stock Exchange in the continuous trading system under the abbreviated name „PEKABEX” and the designation „PBX”. The shareholder structure is presented in the shareholders' note in this Report.

Pekabex is a member of, among others, the following organisations and associations:

- » Stowarzyszenie Producentów Betonów (The Association of Concrete Producers)

- » Pracodawcy Pomorza (The Employers of Pomerania)
- » Wielkopolski Związek Pracodawców Lewiatan (Lewiatan Wielkopolska Employers' Association)
- » Fundacja Firmy Rodzinne (The Family Companies Foundation)
- » Güteschutz Beton Organisation (Güteschutz Concrete Organisation)
- » Wielkopolska Izba Przemysłowo-Handlowa (The Wielkopolska Chamber of Commerce and Industry)
- » Lubuska Organizacja Pracodawców (The Lubuskie Employers' Organisation)
- » Dansk Byggeri
- » Polish Circular Hotspot

As at 31 December 2019, the Pekabex Group comprised Poznańska Korporacja Budowlana Pekabex S.A. and the subsidiaries subject to consolidation presented below. Due to insignificance, Pekabex Projekt Sp. z o.o., Pekabex Projekt Sp. z o.o. S.K.A. and TM Pekabex Projekt Sp. z o.o. sp. k. were not subject to consolidation.

Pekabex Bet S.A.

Pekabex directly holds 100% of shares in the share capital of Pekabex Bet S.A. (hereinafter referred to as „Pekabex Bet”), which entitles it to exercise 100% of votes at the General Meeting.

Bet”), which entitles it to exercise 100% of votes at the General Meeting.

The company's core business is the implementation of construction contracts in the field of design, production, delivery and assembly of prefabricated concrete structures used in the construction of industrial, commercial, office, cultural and sports facilities, halls, buildings, bridges and other large-size structures, as well as construction work relating to the construction of residential and non-residential buildings and civil engineering works.

On 22 January 2019, Pekabex Bet registered a branch in Sweden, operating under the name of Pekabex Bet S.A. Filial.

Pekabex Pref S.A.

Pekabex directly holds 100% of shares in the share capital of Pekabex Pref S.A. (hereinafter referred to as „Pekabex Pref”), which entitles it to exercise 100% of votes at the General Meeting.

The company's core business is the provision of production and construction services, as well as

accounting, administrative, HR and payroll, design and logistics services.

Within the structures of Pekabex Pref there is also an organisationally separate Pekabex Pref Branch in Dresden. Its core business are production services.

Centrum Nowoczesnej Prefabrykacji Sp. z o.o.

Pekabex directly holds 100% of shares in the share capital of Centrum Nowoczesnej Prefabrykacji Sp. z o.o. (hereinafter referred to as „CNP”), which entitles it to exercise 100% of votes at the General Meeting.

The company's core business is the rental of property to entities belonging to the Group.

Pekabex Development Sp. z o.o.

Pekabex directly holds 100% of shares in the share capital of Pekabex Development, which entitles it to exercise 100% of votes at the General Meeting.

The Company is primarily engaged in development activities, including the promotion of prefabricated technology in housing construction.

The company's core business is the rental of real property, machinery and equipment, mainly to entities belonging to the Group. In 2019, the company implemented a project on a property located in the Pomeranian Special Economic Zone in Gdańsk, which is presented in more detail in this report.

Pekabex Inwestycje II S.A.

Pekabex directly holds 100% of shares in the share capital of Pekabex Inwestycje II S.A., which entitles it to exercise 100% of votes at the General Meeting.

The company's core business is the rental of property to entities belonging to the Group.

Kokoszki Prefabrykacja S.A.

Pekabex directly holds 100% of shares in the share capital of Kokoszki Prefabrykacja S.A. (hereinafter referred to as „Kokoszki Prefabrykacja”), which entitles it to exercise 100% of votes at the General Meeting.

Pekabex Projekt Sp. z o.o.

Pekabex directly holds 100% of shares in the share capital of Pekabex Projekt.

The company is a general partner in Pekabex Projekt Sp. z o.o. S.K.A. and a partner in TM Pekabex Projekt Sp. z o.o. sp. k. As at the date of this report, the company did not conduct any operating activities.

Pekabex Projekt Sp. z o.o. S.K.A.

Pekabex directly holds 100% of shares in the share capital of Pekabex Projekt, which entitles it to exercise 100% of votes at the General Meeting. As at the date of this report, the company did not conduct any operating activities.

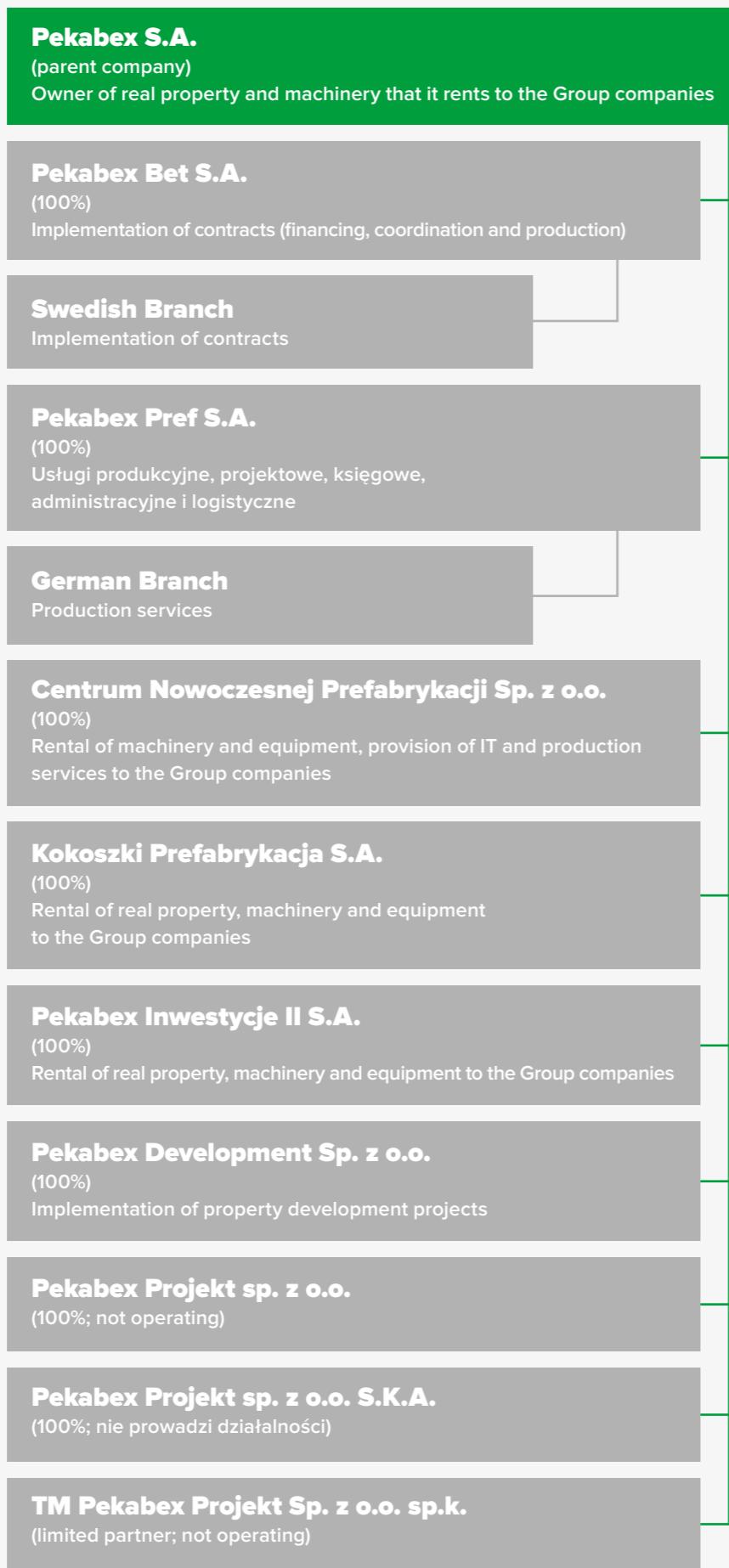
TM Pekabex Project Sp. z o.o. sp.k.

Pekabex is a limited partner of TM Pekabex Projekt. As at the date of this report, the company did not conduct any operating activities.



1.1

Business model



The Pekabex Group is a leading manufacturer of prefabricated reinforced and prestressed concrete structures in Poland, constantly developing its range of products and services. The Group and its legal predecessors have been operating in the construction sector for more than 47 years.

The Group's business model and the types of activity conducted by the individual companies are presented in the diagram below:

The Group's primary operating activities focus on all aspects of construction and comprehensive implementation of construction projects (including comprehensive implementation of projects as a general contractor – mainly halls and logistics facilities). In its activity, the Group combines the competences of a manufacturing, engineering and construction company.

Pekabex has its own design office, specialising in designing buildings and structures made of prefabricated concrete elements. It employs more than 100 high-level engineers with international experience, and permanently cooperates with external offices. The projects developed in accordance with the Pekabex system are modern, safe and economical, and the structures built on their basis stand out in the architectural landscape. The Group applies innovative solutions in line with Polish and European standards.

The Group has its own Research and Development Centre (established in 2017), where it develops innovative concepts and the best construction and design solutions for its contractors.

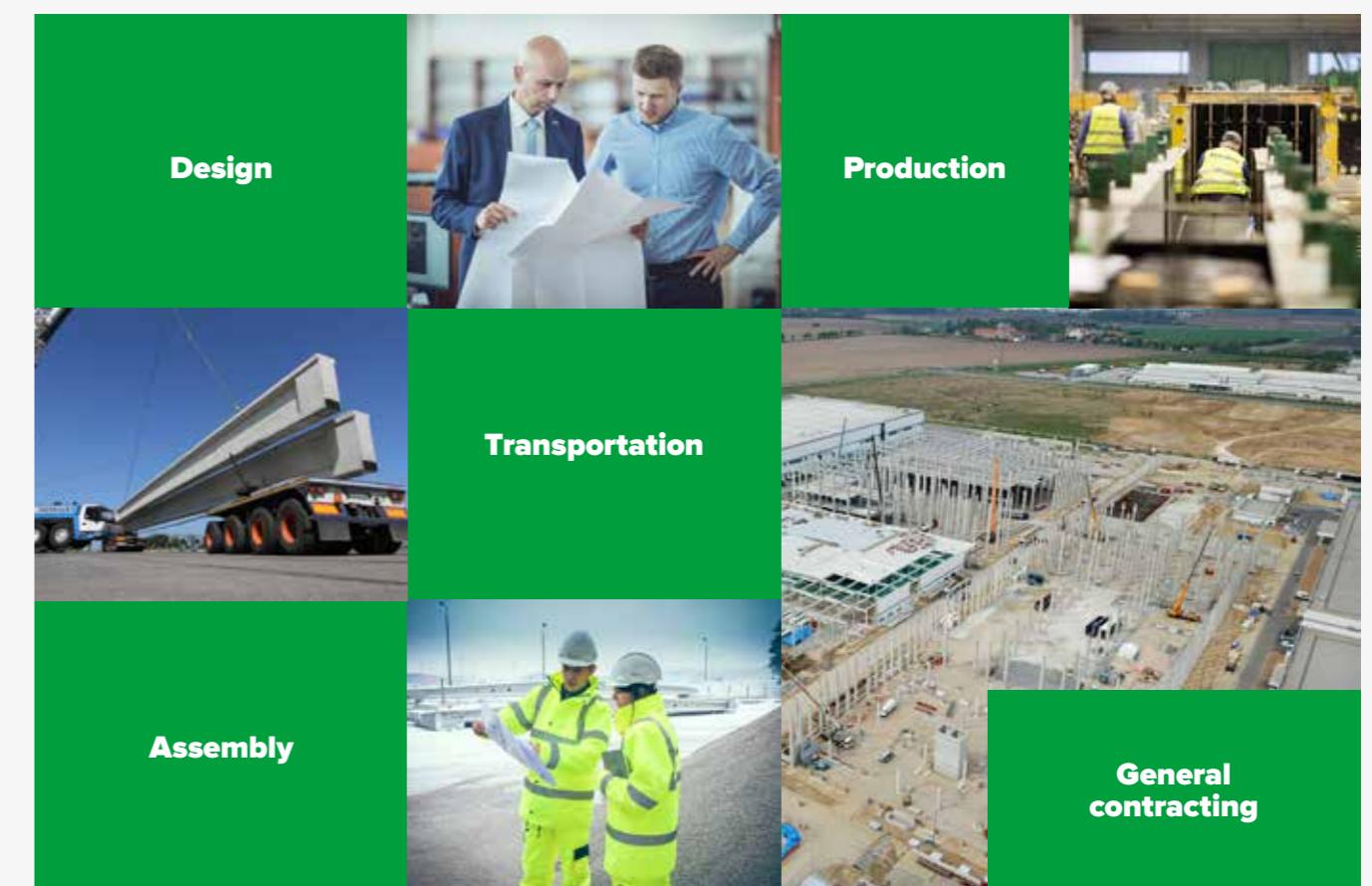
Pekabex ensures country-wide, safe transportation of prefabricated elements to construction sites by road or rail-road transport. It also organises the transportation of elements abroad, using sea transport. Constant supervision over the continuity of supply and safety of transport of prefabricated elements is exercised by the Logistics Department. Low-floor vehicles used by the Group enable the transportation of elements with a length of more than 40 m and a weight of more than 80 t, as well as the transportation of prefabricated elements with a height of up to 4.3 m in a vertical position. The number of shipments was 15,810 in 2019 compared to 22,875 in 2018.

Pekabex provides services of prefabricated structure assembly

on the construction site regardless of the time of year and weather conditions. With more than 20 assembly teams, it provides high quality services on time, according to previously agreed conditions.

The Group specialises in the production of traditional prefabricated reinforced elements and modern prestressed elements.

Prefabricated elements, due to their production technology and the possibility of maximum use of material parameters, are competitive with other materials and technologies used on the Polish and foreign markets. The prestressing of concrete makes it possible to reduce cross-sections, which results in cheaper transport and assembly, and thus attractive sales prices. Prefabricated elements within the Group are produced by Pekabex Bet.

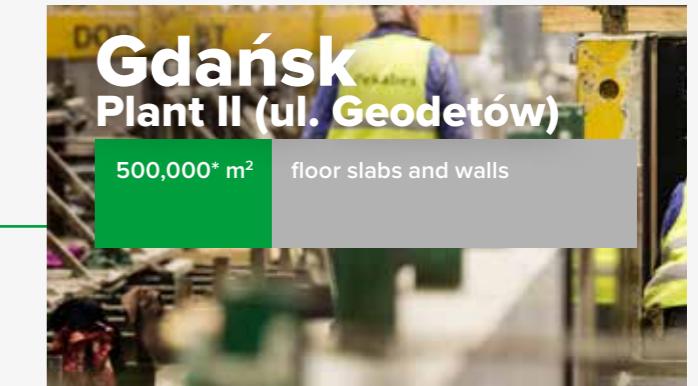
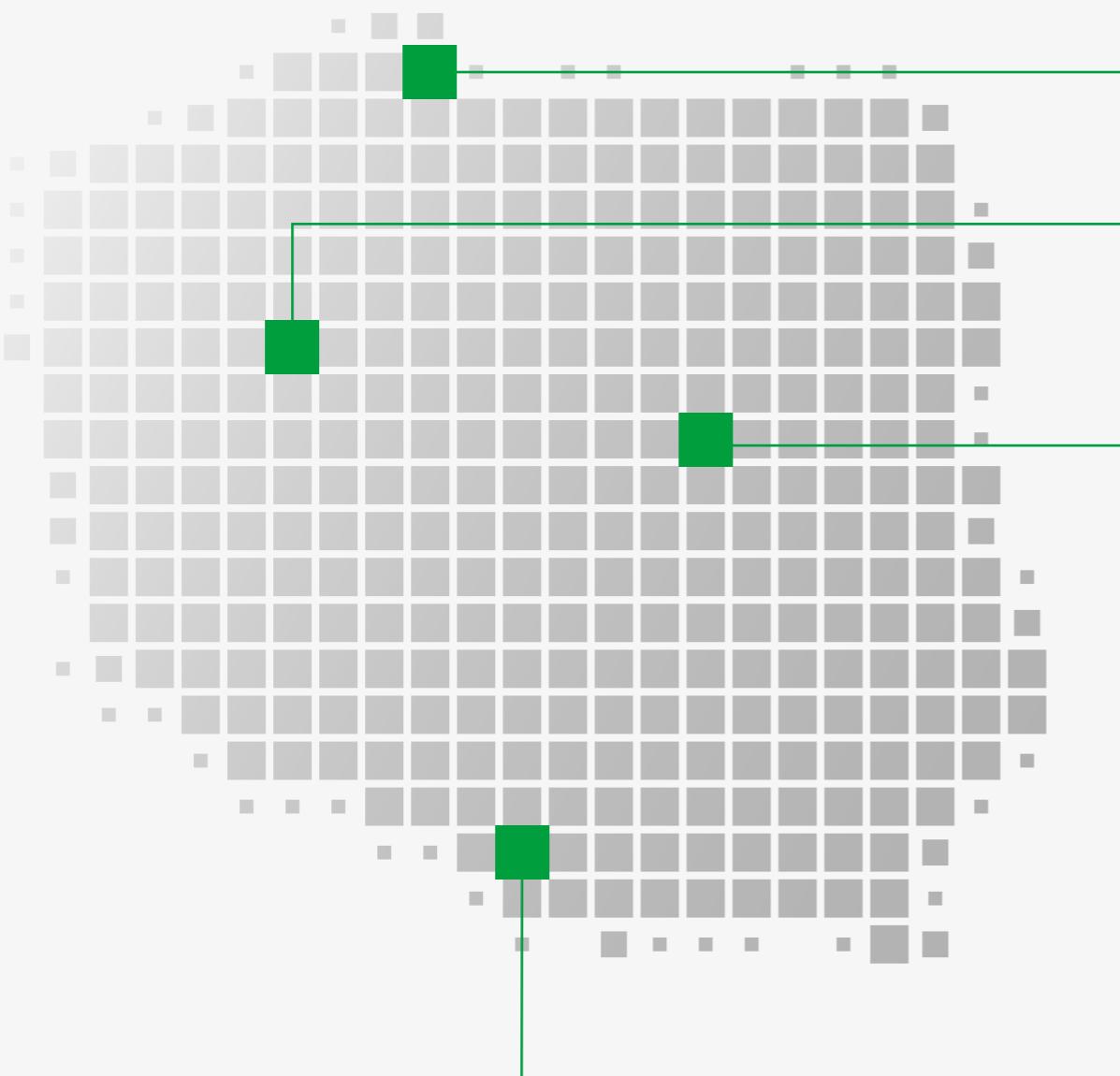




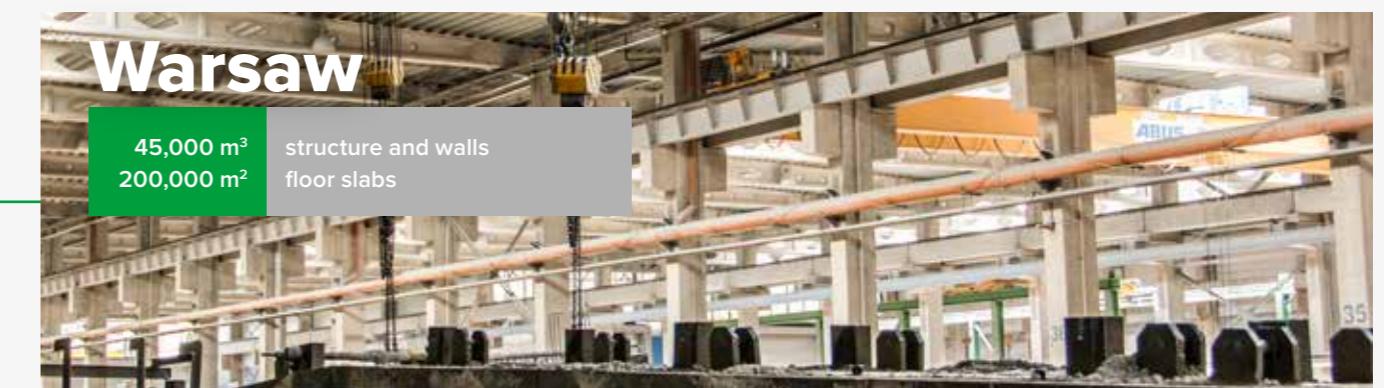
In 2019, the Group built a modern, automated production plant in Gdańsk and thus has five factories strategically located in the country, which produce elements used in enclosed structures (e.g. production halls, warehouses, offices, commercial facilities, stations, car parks), engineering construction

(e.g. bridges, tunnels), as well as elements for non-standard projects. The Group also produces elements for housing construction, including floors, stairs and balconies, but primarily walls, including solid and three-layer walls used most often as external walls with façades, equipped with wiring system,

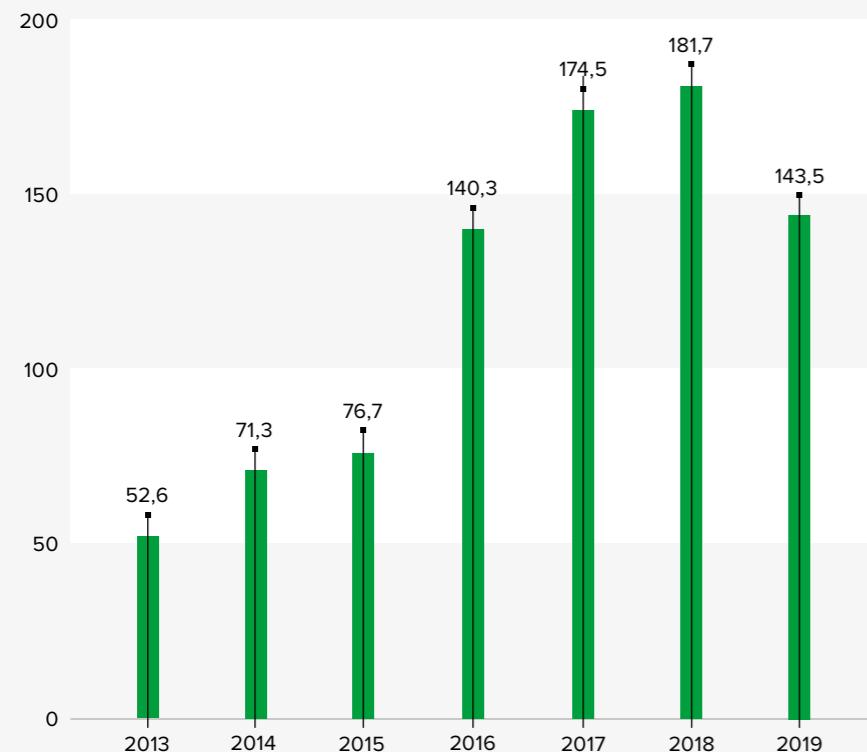
fitted with windows and external window sills, and finished with special textured plasters.



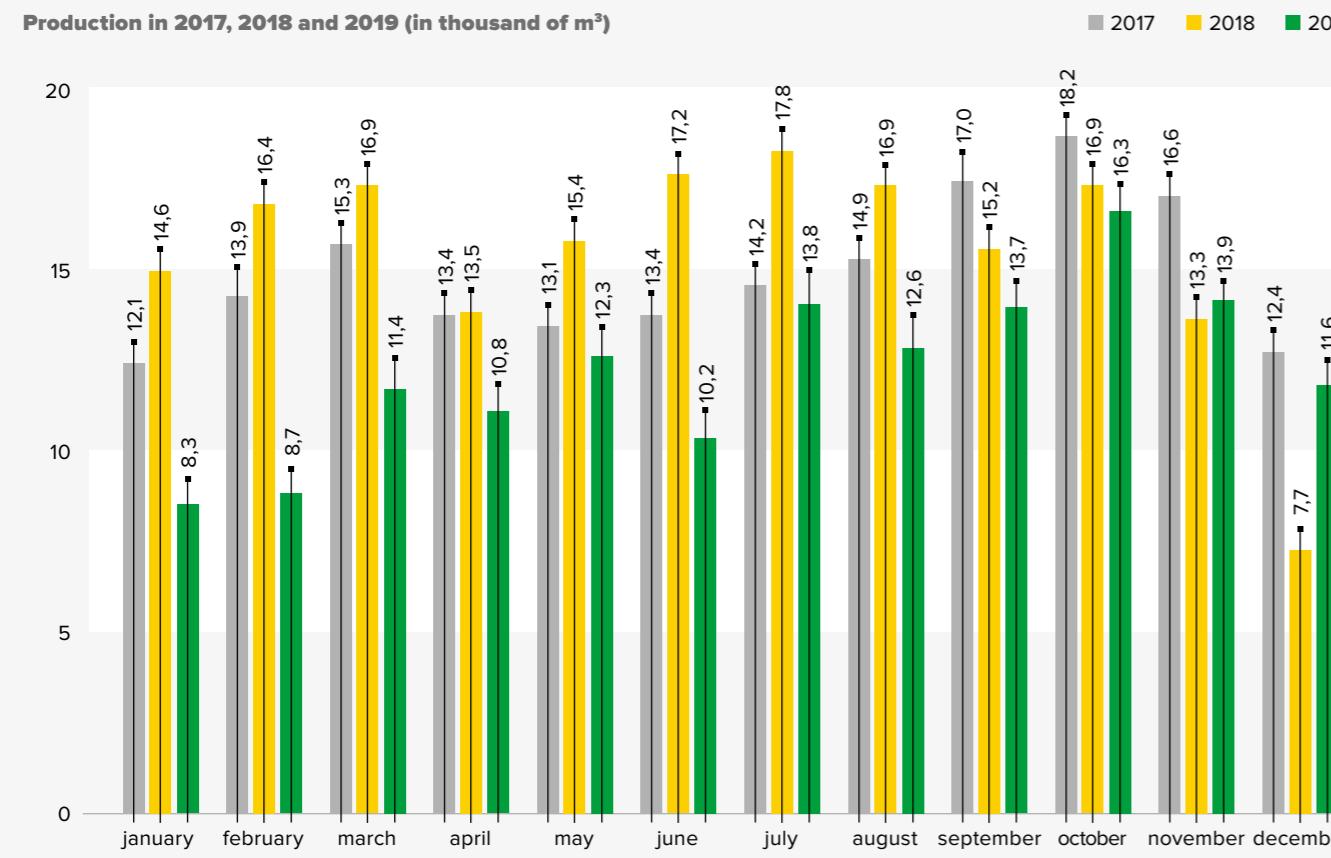
*The new production plant in Gdańsk is described later in the report.



The total production volume generated by the 4 production plants in 2019 was 143.5 thousand m³.



The production volume in the individual months of 2019, in comparison to the corresponding periods in 2017 and 2018, was as follows:



The Group's factories are equipped to produce elements with a wide range of sizes, both with the traditional reinforcement technology and with prestressing. Modern equipment and advanced technology facilitate the production of elements with increased length and significant masses (over 100 tonnes). The quality of the prefabricated elements is determined by the experience and high qualifications of the personnel, in addition to the specialised production equipment.

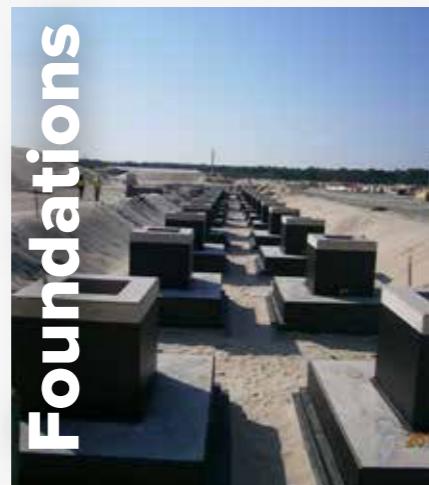
The Group also produces elements for housing construction, including floors, stairs and balconies, but primarily walls, including solid and three-layer walls used most often as external walls with façades, equipped with wiring system, fitted with windows and external window sills, and finished with special textured plasters.

Finishing the inner side of the walls requires only painting, fixing window sills and installing sockets and electrical switches.

The basic range of the Group's products for the housing sector is shown in the diagram below:



Main products manufactured by Pekabex



Foundations

Pekabex offers socket foundations or foundations in the form of blocks reinforced with bars or bolts.

Additionally, the company produces docks, foundation walls and foundations used in production and storage halls.



Columns

Pekabex produces reinforced or prestressed columns and column footings with square, rectangular, and circular sections. The columns can be multi-level, with brackets in all four directions.



Slabs

The wide range of slabs produced by the Group includes:

- » hollow core slabs
- » reinforced and prestressed TT slabs
- » PS prestressed solid slabs
- » troughed slabs
- » Filigran slabs
- » Pekabex



Walls

Pekabex produces prefabricated single-and multi-layer wall elements with an insulation layer of polystyrene, polyurethane foam or mineral wool. External wall textures can be uniform or have a façade layer finished with mineral plasters or washed stone, e.g. Jurassic slate, basalt or granite. The external façade may also be decorated with formliner prints or with clinker bricks.

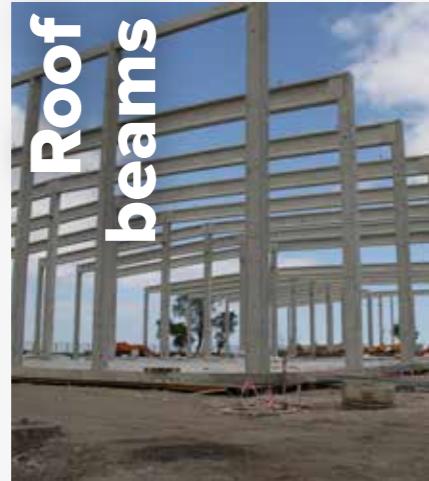


Stadium elements

Pekabex is one of the first and few manufacturers on the Polish market to offer prefabricated elements for sports stadium stands: double-Z auditorium slabs, beams for auditorium slabs and stadium columns.

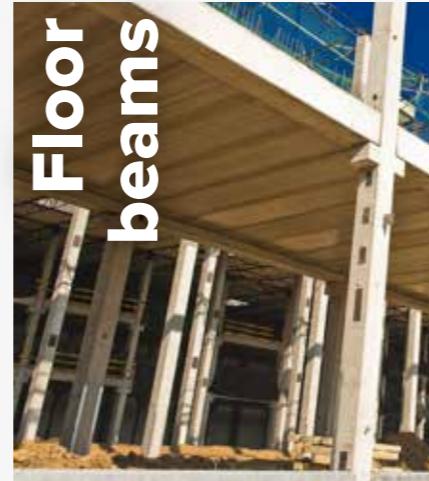
The Group's products can also be divided according to production technology:

- » modern prestressed elements, including bridge beams, girders, TT slabs, floor beams, roof beams, purlins, tramway elements, prestressed foundations, multi-level columns, prestressed filigrans;
- » traditional reinforced elements, such as rectangular columns, circular columns, column footings (columns with the foundation footing), solid walls, double-layered walls, triple-layered walls, foundations, retaining walls, walls with exposed aggregate, balconies, filigrans, tubing, docks;
- » prestressed hollow core slabs;
- » elements dedicated to housing construction.



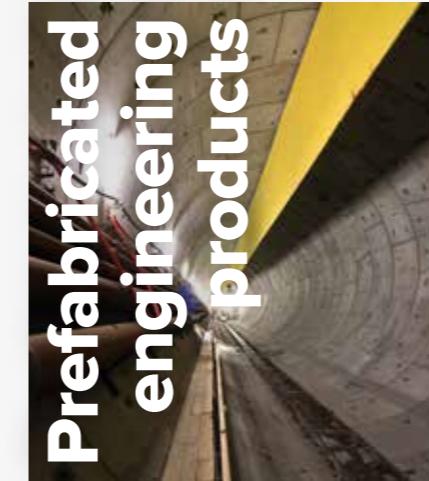
Roof beams

Pekabex offers reinforced concrete and prestressed roof beams – roof girders with spans exceeding 50 m, purlins, binders, rafters. The elements can be equipped with steel accessories.



Floor beams

The Group's production plants produce reinforced concrete and prestressed beams with rectangular, trapezoidal, T-shaped, I-shaped and L-shaped cross-section. They can be connected with monolithic or prefabricated floors made of hollow core slabs, TT slabs or Filigran slabs.



Prefabricated engineering products

The Group's production plants produce prefabricated reinforced and prestressed concrete elements with a high degree of technological and design advancement, for civil engineering purposes.



Other

Other products manufactured in the Pekabex Group production plants include:

- » bridge abutments
- » stair flights
- » staircase elements
- » crane ballasts
- » fountain basins, plinths
- » and other prefabricated products manufactured upon customer's request.

The main products manufactured by Pekabex are listed below.



The Group's products are used in the construction and erection of industrial facilities, commercial facilities, residential and office buildings, infrastructure facilities, power facilities, stadiums, car parks, non-standard projects (e.g. fountain basins, individually designed and manufactured tanks, prefabricated shells, stair flights).

In 2019, the Group completed the first stage of its first pilot residential project in modern prefabrication technology. The project is located in Poznań and consists of two stages. It is described in more detail in section 6.1 of this report.

As part of the project, Pekabex has developed a number of innovative solutions for developers, in particular in the field of walls used in modular construction.

Those solutions significantly shorten construction time, reduce the demand

for employees, reduce the weight of transported elements and assembly costs, and ensure high resistance to water and other climatic factors.

In 2019, the Group completed the construction of its fifth production plant, which is one of the most modern facilities of this type in Europe. Production will be carried out by industrial robots and the machines will be supervised by highly qualified employees. In December 2019, test production and simultaneous calibration of the automatic equipment started. The plant was officially opened and the occupancy permit was received in January 2020. The total built-up area of the factory is 10,296 m², including a hall of 6,713 m², staff and office facilities of 446 m² and a mezzanine on the hall of 3,136 m².

The plant has a fully automated line for the production of Filigran elements: walls and floors, solid walls and sandwich walls, dedicated largely to housing construction. They are also ideal for engineering construction, car

parks, retaining walls, excavation walls, as well as for construction at the border of an existing building. The expected capacity is 500 thousand m² of finished product per year.

The Group is constantly improving its Quality Management System in order to meet the customers' requirements in the best possible way.

The quality of prefabricated products is confirmed by numerous awards and distinctions, especially the certificates that the company holds. Products are subject to continuous monitoring, both internally and externally.

Quality management

In 2019, the ongoing quality control of prefabricated elements, at all stages of projects, was exercised by 4 laboratory units, located at the Group's plants in Poznań, Gdańsk, Mszczonów and Bielsko-Biała.

The laboratories support the work of the Group by, among others, improving the composition of concrete mix, testing fresh and hardened concrete



mix and raw materials for production, as well as performing concrete strength tests. All laboratories of the Group are inspected in accordance with Regulation (EU) No. 305/2011 of the European Parliament and of the Council of 9 March 2011.

Each of Pekabex's five factories has appropriate certificates for the manufactured construction products, required by Polish and EU law. Pekabex also holds a certificate confirming compliance of the Quality Management System with ISO 9001:2015 and certificates of conformity with factory production control in the field of manufacturing EXC2 class welded steel structures. The Group also holds certificates confirming that its products meet the requirements of national regulations of some EU countries. For each contract, a designer is assigned to coordinate the supervision of the technical documentation. The Quality Control Department employees check the compliance of finished elements with the documentation and record the results in reports. Each prefabricated element is subject to inspection and, in the case of hollow core floor slabs manufactured in series on the basis of individual documentation, each batch is thoroughly inspected once a week. For each slab, particularly important parameters, such as prestressing tendon slippage, are also tested. Moulds and reinforcement are controlled, and special prestressing programmes are developed for the production of prestressed bridge beams. The production of concrete mixtures during their development is also controlled, and the samples taken are tested for compressive strength. In addition, visual checks of elements are carried out as standard before shipment.

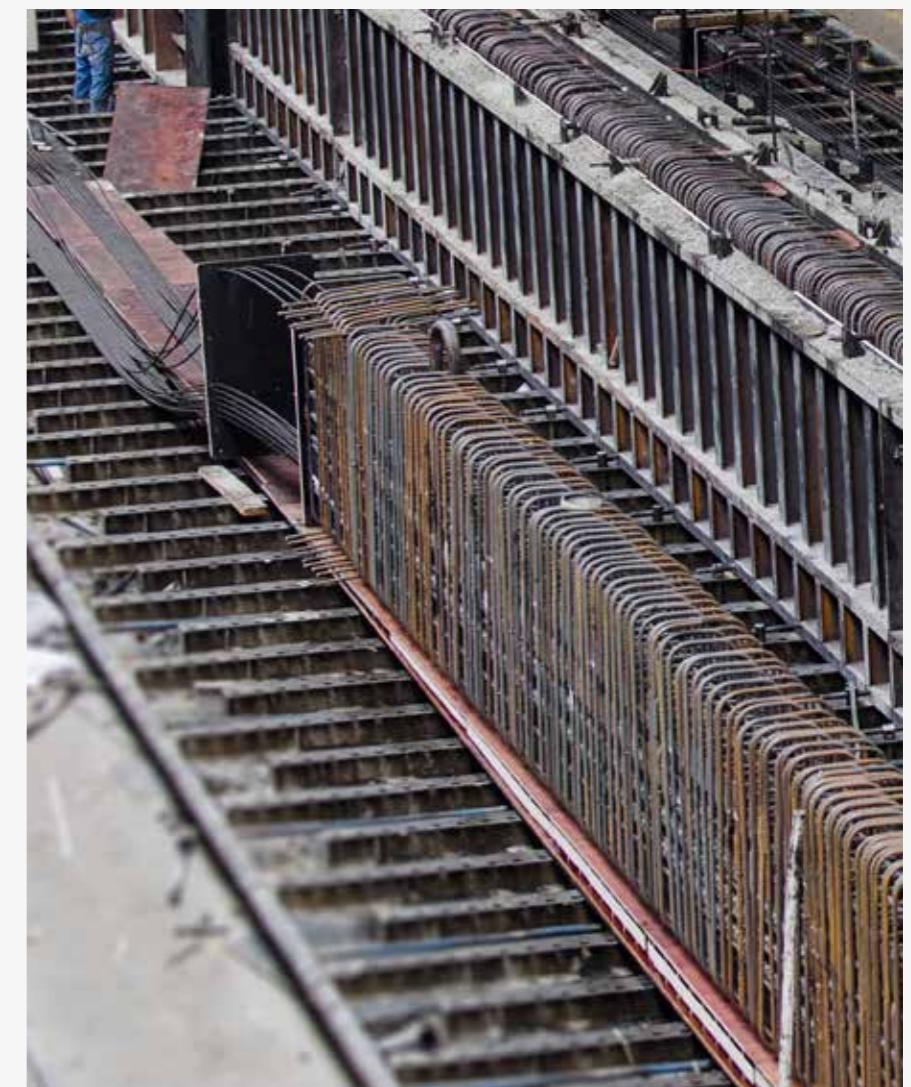
In addition, Pekabex controls the compliance with quality standards by suppliers of production input materials/raw materials. Candidates for suppliers complete the relevant questionnaires and the qualified suppliers are verified at least once a year.

The implemented system of registering/archiving reports from the inspection of prefabricated elements makes it possible to analyse the existing cases of non-compliance, which automatically translates into the control of moulds. The existing quality control system also involves archiving so-called declarations of non-compliance. They contain records of non-compliance and the methods of its rectification based on the designer's decision, as well as confirmation by the quality controllers of the correct rectification of non-compliance.

Declarations are always sent to the factory manager for further analysis, resulting in training for employees in areas where non-compliance has occurred. The input materials for

production are analysed on the basis of the supplier's material compliance documents, and additionally, sometimes they are tested in accredited laboratories and on-site concrete laboratories.

Some of the Group's customers organise so-called customer audits. They check the certificates held by the company, system documentation and production documents, as well as check the functioning of quality control systems in practice.



1.2

Markets and sources of supply

The demand for prefabricated concrete products and reinforced and prestressed concrete elements is closely correlated with the development of the construction industry, which in turn is strongly linked

to the economic and macroeconomic situation in a given country.

Poland is the main market for the Group. The largest domestic customers for its products include direct investors and general contractors constructing large-size buildings, residential buildings and implementing infrastructure investments.

Contracts are implemented in Poland, Germany, Sweden and Denmark, while production services are provided in Germany.

1.3

Value creation model

The Pekabex Group reports on sustainability issues in an integrated manner. The report presents relevant information on the Group's strategy, performance, opportunities, risks and management, showing it in the context of its environment and the most likely scenarios for its future changes (Outlook).

The presentation of the value creation process in the Pekabex Group, apart from the business model, also includes capital (financial, organisational, human, intellectual, social and natural), as well as the changes that take place in these types of capital and their use. This presentation better reflects not only important financial conditions and indicators, but also a whole range of issues which, in a more complex, indirect way, play a role in value creation, significantly influencing economic performance. An in-depth presentation of the key financial and non-financial issues provides a better presentation of the factors that are important to the Group's stakeholders, in particular

those relating to a period longer than the perspective of its strategy and relating to the foundations of its approach to sustainable development.

The table below shows the revenue generated on particular markets and the change in relation to the previous year:

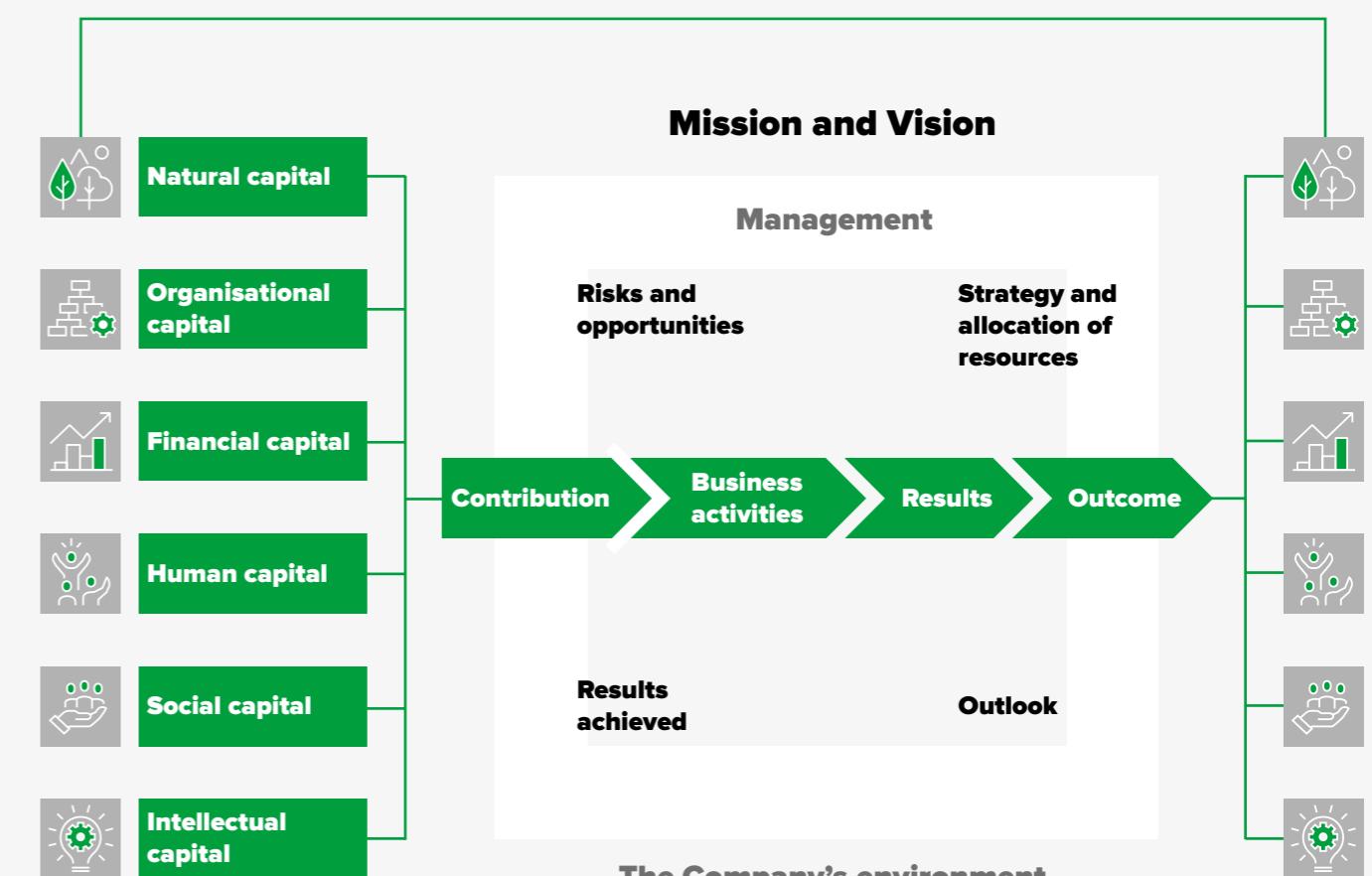
in PLN thousand	from 01/01 to 31/12/2019	from 01/01 to 31/12/2018	Change in value	Change %
Poland	589,169	694,673	-105,504	-15.2%
% share in total sales	76.3%	78.4%	-	-
Scandinavia	146,162	159,714	-13,551	-8.5%
% share in total sales	18.9%	18.0%	-	-
Germany	36,715	31,957	4,758	14.9%
% share in total sales	4.8%	3.6%	-	-
Total	772,047	886,344	-114,297	-12.9%

Revenue from sales in the territory of Poland decreased by PLN 105,504 thousand compared to 2018, i.e. by 15.2%. This decrease concerns mainly the segment Implementation of Contracts – Prefabrication (a decrease by PLN 141,068 thousand). Revenue from the implementation of

contracts in Scandinavia decreased by PLN 13,551 thousand, i.e. by 8.5%; this decrease concerned the entire segment Implementation of Contracts – Prefabrication.

As in 2018, one of the main customers of the Group was Skanska Sverige AB.

Revenue from sales to this contractor in 2019 reached 9.3% of the Group's revenue, while in 2018 its share was slightly below 10%. They belong to the segment Implementation of Contracts – Prefabrication.



According to the concept of integrated reporting, the processes taking place in the Group are perceived by the Group as a whole, from the point of view of

creating value for its stakeholders. They can be recognised by means of the six types of capital.

1.4

Types of capital

Financial capital

The financial capital of the Pekabex Group consists of the generated own funds, cash flows resulting from the implementation of profitable contracts as well as external financing (among others by banks and the stock exchange) and guarantee lines provided by financial institutions.

The most important aspect of financial capital is to ensure the Group's stability and credibility for investors, employees, suppliers, customers and other stakeholders. Financial capital enables flexibility and ensures operational security, which means that the Group is able to implement even several large, capital-intensive projects at the same time.

Kluczowe wkłady dotyczące kapitału

- » Thanks to financial capital, the Group is able to finance the implementation of contracts (purchase of materials, production, etc.) until it receives payment for services rendered and goods delivered, as well as to expand on the market, which contributes to the increase in its value
- » Financial capital and achievement of positive results ensure that the Group has the trust of investors, financial institutions and employees
- » Financial capital provides financing for the remaining capital

Capital management

The Pekabex Group conducts a number of activities aimed at managing financial capital results. These include:

- » managing the order portfolio
- » planning long-term and short-term cash flows
- » hedging cash flows due to risks
- » verifying customers' creditworthiness
- » monitoring receivables
- » implementing the security policy
- » investing in production capacity
- » automation and computerisation of processes aimed at increasing efficiency
- » introducing new, innovative products
- » expanding the activity with new segments

Results achieved

- » Total assets: PLN 753,893 thousand
- » Receivables: PLN 242,488 thousand
- » Cash: PLN 106,572 thousand
- » Equity: PLN 309,270 thousand
- » Long-term liabilities: PLN 135,216 thousand
- » Short-term liabilities: PLN 309,406 thousand
- » Revenue from sales: PLN 772,047 thousand
- » EBITDA: PLN 55,449 thousand
- » Net profit: PLN 30,496 thousand
- » Net debt: PLN 29,965 thousand
- » Guarantee limits available: PLN 397,500 thousand (including PLN 157,478 thousand used)
- » Credit lines available: PLN 70,000 thousand (including PLN 0 used)
- » Construction and start-up of a new production plant in Gdańsk
- » Expansion of the production plant in Mszczonów
- » Construction of a development hall
- » Implementation of the JA_SIELSKA project

It gives the possibility of maintaining and expanding production capacity as well as building a strong and stable organisation, ready for further development. Financial capital also allows the Group to comfortably fulfil its obligations in the case of unfavourable external conditions.

Financial capital is associated with the processes of obtaining it from external institutions and developing, through good planning and professional management of production and contract implementation.

Human capital

For Pekabex, human capital is above all a person who has knowledge and experience, and strives to achieve the objectives of the Group, thus creating value for the Group and acquiring new skills.

Pekabex is an engineering company, so its success depends largely on the engineers. Expertise and experience form the Group's second key capital, alongside tangible assets. It is necessary at every stage of the implementation of processes within the organisation, from sales and design, through the procurement of appropriate raw materials, materials, work organisation, production of elements, quality control and safe transport, to assembly on the construction site, and in the

case of comprehensive implementation – also planning and organising the entire construction process for the investor.

In support departments, the Group's employees ensure adequate organisational, legal, financial and accounting security of the company's business. They ensure reliable and timely reporting of the results achieved by the Group, thanks to which the Management Board can make decisions on the development of the company based on current data.

The Group's employees have appropriate education and qualifications. They are committed, motivated, flexible and ready to face unusual tasks.

Key capital contributions

- » Qualified engineering and specialist staff has knowledge and industry experience
- » The Group has implemented an occupational health and safety management system based on the BS OHSAS 18001:2007 standard
- » The Group has implemented an occupational health and safety procedure for subcontractors and external contractors
- » The Group employs people from external markets and people at risk of social exclusion

Capital management

- The Pekabex Group conducts numerous activities aimed at managing the aforementioned capital. These include:

 - » ensuring adequate occupational health and safety conditions for employees
 - » enabling employees to develop, e.g. through access to appropriate training
 - » providing numerous employee benefits
 - » being open to employing and training people from abroad
 - » being open to employee initiatives that build a positive working atmosphere and strengthen relations
 - » employing convicted persons and having a positive impact on their rehabilitation

Results achieved

- » Number of jobs (employees and associates) in all Group companies: approx. 2,000 people
- » Number of foreign employees (foreigners): 292
- » Number of convicted persons employed: 45
- » Expenditure on training in 2019: approx. PLN 500 thousand
- » Expenditure on non-salary employee benefits: PLN 1,795 thousand
- » Funding of events important for employees (apart from the organisation of company integration events), such as mushroom picking or team and individual sports activities

Intellectual capital

The intellectual capital of the Pekabex Group is based on the experience and knowledge of appropriately selected staff, continuous validation of existing solutions, and specialised software (e.g. for design). The Group employs a team of qualified designers and engineers whose ideas are developed and implemented.

The company has its own Research and Development Centre, where it conducts acoustic, strength and fire resistance tests; the Group has registered its own utility models and is awaiting decisions on further protection rights and patents filed for registration. Intellectual capital allows the Group to develop effective, optimal and safe construction and product solutions

Key capital contributions

- » The Group has implemented procedures for the creation and approval of documentation and implementation of contracts
- » The key action is the optimisation of solutions and processes
- » Technical and IT solutions translate into production and assembly efficiency and, therefore – into the value/profitability of contracts
- » Individual product solutions are tailored to the customers' needs

Capital management

- » The Group actively participates in scientific conferences
- » The Group cooperates with technical universities and research institutes
- » The Group is involved in various initiatives supporting new ideas and cooperation between companies, e.g. Poland Prize
- » The Group is an active member of associations for the development of the construction sector, e.g. the Concrete Producers Association
- » In 2019, the Group joined other organisations, including the Wielkopolska Chamber of Commerce and Industry and the Danish organisation Dansk Byggeri

Results achieved

- » In 2019, the Group developed the Research and Development Centre, which includes teams dealing with specific issues
- » In 2019, the Group filed 4 utility models and 1 invention with the Patent Office
- » In 2019, the Group expanded its cooperation with universities and vocational schools
- » The Group organises a contest for the best thesis
- » The Group designed and built a modern, automated production plant in Gdańsk

Organisational capital

The organisational capital of the Pekabex Group is primarily its organisational structure, mission, vision, strategy, operational and strategic goals. It also consists of internal (departmental and inter-departmental) procedures, regulations, instructions and internal processes together with those responsible for them.

Finally, the organisational capital of the Group is the division of competences between the departments and their mutual interaction, resulting in continuous development – of people, infrastructure and factories.

Key capital contributions

- » The Group continuously analyses the needs for improvement or development of processes and procedures
- » The Group has an efficient control system in place
- » The Group's structure is conducive to efficient decision-making
- » The correct definition of persons and units responsible for particular processes ensures smooth implementation

Capital management

- » The Company Management defines and communicates strategy, mission, vision and goals
- » The Group has internal procedures in place to govern its responsibility in the various departments
- » The Group edits internal bulletins, including a printed quarterly employee newsletter, which supports communication
- » Employees hold regular departmental meetings
- » The Management Board meets regularly with the managers to exchange information on activities and their results
- » The Management Board approves general corporate procedures for the purpose of better process organisation

Results achieved

- » In 2019, the Group continued to implement a new ERP system (Gardens)
- » The Group develops organisational structures covering new areas of activity (implementation of pilot projects on its own account – JA_SIELSKA, a development hall in Poznań)
- » In 2019, the Group's Branch in Sweden was registered
- » The Group is constantly developing and updating procedures
- » The Group ensures timely reporting and implementation of contracts according to their schedules

Social capital

For the Pekabex Group, social capital means maintaining extensive contacts with social partners: organisations, institutions and communities.

The stakeholders with whom the Group maintains relations are its customers, employees, potential employees, local communities, school and academic communities, suppliers, media, shareholders and investors, authorities, banks and other financial institutions.

Key capital contributions

- » The Group is committed to long-term customer relationships, and is open to a variety of activities
- » The Group is willing to resolve potential conflicts with local communities and is open to diversity
- » The company engages in initiatives undertaken by local communities and supports them financially
- » The Group improves the quality of life of communities by engaging in the construction of public utility facilities; thanks to prefabrication, construction time is significantly reduced and residents are inconvenienced by projects, e.g. on the road, for shorter periods of time

Capital management

- » The Group maintains good relations with local authorities and organisations and parishes
- » The Group has an online and offline information policy regarding the impact of its activities on communities
- » The Group cares about its relations with universities, which translate into human and intellectual capital
- » Pekabex maintains regular communication with investors, especially by publishing reports and holding periodic meetings
- » The Group pays local taxes, thus contributing to the development of the regions
- » Pekabex cooperates with the media on an ongoing basis in order to communicate a broader view of its activities to its stakeholders

Results achieved

- » In 2019, the Group joined new business initiatives
- » In 2019, the Group continued its cooperation with the Poznań School of Logistics (dual studies)
- » Pekabex cooperates on a permanent basis with the State Construction Schools in Gdańsk and offers patronage classes in Technical School of Construction No. 1 in Poznań
- » In 2019, the Group paid a total of PLN 2,791 thousand on account of property tax
- » In 2019, the Group paid PLN 981 thousand for perpetual usufruct of land

Natural capital

The Group's natural capital is the reduction of direct and indirect environmental impact, the reduction of the use of resources and the

increased ability to control pollution emissions related to production.

Key capital contributions

Basic principles of the Group's conduct concerning environmental issues:

- » rational use of resources and optimal energy management
- » reducing pollution emissions to the atmosphere
- » striving to minimise the amount of waste generated and recycling and recovering the waste
- » reducing noise emissions
- » increase in environmental awareness of employees
- » care for the environment at every stage of the technological process
- » cooperation with local communities to protect the environment

Capital management

- » The Group optimises the use of raw materials, materials and energy carriers
- » The Group modernises its machinery on an ongoing basis and increases the level of production automation
- » The Group uses a closed water cycle and filters, controls waste and recycles
- » The Group has adopted an Environmental Policy
- » The Group supervises natural capital issues
- » The Group's logistics are based exclusively on companies that comply with at least the Euro 6 exhaust emission standards

Results achieved

- » The Pekabex Group has improved its emission control and prevention of environmental accidents
- » The Group controls waste at the assembly stage – even 100% of the materials used can be reused
- » Pekabex recycles recyclable materials – scrap steel is used for further production
- » The Group extracts aggregates from natural sources and cement from companies whose production method is socially responsible
- » 90% of the steel purchased by the Group is sourced from recycled material – only 10% comes from iron ores
- » In 2019, the Group did not pay any significant penalties and no significant non-financial sanctions for non-compliance with environmental laws and regulations were imposed on it
- » As a result of the implemented investment, gas consumption at the Group's plant and headquarters in Poznań was significantly reduced

1.5

Significant contracts

In 2019 and after the balance sheet date, the Issuer's subsidiary, Pekabex Bet S.A., entered into, in the course of its ordinary operations, significant contracts for the supply of goods and construction works. Information on the contracts that meet the materiality criterion adopted by the Group is presented below.

Date of signing the contract:	Contractor	Subject-matter of the contract	Contract value*	Contract currency
17 January 2019	Bielsko Logistics sp. z o.o.	Construction of a warehouse and office building with roads, car parks and all necessary infrastructure in Bielsko-Biała	1%	PLN
26 June 2019	City of Poznań – Usługi Komunalne (Municipal Services)	Construction of a new animal shelter at ul. Kobylepole in Poznań	3%	PLN
30 July 2019	Inter Europol S.A.	Expansion of the production plant in Małopole along with construction of new parking spaces and reconstruction of external infrastructure	5%	PLN
1 August 2019	Prologis Poland REIT sp. z o.o. I S.K.A.	Construction of a warehouse building for the storage and distribution of goods in Ruda Śląska	10%	EUR
9 August 2019	Raben Real Estate Poland sp. z o.o.	Construction of a chilled high storage hall, chilled transit hall, office and amenity building and auxiliary facilities in Wojanów	4%	EUR
13 August 2019	Odense Hospital Project Team Joint Venture I/S	Design, manufacture, delivery and assembly of a prefabricated structure for hospital in Odense (Denmark)	5%	EUR
19 August 2019	Skanska Sverige AB	Delivery and assembly of a prefabricated structure for Citadells-kajen Västra Bostader in Malmö (Sweden)	3%	PLN
6 September 2019	MLP Pruszków V sp. z o.o.	Construction of a logistics and warehouse centre, including production, storage and office facilities for rent, together with auxiliary facilities, in Moszna Parcels	2%	EUR
24 September 2019	Mr Tomasz Żarnecki	Construction up to the shell stage of the Galeria Podhalańska project in Nowy Targ	6%	PLN
25 September 2019	Kaufland Polska Markety sp. z o.o. Sp.k.	Construction of a building at ul. Warszawska in Piastów	3%	PLN
27 September 2019	HSB Bostad AB	Design, manufacture, delivery and assembly of a prefabricated structure for the Brf Kajen project in Sweden	3%	PLN
11 October 2019	Prologis Poland LVIII sp. z o.o.	Construction of a warehouse building for the storage and distribution of goods, together with auxiliary facilities, in Wrocław	3%	EUR
25 October 2019	Duże Naramowice – Projekt Echo – 111 sp. z o.o. S.K.A.	Construction up to the shell stage (building A, E) of the Poznań Naramowice MW 18 residential complex in Poznań	1%	PLN
19 November 2019	Silvernix sp. z o.o.	Execution of a prefabricated reinforced concrete structure	3%	PLN
10 December 2019	Panattoni Development Europe sp. z o.o.	Letter of intent concerning the construction of a production, logistics and storage centre located in Bielsko-Biała	6%	EUR

* Defined as a percentage of the Group's revenue generated in 2018.

Other significant contracts signed in the reporting period

In 2019, the Pekabex Group entered into insurance contracts, including annexes extending the term of insurance contracts, with Aviva TUO S.A., Colonnade Insurance S.A., Chubb European Group SE, InterRiskTU S.A. Vienna Insurance Group, PZU, TUiRwarta. These included the following:

- » property insurance against contingent events
- » civil liability insurance
- » insurance of cargo in transport
- » insurance of construction and assembly risks in domestic and foreign investments

- » insurance of property, machinery and equipment against all risks
- » insurance of electronic equipment against all risks
- » personal accident insurance of employees
- » dedicated insurance (civil liability of Management Board Members, keeping accounting books, civil liability of engineers, designers and architects, against profit loss)
- » cyber-risk insurance
- » medical expenses insurance for foreign business trips



Agreements for insurance guarantee lines (applies to contract guarantees) held by the Group as at the end of 2019 were as follows:

Guarantor's name	Limit amount (in PLN)	Duration	Changes in 2019 and after the balance sheet date
TUiR Allianz S.A.	20,000,000	31/12/2020	On 3 December 2019, an annex to the agreement was signed concerning: – the extension of its term until 31 December 2020 – the increase of the limit value to PLN 20 million
TU InterRisk S.A.	9,500,000	14/01/2020	After the balance sheet date, on 16 January 2020, an annex to the agreement was signed concerning: – the extension of its term until 14 January 2021 – the increase of the limit value to PLN 9.5 million
TU Europa S.A.	6,000,000	indefinite duration	-
TU Euler Hermes S.A.	20,000,000	indefinite duration	On 19 December 2019, an annex to the agreement was signed concerning: – the increase of the limit value to PLN 20 million
STU Ergo Hestia S.A.	15,000,000	indefinite duration	-
KUKE	3,000,000	indefinite duration	-
Wiener Insurance Group (formerly: Gothaer TU S.A.)	7,000,000	06/12/2020	W dniu 10 grudnia 2019 roku podpisano aneks do umowy dotyczący: – przedłużenia okresu jej obowiązywania do dnia 6 grudnia 2020 roku – zwiększenia wartości limitu do kwoty 7 mln zł
Generali TU S.A.	10,000,000	01/10/2020	W dniu 11 października 2019 roku podpisano aneks do umowy dotyczący: – przedłużenia okresu jej obowiązywania do dnia 1 października 2020 roku
AXA Ubezpieczenia TUiR S.A.	10,000,000	31/01/2021	Po dniu bilansowym, 7 lutego 2020 roku podpisano aneks do umowy dotyczący: – przedłużenia okresu jej obowiązywania do dnia 31 stycznia 2021 roku
PZU S.A.	3,000,000	12/08/2020	W dniu 13 sierpnia 2019 roku zawarto umowę o okresowe udzielanie gwarancji ubezpieczeniowych kontraktowych
Suma	103,500,000		

On 23 July 2019, the Supervisory Board of Pekabex S.A. adopted a resolution on the selection of Grant Thornton Polska sp. z o.o. sp.k., entered on the list of entities authorised to audit financial statements maintained by the National Chamber of Statutory Auditors under number 4055, to review the financial statements of Pekabex S.A. and the Pekabex Group for the first half of 2019 and to audit the financial statements of Pekabex S.A. and the Pekabex Group for 2019.

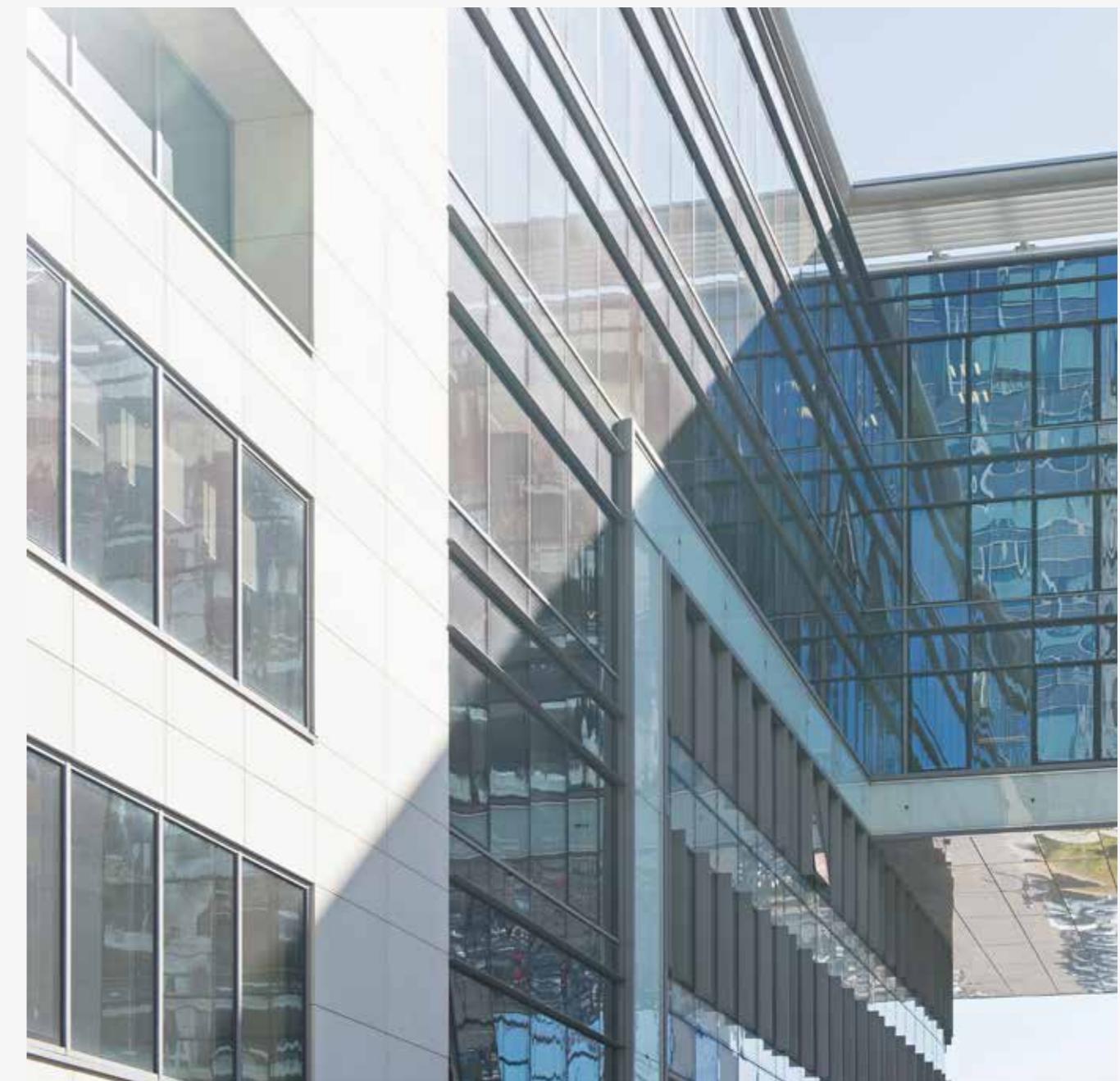
The resolution of the Supervisory Board was preceded by the adoption of a resolution by the Company's Audit Committee, according to which it approved the Management Board's report on the procedure concerning the selection of the audit firm and recommended to the Board the selection of Grant Thornton Polska.

The agreement between Pekabex S.A. and the audit firm was entered into on 2 September and concerns the period indicated above.

Pekabex has been using the services of this firm since its listing on the stock exchange in 2015, including the prospectus survey service.

Information on the auditor's remuneration is presented in note 31.5 of the consolidated financial statements.

Other significant contracts concerning the Group's financing are described in chapter 3 of this report.



2.0

Strategy and development of the Pekabex Group



MISSION

We believe that prefabrication is the technology of the future in construction

VISION 2024

We want to be Top 5 in Europe to build eco-friendly, efficient and beautiful facilities creating new trends

In the fourth quarter of 2019, the Company's Management Board started working on a new strategy, covering the years 2020-2024. Two workshops with the Group's managers were held, which resulted in strategic directions and initiatives. They are currently subject to implementation analyses within dedicated working groups.

The strategic objective of the Group is safe development, taking into account the expectations of shareholders, customers and other stakeholder groups, based on a healthy, competent organisation and internal resources, supported by a stable financial background and appropriate internal processes.

The main lines of action to achieve this objective primarily include:

- » growth and diversification of sales, also through foreign expansion
- » increase in the value chain, mainly by offering comprehensive solutions to ensure the safety and functionality of facilities
- » provision of modern technologies
- » development of the Group's technical, operational and financial potential
- » flexibility of operation with agility and cost optimisation at the same time
- » building trust in the brand.

This objective is achieved through:**Growth and diversification of sales**

- » Developing in the residential construction segment in Poland and developing the portfolio for it.
- » Increasing sales effectiveness.
- » Increasing sales in the Scandinavian and German markets, in particular by providing increasingly advanced and comprehensive prefabrication and engineering solutions.
- » Potential acquisition on the German market.
- » Actively promoting prefabrication.
- » Pekabex reaches out to designers, investors and general contractors with information on its solutions

through lectures, speeches and publications.

- » Expanding production capacity in existing plants.

Comprehensive range and innovative products

- » Developing comprehensive “design and build” services and solutions, including those combining different technologies.
- » In the opinion of the Management Board, customers in Poland are increasingly appreciative of innovative and comprehensive solutions, including both consultancy in the field of prefabricated technology, as well as design,

production, transport and assembly of prefabricated products, and comprehensive construction of facilities. In order to meet their expectations, the Group intends to continue providing and widely promoting such solutions, also in the “design and build” formula. As part of comprehensive services, the Group takes responsibility for the entire project (or its separate complete parts), subcontracting all or part of the activities (e.g. construction works).

» The comprehensive implementation of the contract enables the Group to influence the choice of the technology used, thus creating

a market for prefabricated technology, as well as to influence the selection of suppliers of prefabricated components. Coordinating the entire construction process increases the flexibility of production processes by being able to plan the level of demand for prefabricated products more accurately over a certain period of time.

- » Creating innovative construction and production solutions as Group products.
- » Continuing the development of the design department, thanks to which the Group will strengthen its competitive advantage in terms

of more technologically complex construction products and solutions.

- » Introducing more labour-intensive (e.g. walls with installed windows) and more technically complex (e.g. tubing) and innovative products.

Continuous improvement of operational efficiency

- » Expanding the process monitoring system, including design, production and contract implementation processes, based on key performance indicators (e.g. labour costs per m³ of production), using tools such as reporting and controlling systems.
- » Implementing comprehensive IT

solutions facilitating the flow of information and increasing efficiency (e.g. production) and the possibilities of using the data held to better match products and services to market needs.

- » Developing structures based on repeatable elements in order to standardise production. Investing in standard and modular formwork which enables the production of all components according to the accepted standardisation, can bring positive effects. Thanks to these actions, the Group can shorten the time needed to prepare production, but also reduce the costs of formwork construction. This makes the Group's portfolio increasingly more flexible and cheaper than that of its competitors.

- » Automation and mechanisation of processes aimed at improving the efficiency, quality of provided products and services, as well as reduction of demand for human labour, mainly in production positions, which is a response to the problem of the lack of qualified lower-level employees.
- » Efficient supply chain management.

The Pekabex Group's strategy has not been formally adopted, however it is publicly available and is being implemented by the Management Board.



2.1

Research and development

Pekabex, as a leading manufacturer of prefabricated structures in Poland, has significant research and development potential in the form of qualified staff and a constantly expanding machinery park.

The Group has been developing prefabrication technology for years.

In order to compete effectively on the market, Pekabex has developed a number of innovative solutions,

which it will apply for as utility models and inventions. These include process-accelerating connectors for prefabricated elements, modern and high quality finished prefabricated elements and innovative technological processes.

The research and development activity is supported by its systematisation, including the separation of a dedicated unit and the definition of its work agenda.

In 2017, Pekabex Bet received funding from the Smart Growth Operational Programme 2014-2020 under Measure 2.1 Support for investments in R&D infrastructure of enterprises.

Funds were allocated for the implementation of the innovative project "Establishment of the Research

and Development Centre in the structure of PEKABEX BET S.A.". Thanks to the establishment of the R&D Centre, the Group participates in strengthening the innovativeness of the Polish economy and promoting R&D works in Poland. The Centre cooperates with technical universities all over Poland.

The Centre's work strengthens the Group's competitive position by generating customised solutions that reflect the needs of end users in Poland and on European markets (mainly German and Scandinavian).

The development projects undertaken are aimed at increasing the number of commercialised innovative products/ technologies, which will have a direct positive impact on the Group's market position and on its financial results.

The Group has filed to the relevant institutions innovative solutions in many areas of prefabricated construction, the main aim of which is to improve the production process by standardising the elements and their systems, as well as accelerating the assembly process on construction sites. The Group is also convinced that achieving the greatest possible level of process repeatability will be conducive to increasing the precision of workmanship, independent production of most of the elements and accessories and reducing unit costs.

To date, the Group has filed 15 utility models to the Patent Office (4 in 2015, 3 in 2017, 4 in 2018 and 4 in 2019), 6 of which have been granted protection rights, and is awaiting for the remaining applications to be examined. It is also still awaiting patents for 3 inventions filed for registration (2 filed in 2017 and 1 in 2019).

The main objectives of the Group related to the Research and Development Centre include:

- » implementation of plans for R&D work in cooperation with external entities
- » increasing the application of modern concrete prefabrication in the construction industry, especially in housing construction, which will allow the Group to participate in the implementation of government and local government housing development programmes and will enable it to better satisfy the market demand for modern, affordable apartments
- » reducing construction investment costs through the use of the Group's own innovative solutions
- » shortening the time required for the implementation of construction processes by using innovative connectors, which significantly accelerate the assembly on the construction site; thanks to the implementation of the project, the connectors will be independently produced by the Group, which will minimise the risk of delays that occur in the case of sub-suppliers
- » adapting the production process

as the availability of labour force decreases, among other things, through automation, which will be accompanied by an improvement in performance and quality parameters and the elimination of errors

- » increasing the share of more environmentally friendly solutions (e.g. research on the use of green concrete in prefabrication)

» integration of R&D personnel, so far carrying out R&D works within the dispersed Design Department

- » enriching the existing equipment with advanced research and development equipment, which means that R&D works can be undertaken in areas that have so far been impossible to explore

» modernisation of the existing infrastructure in order to create appropriate conditions for installation of equipment and preparation of work stations for the specialist R&D personnel

- » the 4th PMR Forum "Construction in Poland 2020"
- » the 6th Conference of the Concrete Producers Association "Cellular concrete and concrete prefabrication in modern construction"
- » other conferences dedicated to modern production and storage halls, car parks and garages

The specialists working for the Group publish specialist articles in the largest Polish trade magazines, such as «Inżynier Budownictwa», the Concrete Producers Association research bulletins, «Mosty», «Izolacje», «Nowoczesne Hale», «Murator», «Builder», «EuroBuild», «Materiały budowlane» etc.

In 2019, Pekabex received, among others, the following awards and distinctions:

- » the title of "Orzeł Wprost" ("Eagle of Wprost"), awarded by the weekly magazine «Wprost» on the recommendation of Bisnode and the National Agricultural Support Centre for making a special contribution to the development of the economy, the region and the country
- » a distinction in the «Forbes Diamonds» ranking
- » the «Transparent Company of the Year» distinction awarded by Gazeta Giełdy Inwestorów»Parkiet».





2.2

Supply chain

The Group has a reliable group of suppliers of key raw materials for the production of prefabricates, including in particular steel, cement and aggregates. The structure of the Group's suppliers is dispersed, which means that it is not dependent on one or more entities. In 2019, the value of materials or services purchased from any supplier did not exceed 10% of the total value of materials and services purchased.

The Group's purchases are made on the basis of cooperation

agreements concluded with regular suppliers in the area of key products and services (cement, steel, aggregate, plywood, accessories, chemicals, transport services). Framework agreements include payment terms, discount terms and trade credits, but do not constitute a commitment. A product/service is delivered based on current orders.

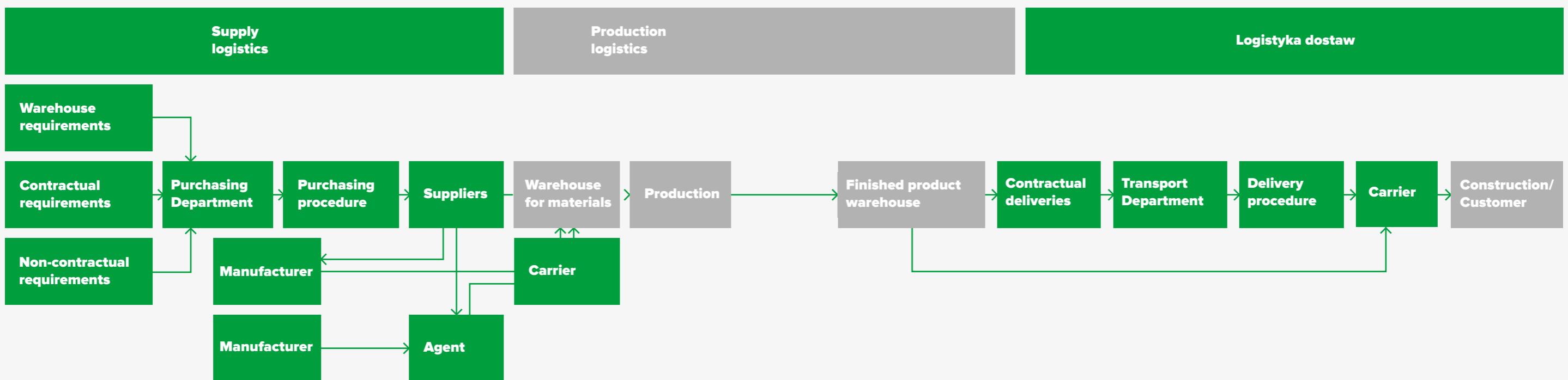
Pekabex has a centralised Procurement Department with an office in the company's headquarters in Poznań. Demand-driven purchases are made with the use of modern tools, including the Login Trade purchasing platform, which accelerates and improves communication with suppliers.

The most labour-intensive is the organisation of deliveries to the

Maintenance Department (specialised machinery and equipment, spare parts), purchase of aggregate, gravel, sand and foreign orders.

The least labour-intensive are orders and supplies of water, chemicals (concrete additives), wood and plywood, connecting elements, fuels, prestressed steel, etc.

The Pekabex's supply/value chain is as follows:



In the Purchasing Department, individual buyers are responsible for specific purchasing categories, e.g. steel, aggregate, thermal insulation, tools, etc. In 2019, Pekabex had 490 active suppliers in its base, with whom it completed over 6,400 orders/deliveries.

Delivery to contractors is a very important part of the supply chain. Transport to the construction site is carried out by external entities, with which Pekabex cooperates on a permanent basis. Depending on the location of the investment, deliveries are made by land, sea or using both modes of transport. In land transport, the Group uses, among others, standard semi-trailers, commonly known as tautliners, intended for elements the dimensions of which fall within: 13.6 m in length, 2.45 m in width and 2.60 m in height. Equally often, the Group uses platforms with similar loading capacity in terms of dimensions and weight; the visible difference is the absence of a tarpaulin, which makes it possible to load elements wider than 2.45 m.

Other types of semi-trailers used by the Group should be classified as a specialist truck fleet, as they enable the carriage of elements with extreme parameters: weight up to 100 t, height exceeding 4 m or total length exceeding 40 m. This type of fleet includes, among others, inloaders and Nachläufer-type trailers.

Oversized transport, which accounts for about 50% of all deliveries, requires special planning. Such transport takes place between 10 p.m. and 6 a.m. and requires appropriate permits. Delivery of oversized elements often involves changes to the infrastructure, e.g. removing road signs or widening specific road sections.

In addition to materials and energy, Pekabex purchases a number of services on the market, including subcontracting services related to the contracts being performed.

In particular, the business segment in which Pekabex is a general contractor (Implementation of contracts – construction services) is based on a network of subcontractors.

In 2019, Pekabex implemented 1,019 contracts with 610 subcontractors in the aforementioned segment. As its subcontractors, the Group selects companies from the area of a given project, so that it has a real impact on the economic situation of local communities.

Pekabex strives to ensure that ultimately all subcontractors guarantee compliance with environmental protection and occupational health and safety regulations. Subcontractors are verified for compliance with the Group's standards, especially in terms of quality and safety of works, as well as compliance with the law regarding the employment of foreigners.

In 2019, the Pekabex Purchasing Department worked on the diversification of aggregate and cement supplies. As a result, during this period, part of the deliveries already reached the company by mixed, rail and road transport.

Major changes in the main material and energy suppliers in 2019:

- » electricity – change from Orange Polska S.A. to Energa Obrót S.A.
- » limestone – change in the Mszczonów plant from Lhoist Bukowa sp. z o.o. to Nordkalk sp. z o.o.
- » cement – partial change in the Mszczonów plant from Górażdże Cement S.A. to Lafarge Cement S.A.



Scandinavia

45
3216
22

contracts
deliveries
carriers

Poland

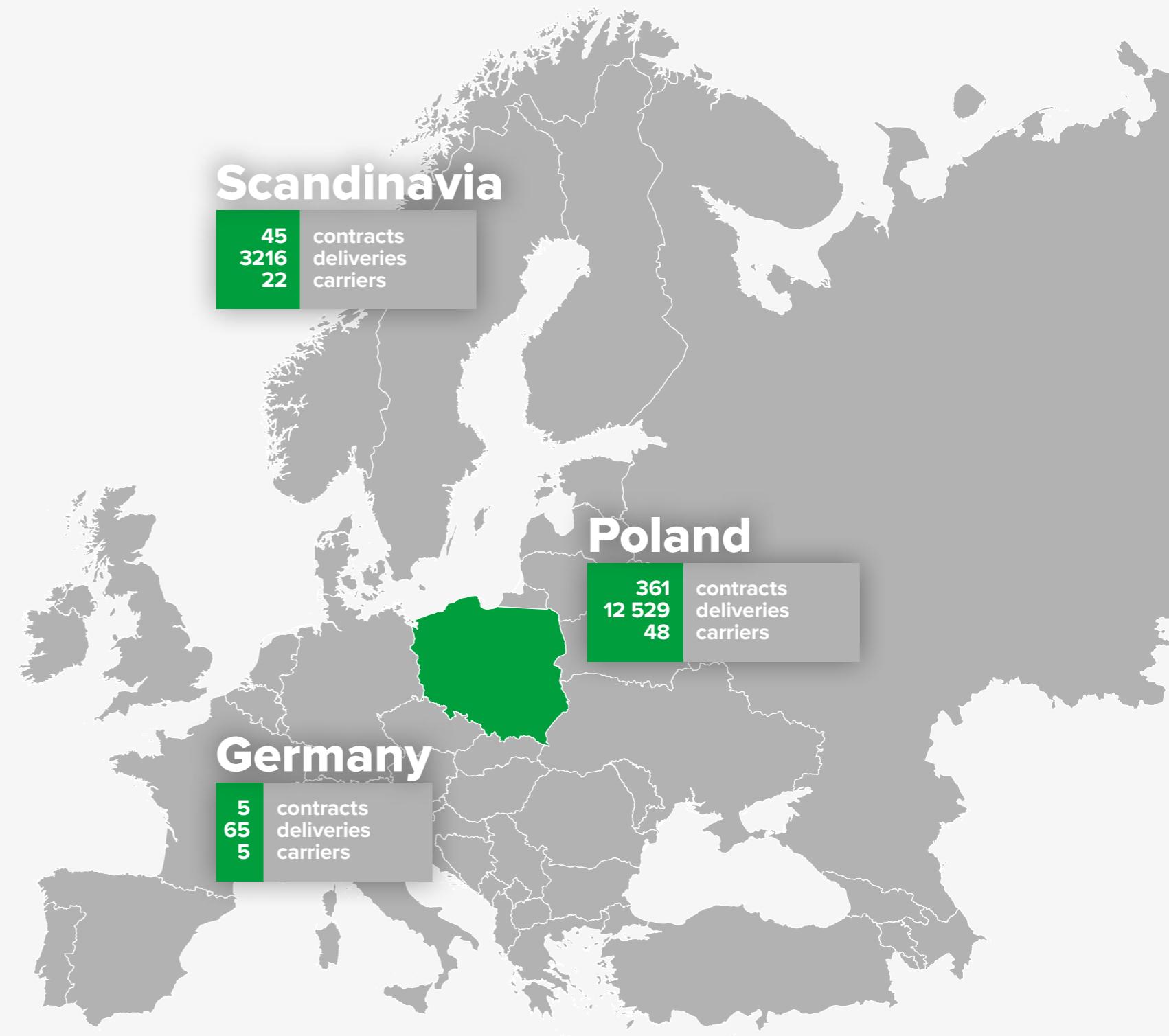
361
12 529
48

contracts
deliveries
carriers

Germany

5
65
5

contracts
deliveries
carriers



3.0

Activity of the Pekabex Group in 2019



3.1

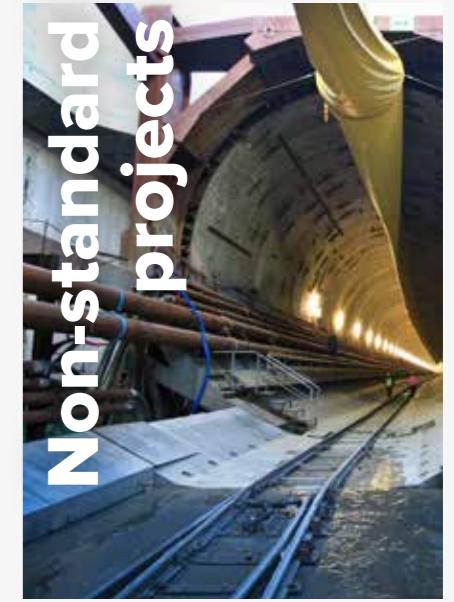
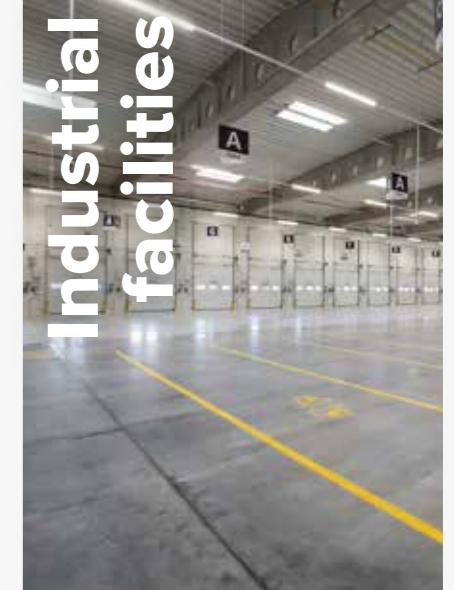
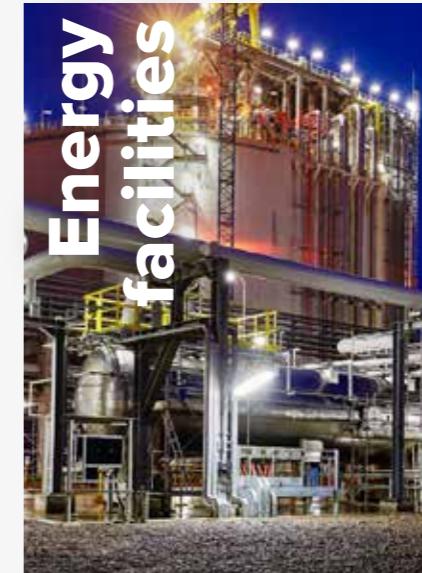
Events with a significant impact on the operations and financial results of the Pekabex Group

In 2019, the Pekabex Group implemented over 400 construction contracts. They concerned many projects and had different scopes, described in the section dedicated to business segments.

After the record-breaking revenues achieved in 2018, in 2019, revenues and profitability decreased. The result achieved by the Group in 2019 is comparable to the result achieved in 2017. In the first quarter of 2018, the Group had in its portfolio large and high-margin contracts in the Prefabrication segment, which are not standard in winter. Lack of similar contracts in the first quarter of 2019 combined with reduced investment in the market, especially in the non-residential sector, resulted in a lower profit generated by the Group.

In 2019, low interest rates, low unemployment and wage growth continued, which had a positive impact on demand in the housing sector.

On the other hand, the entire industry was still adversely affected by inaccessible construction procedures, protracted administrative proceedings and rising investment costs, including the increasing prices of construction workmanship (labour) and building materials. This is why new solutions have been sought in recent years, especially for the housing market, but also for production and storage halls, as well as office spaces. The prefabricated elements market is an increasingly appreciated component of the construction market. This is associated with the advantages of prefabrication in the form of durability of manufactured elements and meeting high quality standards (e.g. acoustics), cost effectiveness, limited environmental impact and significant reduction of construction time.



3.2

Significant contracts

The projects implemented by the Pekabex Group in 2019 were characterised by great diversity in terms of design, production and logistics. The Group has carried out projects for the most demanding customers from all over Poland. Its experience in large projects covering enclosed structures allows it to be even more effective in the implementation of contracts, while taking care of both its own welfare and proper relations with the contracting entities and investors.

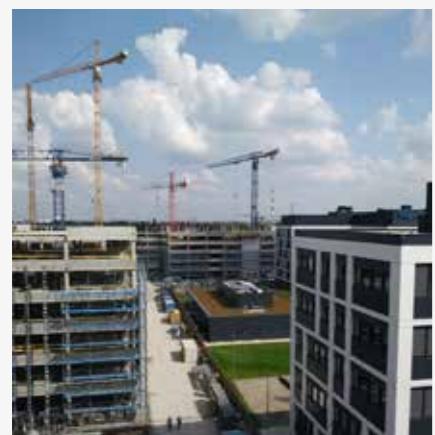
When implementing projects, Pekabex strives to optimise all aspects and conditions of the project, taking into account the expectations of each party. The Group's activity has a real impact on infrastructure, and thus on the surroundings and the quality of life of the residents. Pekabex offers industrial, retail, residential and office buildings, infrastructure, energy facilities, stadiums, car parks and non-standard facilities.

The Group also implements contracts covering public utility buildings, such as schools or kindergartens. In 2019, the Group implemented 5 contracts related to the extension or construction of schools and 3 contracts related to the modernisation or construction of kindergartens. In addition, it started the implementation of a large public contract involving the construction of a shelter for animals in Poznań.

Selected important commercial projects implemented in 2019 are presented below.

Office buildings

The list of office buildings constructed by the Group begins with the next stage of the Olivia Business Centre project in Gdańsk. It is the largest office complex constructed by the Group to date: the height of the tallest building including masts is 180 m, and without masts 156 m. The building has 35 overground storeys and 3 underground storeys with a total area of 40 thousand m². It was constructed on Soilcrete columns with a diameter of 1.8 m, and 4.4 thousand m² of concrete and 800 tonnes of steel were used for the slab foundation.



In March 2019, the Group completed the assembly of the last of the 6 buildings as part of the Business Garden Wrocław project (stages I and II). Production was carried out in three plants of the Group: in Poznań, Bielsko-Biała and Mszczonów.

In total, over 14 thousand m³ of prefabricated elements were produced,

which made it possible to provide the customer with approx. 79 thousand m³ of commercial space.

In Zielona Góra, the Group completed an office project for LIT Polska sp. z o.o. It is a minimalist, elegant building with 6 above – ground storeys. The assembly of the entire structure, consisting of approx. 600 elements, took 8.5 weeks; the assembly of one repeatable storey, including the concrete work, took 6 working days for a team of seven assemblers. The three-layer walls used in the project were manufactured and assembled together with windows and external sills.

Retail facilities



In 2019, the Group implemented a contract, acting as a general contractor, involving the construction of a retail and service facility for the Kaufland chain in Piastów in the Warsaw agglomeration. The area of the supermarket hall is 5.3 thousand m², and including the entrance, car parks, transformer station, information equipment and the necessary technical infrastructure the area of the project is 9.7 thousand m².

The Group built another commercial facility in Rawa Mazowiecka (part of the scope of construction). Good preparation of the construction site for the assembly of elements produced by Pekabex, elimination of potential hazards and involvement of all departments at each stage of implementation enabled the assembly of the entire structure within 9 days.

The first stage of the project, consisting in the construction of a warehouse hall with office facilities (12 thousand m² in total), was completed in 2019, the following ones are being implemented.

The two-storey building consists of 24 columns of more than 9 m in length, 50 beams, 171 HC slabs and a prefabricated staircase (27 walls, stair flights, landings).

Warehouse and logistics facilities (industrial)



In 2018, the Pekabex Group started cooperation with Panattoni, consisting in the construction of warehouse and industrial parks as a general contractor. In 2019, the cooperation was continued – the Company completed Panattoni Parks in Kielce and Bielsko-Biała in the aforementioned formula. As part of the project in Kielce in 2019, two warehousing and logistics halls were completed and extended, together with technical infrastructure and auxiliary facilities.

In Bielsko-Biała, a production and warehouse hall with staff and office facilities was built (stage I of the project) with a built-up area exceeding 27 thousand m² (the total area of the project is 57.3 thousand m²). The next hall (stage II of the project) is under construction.

The Group also cooperates with a large investor in the hall market, namely MLP. For this company, Pekabex is building further industrial facilities near Pruszków.

The first stage of the project, consisting in the construction of a warehouse hall with office facilities (12 thousand m² in total), was completed in 2019, the following ones are being implemented.



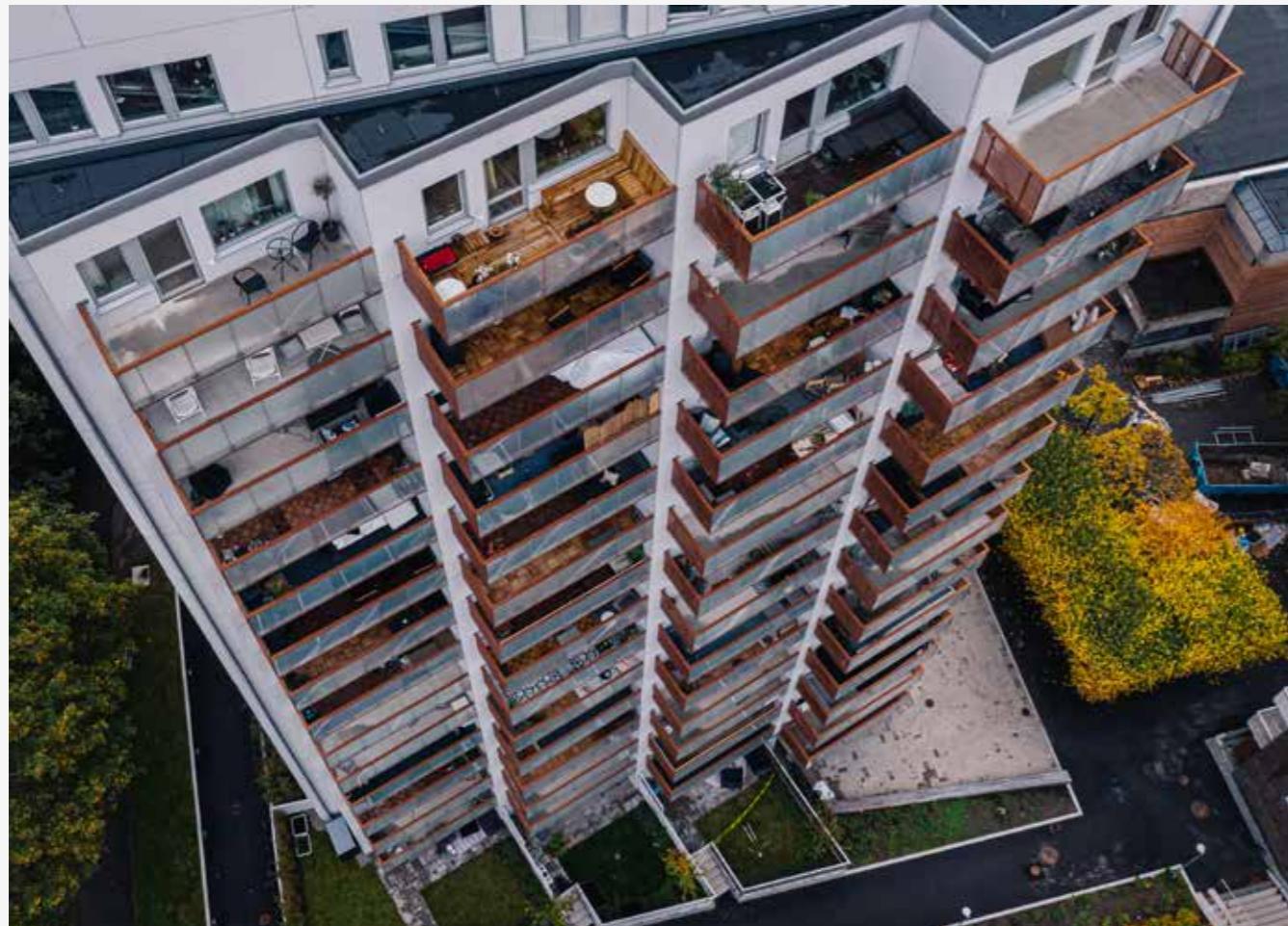
Another contract in the category of warehouse facilities was executed for Metrix Metal where Pekabex acted as a general contractor. It consisted in the construction of a production and storage facility with an office and amenity building, a security building, an internal road system, a car park and the necessary technical infrastructure. The area of the hall is almost 7.3 thousand m², the office building is another 1.2 thousand m², and paved areas – 9.7 thousand m².

For INTERMEBLE, the Group implemented, also acting as a general contractor, a contract for the construction of a high storage warehouse with administrative facilities. The area of the building itself is 14.1 thousand m², while the total built-up area covers 25.8 thousand m².

The Pekabex Group has already completed its second project as

a general contractor for Lech Fabrics. In June 2019, one month before the deadline provided for in the contract, Pekabex commissioned a production and storage hall with two staff and office facilities and external infrastructure to the investor. The area of the facility, located in Kostrzyn, is 8 thousand m² and its cubic capacity is 92.3 thousand m³; the height of the hall at the highest point is 11.94 m.





Residential buildings

Apart from the JA_SIELSKA pilot residential project, described in another part of the report, Pekabex constructed other interesting residential buildings, mainly in Sweden.



Linaberg 19 is a housing estate consisting of 12 buildings (370 apartments, 41.2 thousand m²), located in Stockholm. For the purposes of this

project, elements such as columns, beams, solid walls, Filigran slabs, balconies, stairs and double and triple-layered walls with RECKLIformliner patterns and fitted windows were made in the prefabrication plant in Gdańsk. This was the largest project implemented by the Group for the Swedish housing sector to date. In total, more than 8.5 thousand elements were used for assembly. The use of fake joints gives the whole façade harmony and makes the real connections between the prefabricated elements difficult to notice after laying silicone.

In 2019, the Group also completed the assembly of an apartment building with five staircases in the centre of Malmö, Sweden.

KAJ 306 is a project located next to the Epic office building, built by the Group in 2018. From July 2018 to the



end of April 2019, over 2.5 thousand prefabricated concrete elements were assembled, produced mainly in the Group's factory in Gdańsk. The contract with Skanska included design, production, delivery and assembly.

3.3

Structure of Pekabex S.A. revenue – operating segments

	Data in PLN thousand	from 01/01/ to 31/12/2019	from 01/01/ to 31/12/2018
Revenue from lease	10,071	9,965	
Trademark fee	4,207	4,670	
Total	14,278	14,635	

Revenue from lease in 2019 constituted 70.5% of total revenue, and in 2018 – 68.1%. Pekabex S.A. conducts all sales in Poland.

Bet S.A. was the largest supplier of Pekabex S.A.; the turnover in each of these periods exceeded 10% of the Company's costs (including projects).

The main customer of the Company in particular years was Pekabex Bet S.A., with which the turnover on account of sales revenue (mainly under the lease agreement) amounted to PLN 13,480 thousand in 2019 and PLN 13,797 thousand in 2018.

The subsidiary Pekabex Bet was the source of 94.4% of Pekabex S.A.'s revenue generated in 2019, while in 2018 this percentage was 94.3%. Both in 2019 and 2018 Pekabex

3.4

Structure of the Pekabex Group sales revenue – operating segments

The operating segment is a part of the Group engaged in business activities, in connection with which it may generate revenue and incur costs. For management purposes, the Group's operations were divided into operating segments based on the products manufactured and services provided.

As at 31 December 2019, the Group identified the following operating segments for reporting purposes:

- » Implementation of contracts – prefabrication
- » Implementation of contracts – construction services
- » Implementation of pilot projects on own account
- » Production services
- » Other

Within the Implementation of contracts – prefabrication segment, the Group recognises revenue and costs related to the design, production, delivery and assembly of prefabricated structures, generated both in Poland and abroad. The segment presents revenue and costs from contracts where the Group is a supplier of prefabricated elements (assembly included or not), as well as the part of revenue and costs related to prefabricated structures which is connected with comprehensive implementation of projects.

From the point of view of the Group's operations it is the most important segment.

Revenue generated in this segment in 2019 amounted to

PLN 405,806 thousand

and were lower by **PLN 141,068 thousand** compared to the previous year, which is a decrease of **25.8%**.

The revenue from the discussed segment is mainly related to the scale of the Group's sales of prefabricated structures on the Polish and Scandinavian markets.

Revenue from the Implementation of contracts – construction services segment includes mainly revenue from the comprehensive implementation of contracts as a contractor for a facility, with the participation of external subcontractors, excluding revenue related to prefabricated structures presented in the Implementation of contracts – prefabrication segment.

In 2019, sales revenue in the Implementation of contracts – construction services segment amounted

to PLN 312,689 thousand

i.e. by **PLN 9,687 thousand** more compared to 2018. This growth is due to an increase in the scale of implementation of contracts as a general contractor, which was possible, among others, thanks to the commencement of cooperation with a leading European warehouse space developer in 2018.

The segment Implementation of pilot projects on own account is a new segment in the Group's operations, which includes revenue from the sale of premises in its property development projects. Pekabex Development continues the implementation of a project started in 2017, consisting in the construction of 6 multi-family buildings in prefabricated technology.

In the first stage of the JA_SIELSKA project, 2 buildings (56 residential

premises) were constructed. In the second stage, 4 buildings (110 apartments) are under construction and by the date of approval for publication of this report, property development contracts have been signed for 43 residential premises and several dozen reservations.

In October 2019, Pekabex Development purchased plots of land in Józefosław for PLN 2,370 thousand in connection with the planned implementation of another pilot project consisting in the construction of 12 terraced houses. The sale of residential units under this project started after the balance sheet date; one reservation agreement was signed as of the date of approval of the report for publication.

In 2019, the Group recognised revenue in this segment for the first time (stage I of the JA_SIELSKA project). Revenue is recognised when the ownership of residential units and auxiliary premises (parking spaces, storage areas) is transferred by a notarial deed.

As at 31 December 2019, the Group disclosed a total of PLN 14,669 thousand in inventories on account of the implemented property development projects: PLN 1,093 thousand on account of the completed JA_SIELSKA I project, PLN 11,077 thousand on account of the ongoing JA_SIELSKA II project and PLN 2,499 thousand on account of the commenced Osiedle 43 (Józefosław) project. The Group also reported PLN 877 thousand on account of payments made to trust accounts of Pekabex Development in connection with the purchase of premises, including PLN 4 thousand as part of stage I and PLN 873 thousand as part of stage II of the JA_SIELSKA project.

As at 31 December 2018, the Group recognised PLN 16,134 thousand in inventories on account of the ongoing property development project (JA_SIELSKA I) and PLN 4,888 thousand in inventories on account of payments made to trust accounts.

Within the Production services segment, the Group discloses revenue and costs related to the provision of production services – both in Poland and through its German Branch. They consist in manufacturing prefabricated elements from entrusted materials, using the machinery and equipment made available by the contracting entities, in their plants.

The Group provides qualified staff, including managers, as well as know-how and expertise.

Operating segments, whose revenue did not exceed the materiality threshold, are presented in the Other segment and include the following types of activity:

- » the sale of materials
- » the lease of a plant and office space
- » accounting, human resources, administration, logistics and other services
- » re-invoicing

Revenue generated in particular segments of the Group's operations in the year ended 31 December 2019 and in the comparable period of 2018 is presented in the table below:

PLN thousand	Implementation of contracts – prefabrication	Implementation of contracts – construction services	Production services Implementation of pilot projects	Other	Total
for the period from 01/01 to 31/12/2019					
Revenue from external customers	405,806	312,689	34,556	15,354	3,642
Segment operating result	46,825	20,786	4,757	975	731
Segment operating profitability*	11.5%	6.6%	13.8%	6.3%	20.1%
for the period from 01/01 to 31/12/2018					
Revenue from external customers	546,873	303,002	31,583	-	4,885
Segment operating result	96,560	4,315	5,567	-	1,349
Segment operating profitability*	17.7%	1.4%	17.6%	-	27.6%

* Calculated by dividing the segment's operating result by the segment's sales revenue.

3.5

Basic economic and financial data for the Pekabex Group

PLN thousand	from 01/01/ to 31/12/2019	from 01/01/ to 31/12/2018	from 01/01/ to 31/12/2017	change in value compared to 2018	% change compared to 2018	change in value compared to 2017	% change compared to 2017
--------------	---------------------------	---------------------------	---------------------------	----------------------------------	---------------------------	----------------------------------	---------------------------

Result statement							
Revenue from sales	772,047	886,344	623,334	-114,297	-12.90%	148,713	23.86%
Cost of goods sold	652,739	722,145	507,641	-69,406	-9.61%	145,098	28.58%
Operating profit	39,396	67,473	34,972	-28,077	-41.61%	4,442	12.65%
Profit before tax	38,001	64,072	32,310	-26,071	-40.69%	5,691	17.61%
Net profit	30,496	51,209	25,836	-20,713	-40.45%	4,660	18.04%

Net revenue from sales in 2019 amounted to PLN 772,047 thousand and was lower by PLN 114,297 thousand, i.e. by 12.90%, than the revenue generated in 2018, and at the same time higher by PLN 148,713 thousand, i.e. by 23.86%, as compared to 2017. At the same time, the cost of goods sold decreased by PLN 69,406 thousand, which is a 9.61% decrease compared to 2018.

As at the end of 2019, overhead costs amounted to PLN 32,252 thousand and were very similar to those of the previous year (PLN 32,537 thousand).

At the end of 2019, the cost of sales amounted to PLN 46,538 thousand,

which means a decrease by 20.84% compared to 2018. This change is a result of a decrease in sales, which is connected with lower costs of e.g. transport. Operating profit in 2019 amounted to PLN 39,396 thousand, which in comparison with the profit achieved in 2017 (PLN 34,972 thousand) means an increase by 12.65%, and in comparison with the profit in 2018 – a decrease by 41.61% (PLN 67,473 thousand). The EBITDA result was similar, which amounted to PLN 55,449 thousand and was 32.30% lower than that achieved in 2018 (PLN 81,903 thousand). Net profit margin was 3.95% and was lower than in 2018, when it reached 5.78%, but

higher than in 2017, when it reached 4.14%.

A noticeable decrease in revenue and the generated profit is caused by the specific nature of contracts implemented in 2018. In the first quarter of the aforementioned year, the Group implemented large and high-margin contracts in the prefabrication segment, which are not standard in winter. Lack of similar contracts in the first quarter of 2019, combined with a decrease in investments in the market, especially in the first half of 2019, resulted in a lower profit generated by the Group.

PLN thousand	from 01/01/ to 31/12/2019	from 01/01/ to 31/12/2018	from 01/01/ to 31/12/2017	change in value compared to 2018	% change compared to 2018	change in value compared to 2017	% change compared to 2017
Result statement							
Assets	753,893	643,081	479,720	110,812	17.23%	274,173	57.15%
Current assets	415,709	383,491	235,539	32,218	8.40%	180,170	76.49%
Cash	106,572	95,234	15,719	11,338	11.91%	90,853	577.98%
Fixed assets	338,184	259,590	244,181	78,594	30.28%	94,003	38.50%
Long-term liabilities	135,216	83,155	77,753	52,061	62.61%	57,463	73.90%
Short-term liabilities	309,406	274,567	164,397	34,839	12.69%	145,009	88.21%
Equity	309,270	285,359	237,570	23,911	8.38%	71,700	30.18%

As at 31 December 2019, the Group's assets amounted to PLN 753,893 thousand and were higher by PLN 110,812 thousand than as at 31 December 2018. Fixed assets as at 31 December 2019 were higher by PLN 78,594 thousand compared to the balance as at 31 December 2018. This is related to significant investments made by the Group in 2019, including the construction of a new production plant in Gdańsk, which is described later in the report.

Current assets as at 31 December 2019 were higher by PLN 32,218 thousand compared to the balance as at 31 December 2018 and amounted to PLN 415,709 thousand. The increase is mainly due to:

- » an increase in receivables – trade receivables, construction contracts and other receivables, including current income tax receivables, as at 31 December 2019 were higher by PLN 19,434 thousand compared to the balance as at 31 December 2018 and amounted to PLN 242,488 thousand. The increase in receivables was due to the increased valuation, namely higher contract – related costs incurred at the end of 2019;
- » higher balance of cash – as at the end of 2019, the Group had PLN 106,572 thousand on its accounts,

which was PLN 11,338 thousand more than at the end of 2018. At the end of the year, cash represented over 14.1% of the balance sheet total. The increase in cash was directly influenced by the level of generated profit and cash flows from operating activities.

There was no significant change in the value of inventories and both at the end of 2019 and at the end of 2018 it was around PLN 60,000 thousand.

The Group's equity accounted for 41.0% of the balance sheet total and amounted to PLN 309,270 thousand, which was a nominal increase of PLN 23,918 thousand compared to the end of 2018. In June 2019, the General Meeting of Pekabex S.A. adopted a resolution on the payment of the dividend and in July 2019, PLN 7,620 thousand was paid to the shareholders from the net profit generated in 2018.

Long-term liabilities as at 31 December 2019 were higher by PLN 52,061 thousand compared to the balance as at 31 December 2018 and amounted to PLN 135,216 thousand.

The change is mainly due to an increase in liabilities in connection with credit facilities taken out for the Group's investments, including a new

plant in Gdańsk (as at the end of December 2019, the long-term financial liability on this account was PLN 42,738 thousand), a new production hall in Mszczonów and other investments described in this report.

Short-term liabilities as at 31 December 2019 were higher by PLN 34,839 thousand compared to the balance as at 31 December 2018 and amounted to PLN 309,406 thousand, which constituted an increase by 12.69%. This increase is mainly due to an increase in trade payables, confirming the correlation in terms of increased valuations.

As at the end of 2019, net debt amounted to PLN 29,965 thousand and increased by PLN 34,228 thousand compared to 2018, when it was negative (PLN – 4,263 thousand). This is a consequence of the increase in interest debt related to the Group's investments.

The Group implements its investment policy in order to increase the efficiency of production and production capacity, further increase the quality parameters of manufactured elements and improve safety and working conditions.

The basic financial ratios for the Pekabex Group are as follows:

	2019	2018	2017	% change compared to 2018	change in PLN thousand	% change compared to 2017	change in PLN thousand
EBIT [in PLN thousand] (operating profit/loss)	39,396	67,473	34,972	-41.61%	-28,077	12.65%	4,424
EBIDA [in PLN thousand] (operating profit / loss plus depreciation)	55,449	81,903	47,908	-32.30%	-26,452	15.74%	7,541
Profitability ratios							
Return on assets (net profit/loss / total assets)	4.05%	7.96%	5.39%				
Return on equity (net profit/loss / equity at the end of the period)	9.86%	17.95%	10.88%				
Net profit margin (net profit/loss / revenue from sales of products and goods)	3.95%	5.78%	4.14%				
Liquidity ratios							
Liquidity ratio I (total current assets / short-term liabilities)	1.34	1.40	1.43				
Long-term liquidity (total assets / short-term and long-term liabilities)	1.70	1.80	1.98				
Other important:							
Net debt (total financial liabilities – cash and cash equivalents)	29,965	-4,263	46,531				
EBIDTA LTM (EBITDA for the last 12 months)	55,449	81,903	47,908				
Net debt to EBIDTA LTM ratio (net debt / EBIDTA LTM)	0.54	-0.05	0.97				
Financial ratio (equity at end of period / total assets)	0.41	0.44	0.5				

3.6

Basic economic and financial data for Pekabex S.A.

	from 01/01/ to 31/12/2019	from 01/01/ to 31/12/2018	from 01/01/ to 31/12/2017	change in value compared to 2018	% change compared to 2018	change in value compared to 2017	% change compared to 2017
Result statement							
Sales revenue	14,278	14,635	14,037	-357	-2.44%	241	1.72%
Gross profit on sales	10,068	10,329	9,001	-261	-2.52%	1,067	11.86%
Overhead costs	3,340	2,979	2,722	361	12.13%	618	22.72%
Other operating income	1,473	922	1,343	551	59.81%	130	9.71%
Other operating costs	461	123	527	338	274.46%	-66	-12.60%
Operating profit	7,741	8,148	7,095	-407	-5.00%	646	9.10%
Financial revenues	2,560	5,943	1,877	-3,383	-56.93%	683	36.38%
Financial costs	904	508	51	396	77.98%	853	1672.85%
Profit before tax	9,397	13,584	8,920	-4,187	-30.83%	477	5.34%
Net profit	7,320	11,660	7,221	-4,340	-37.22%	99	1.37%
Statement of financial position							
Assets	191,243	185,940	154,968	5,303	2.85%	36,275	23.41%
Current assets	46,410	22,771	12,920	23,639	103.81%	33,490	259.21%
Fixed assets	144,833	163,169	142,048	-18,336	-11.24%	2,785	1.96%
Long-term liabilities	35,153	30,980	9,721	4,173	13.47%	25,432	261.62%
Short-term liabilities	5,673	4,422	5,236	1,251	28.29%	437	8.35%
Equity	105,417	150,538	140,011	-121	-0.08%	10,406	7.43%

In 2019, net revenue from sales amounted to PLN 14,278 thousand, so it was comparable to that generated in the previous year (PLN 14,635 thousand) and in 2017. Gross profit on sales amounted to PLN 10,068 thousand and there were no significant changes compared to the profit generated in 2018 (PLN 10,329 thousand).

Overhead costs amounted to PLN 3,340 thousand and were higher by PLN 361 thousand, i.e. by 12.13%, compared to the previous year.

Operating profit in 2019 amounted to PLN 7,741 thousand and decreased by 5.00% compared to the profit achieved in 2018 (PLN 8,148 thousand). Financial revenue decreased by PLN 3,383 thousand due to a lower dividend received in 2019 (in 2018 the dividend from Pekabex Pref S.A. was PLN 3,487 thousand).

As at 31 December 2019, the Company's assets amounted to PLN 191,243 thousand and were 2.85% higher than as at 31 December 2018.

As at 31 December 2019, fixed assets were lower by PLN 18,336 thousand than a year earlier, which results from the recognition of financial assets (bonds of related companies that mature in 2020) in the amount of PLN 21,775 thousand in the short-term part.

Current assets as at 31 December 2019 were higher by PLN 23,639 thousand compared to the balance as at 31 December 2018. The increase resulted mainly from an increase in cash and cash equivalents, which as at 31 December 2019 reached PLN 15,273 thousand, by PLN 6,418 thousand higher than at the end of 2018, and from the transfer of financial assets from fixed assets to current assets.

Equity accounted for 78.65% of the balance sheet total and amounted to PLN 150,417 thousand, which means a nominal decrease of PLN 121 thousand (as a result of dividend payment).

Long-term and short-term liabilities increased slightly; this is mainly due to the increase in financial liabilities. The Company took out an investment loan for the construction of a logistics hall for lease, which is described in another part of this report. As at 31 December 2019, the liability on this account amounted to PLN 4,445 thousand.

Basic financial ratios for Pekabex S.A.:

	2019	2018	2017	% change compared to 2018	change in PLN thousand	% change compared to 2017	change in PLN thousand
EBIT [in PLN thousand] (operating profit/loss)	7,741	8,148	7,095	5%	407	9%	646
EBIDTA [in PLN thousand] (profit/loss plus depreciation)	10,114	11,248	10,100	-10%	-1,134	0%	14
Profitability ratios							
Return on assets (net profit/loss / total assets)	4.05%	6.27%	4.66%				
Return on equity (net profit/loss / equity at the end of the period)	5.15%	7.75%	5.16%				
Net profit margin (net profit/loss / revenue from sales of products and goods)	54.22%	79.67%	51.44%				
Liquidity ratios							
Liquidity ratio I (total current assets / short-term liabilities)	8.18	5.15	2.47				
Long-term liquidity (total assets / short-term and long-term liabilities)	4.68	5.25	10.36				



The Group's operations in 2019 were influenced by, among others, investments increasing the value of tangible fixed assets and ongoing property development projects. These factors will also be relevant for the following year.

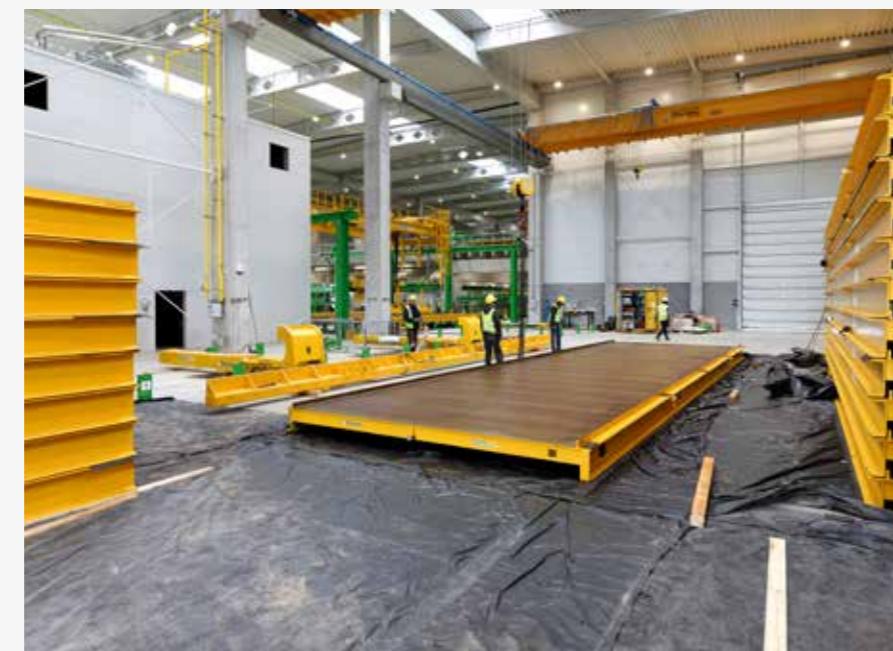
Construction of a new production plant in Gdańsk

In January 2018, Kokoszki Prefabrykacja obtained a permit to conduct business activity in the Pomeranian Special Economic Zone. It was amended by the decision of 27 May 2019, which extended the deadline for meeting the permit conditions by 6 months, i.e. until 30 June 2020. In connection with the investment in the Zone, the Company will be entitled to tax exemption. In order to take advantage of the exemption, on the basis of the permit and the amending decision, the Company must make capital expenditure in the Zone in excess of PLN 29,800 thousand by 30 June 2020, and employ at least 15 new employees by 30 June 2020, and maintain their employment at least until 30 June 2025. The maximum amount of investment costs eligible for public aid in the form of tax exemption is PLN 38,700 thousand.

In 2018, the Company entered into an agreement with Gdańsk Agencja Rozwoju Gospodarczego sp. z o.o. for the transfer of the ownership of land property with an area of 24,549 m², located in the Pomeranian Special Economic Zone. The Company purchased the property for PLN 5,892 thousand net.

The next step in the implementation of the investment, coterminous with obtaining the documents required to commence construction, was the purchase of a modern processing line.

In 2018, Kokoszki Prefabrykacja S.A. signed a contract for the supply and assembly of an innovative processing line for the production of prefabricated concrete elements with EBAWE Anlagentechnik GmbH with its registered office in Eilenburg, Germany.



The value of the contract including delivery was EUR 7,151 thousand.

On 18 April 2019, Kokoszki Prefabrykacja signed a contract for the supply and assembly of a concrete batching plant for the production of concrete used in the manufacture of prefabricated elements with Le Officine Riunite – Udine S.p.A., with its registered office in Basaldella di Campoformido, Italy. The value of the contract was EUR 1,075 thousand.

The construction of the plant (completed internally by the Pekabex Group) and the purchase of modern technologies was financed mainly with an investment loan. On 14 March 2019, Kokoszki Prefabrykacja signed with BNP Paribas Bank (i) a letter of credit line agreement, (ii) a non-revolving credit agreement, (iii) a multi-purpose credit line agreement, and (iv) a framework agreement on FX and derivative transactions. The letter of credit line agreement sets the maximum amount of the credit limit at EUR 4,700 thousand, the non-revolving credit agreement sets its amount at PLN 45,300 thousand, and the credit term at 120 months.

The funds from the multi-purpose credit line in the amount of PLN 7,000

thousand are to a large extent allocated to working capital, necessary for the new plant.

By Annex of 24 March 2020, the value of the investment loan granted to the Company was increased to PLN 61,400 thousand.

Test production was launched in December 2019. On 22 January 2020, an occupancy permit for the newly built plant was issued, and the official opening took place on 30 January.

The factory is one of the most modern facilities of its kind in Europe. It will be used for fully automated production of Filigran floor slabs and walls made of double Filigran. The target production capacity is about 500 thousand m² per year. The elements produced in the new plant will be used for housing construction in Poland, but can also be exported, especially to Scandinavian countries. The purchase of the processing line is Pekabex's response and strategy to the problems with access to labour, which are noticeable in the construction and manufacturing sector, and the growing cost of employment.

Thanks to the construction of the plant, the Group will extend its portfolio with an additional product, namely Filigran

slabs and walls made of double Filigran, and will also become independent from suppliers, in particular with regard to contracts implemented in Scandinavia.

The value of the investments disclosed in the books under tangible fixed assets under construction amounted to PLN 64,966 thousand as at 31 December 2019 (excluding the value of the plot).

Construction of hall No. 4 in Mszczonów

In the fourth quarter of 2018, the Group started to expand its production plant in Mszczonów, consisting in the construction of a new hall for the production of reinforced elements: walls, columns, beams. The built-up area is 11,700 m², including the hall itself with 6,900 m² and the finished product warehouse with 4,800 m².

The construction is financed by BNP Paribas Bank, with which Pekabex Inwestycje II entered into a non-revolving credit agreement as of 5 April 2019.

The amount of the credit granted is PLN 10,000 thousand, while the credit term was set at 84 months from signing the agreement.

The Group will start production in the new hall in 2020. The value of tangible fixed assets under construction recognised in the books as at 31

December 2019 amounted to PLN 8,689 thousand.

JA_SIELSKA in Poznań

The project has been run by Pekabex Development since 2017. In the first stage it constructed 2 buildings, 56 apartments in total. The construction took about 9 months and the assembly took 9 weeks. Each floor was built within 8 working days: it took 4 days to assemble the prefabricated elements, the remaining 4 days were needed to wire the electrical system and reinforce and fill the joints between the elements.

As at the date of publication of this report Pekabex Development has completed the sale of all apartments in these buildings. Revenue from this stage and related costs are recognised after the transfer of ownership of apartments by notarial deeds. The majority of the revenue was recognised in the second half of 2019.

On 29 August 2019, the Company received a building permit for the second stage of the project. It will include 4 residential buildings with 108 apartments. In March 2019, the Company started making reservations and selling for this stage. As at the date of publication of this report, approx. 70% of residential units are already occupied, i.e. a property development

contract has been signed or a unit reserved.

The construction of the second stage is also financed by BNP Paribas Bank, with which Pekabex Development signed on 16 May 2019 an annex to the credit facility agreement, under which it was granted the second credit tranche of PLN 24,000 thousand for the period until 31 July 2022.

The success of the project will greatly facilitate the promotion of prefabricated technology applications in residential construction. This applies both to projects in which the Group would act as an investor and to cooperation with developers, where it would be the contractor for the prefabricated structure. The Group intends to take advantage of its experience gained in the Scandinavian market and increase the scale of its operations by offering a technology which is rarely used in Poland, but very promising, especially in the context of rising labour costs. Short construction times are particularly important to customers.



Terraced houses Osiedlowa 43

On 29 October 2019, Pekabex Development purchased plots of land in Józefosław for PLN 2,370 thousand in connection with the planned implementation of another pilot project consisting in the construction of 12 terraced houses.

On 16 December 2019, a building permit was issued. The company plans to complete the project in 2020.

The project provides a number of eco-friendly and modern solutions, such as:

- » photovoltaics
- » passive protection against overheating
- » wall-mounted (gas) heating
- » master switch and smart home
- » ventilation with heat recuperation and class F9 filters

In addition, all partitions of the planned buildings will meet the stricter insulation requirements (WT 2021) –

their parameters will be similar to those of passive buildings.

The project will be financed mainly by means of an investment loan;

On 26 February 2020, Pekabex Development S.A. signed a relevant agreement with PKO Bank Polski S.A. The loan, in the amount of PLN 6,440 thousand, should be repaid by 31 December 2021.

Development hall in Poznań

In 2019, the Company completed the first stage of construction of a development hall, which is a modern logistics, production and office space. The hall was built on the land owned by the Group, in the vicinity of the main communication routes in Poznań, on a plot which was previously leased to a third party. The second stage, which started already after the balance sheet date, consists in adjusting the hall to the lessee's requirements; the Company has commercialised half

of the facility (the lease agreement was signed in January 2020) and is conducting activities aimed at leasing the remaining part of the facility.

The Company also does not exclude selling the hall to a third-party buyer.

The estimated value of the project (including the plot) after completion of all works is about PLN 11,000 thousand. The project is divided into 2 modules, with the possibility of further division or merging of space, and flexible one or two-storey office modules, with the possibility of space arrangement. Thanks to the use of the prefabricated structure, the space of the building was optimised and high parameters of fire resistance and resistance to external factors were achieved.

On 26 March 2020, an occupancy permit for the rented part of the hall was issued.

**3.7**

Financial resources management

Liquidity risk

The Pekabex Group has significant financial resources, which it manages with four main objectives in mind:

- » securing short- and medium-term cash flows
- » stabilising fluctuations in the financial result
- » implementing financial projections by meeting budgetary targets
- » achieving the assumed rate of return on long-term investments together with obtaining optimal sources of financing for investment activities

In order to ensure an adequate level of working capital, the Group uses multi-purpose credit and guarantee lines, described in detail in the note to the consolidated financial statements.

The Group's short-term cash surplus is invested in deposits with banks of a high rating. In addition, the Group companies use it to finance their service and material suppliers. This has a positive impact on the Group's result (due to the use of a discount mechanism), as well as on the financial liquidity of suppliers.

The Group monitors financial risks on an ongoing basis and takes steps to minimise their impact on its situation. Understanding threats originating from exposure to financial risks, the appropriate organisational structure and procedures allow for better performance of tasks.

The Group does not enter into any transactions on the financial markets

for speculative purposes. Transactions constitute hedging against specific risks.

In 2018, the Group implemented hedge accounting which ensures symmetrical recognition of changes in the value of the hedging instrument and the hedged item in the accounting books and financial statements. In this way, the two figures offset each other, thus eliminating the impact of the hedged risk on the financial result.

Foreign exchange risk

With respect to currency risk management, the following objectives are of paramount importance:

- » hedging short- and medium-term currency cash flows
- » stabilising fluctuations in the financial result of the Group and its subsidiaries
- » implementing financial projections by meeting budgetary targets
- » achieving the assumed rate of return on long-term investments together with obtaining optimal sources of financing for investment activities

The Group uses available financial instruments to hedge against currency risk.

The Group monitors its currency exposure on an ongoing basis and appropriately manages the level of its hedging by:

- » regularly analysing its current and expected volume and dates of its occurrence (in particular: monitoring changes in payment schedules for construction projects, monitoring the level and dates of occurrence of currency costs of current business activity)
- » responding to changes in the above elements, in particular by using appropriate hedging financial instruments (forward exchange contracts)
- » regularly analysing current levels of market parameters (in particular, the level and volatility of relevant exchange rates)

Interest rate risk

With respect to interest rate risk management, the following

objectives are of paramount importance:

- » stabilising debt service costs
- » implementing financial projections by meeting budgetary targets

The Group does not enter into any speculative interest rate transactions on financial markets. The Group uses available financial instruments to hedge against interest rate risk.

Using appropriate financial instruments, the Group hedges up to 100% of its interest rate risk exposure resulting from its bank loans. Depending on market conditions, less than 100% of the exposure may be secured, and under extremely favourable market conditions, the exposure may remain unsecured until they change to unfavourable.

In 2019, the Group entered into two new agreements protecting it against interest rate risk.

On 11 July 2019, Kokoszki Prefabrykacja and BNP Paribas Bank Polska S.A. entered into an interest rate swap transaction (Interest Rate Swap, IRS). The subject-matter of the transaction was to change the variable interest rate of the non-revolving loan granted, WIBOR 3M, into a fixed interest rate of 1.98%. The fixed interest rate will apply from 7 September 2020 to 14 March 2029. The transaction was concluded for the entire amount to be repaid and the entire loan term as at 7 September 2020, i.e. PLN 44,860 thousand.

After the balance sheet date, an annex increasing the amount of the granted loan was signed.

On 16 August 2019, the Issuer concluded an IRS transaction with DNB Bank Polska S.A. consisting in securing a fixed interest rate for series A bonds issued by the Company in 2018. The subject-matter of the transaction is the change of the variable interest rate WIBOR 6M into a fixed interest rate of 1.57%. The fixed interest rate will apply

from 23 December 2019 to 22 June 2022. The transaction was concluded for the entire value of series A bonds issue, i.e. for PLN 20,000 thousand.

The Group monitors its exposure to interest rate risk on an ongoing basis and appropriately manages the level of its hedging by:

- » analysing the current unsecured balance of credits and repayment dates
- » analysing current levels of market parameters (in particular the level and volatility of relevant interest rates and IRS contract prices)
- » making decisions on hedging or not hedging interest rate risk, and in the case of a decision to hedge, also on the level of hedging, on the basis of the above analyses

Credit risk

The Group's maximum exposure to credit risk is determined mainly by the carrying value of financial assets such as loans, trade receivables, other financial receivables and derivative financial instruments.

The Group limits its exposure to credit risk related to trade receivables by assessing the credibility of its contractors and monitoring their financial standing, the use of collateral for receivables and the internal system of procedures and reporting.

The Group monitors the payment arrears of customers and creditors on an ongoing basis by analysing credit risk individually or within particular asset classes, determined on the basis of that risk (resulting from e.g. industry, region or customer structure).

Trade credit is mainly granted to reliable contractors, and the sale of products to new customers is in most cases made with the use of additional collateral: advances, bills of exchange, prepayments, bank guarantees and corporate guarantees. Moreover, most contractors with trade credit have a reservation of title

to prefabricated elements supplied by the time of payment of the amount due in their agreements. Additionally, in order to secure receivables from construction services, the Group uses the right granted to it by Article 6471 §5 of the Civil Code. Under this article, the party entering into an agreement with a subcontractor, the investor and the contractor are jointly and severally liable for the payment of remuneration for the construction work performed by the subcontractor. In addition, the Group tries to enter into agreements with reliable contractors. In the opinion of the Company's Management Board, financial assets that are not overdue and covered by an impairment write-off as at the respective balance sheet dates can be considered as good credit quality assets.

With respect to trade receivables, the Group is exposed to moderate credit risk related to a single significant contractor or a group of contractors with similar characteristics.

Outstanding receivables not covered by a write-off have not exhibited any significant deterioration in quality -most of them are in the range of up to one month and there is no concern about their collectability.

The credit risk of cash and cash equivalents, market securities and derivative financial instruments is considered insignificant due to the high reliability of entities that are parties to transactions, which primarily include banks and entities known to the Company.

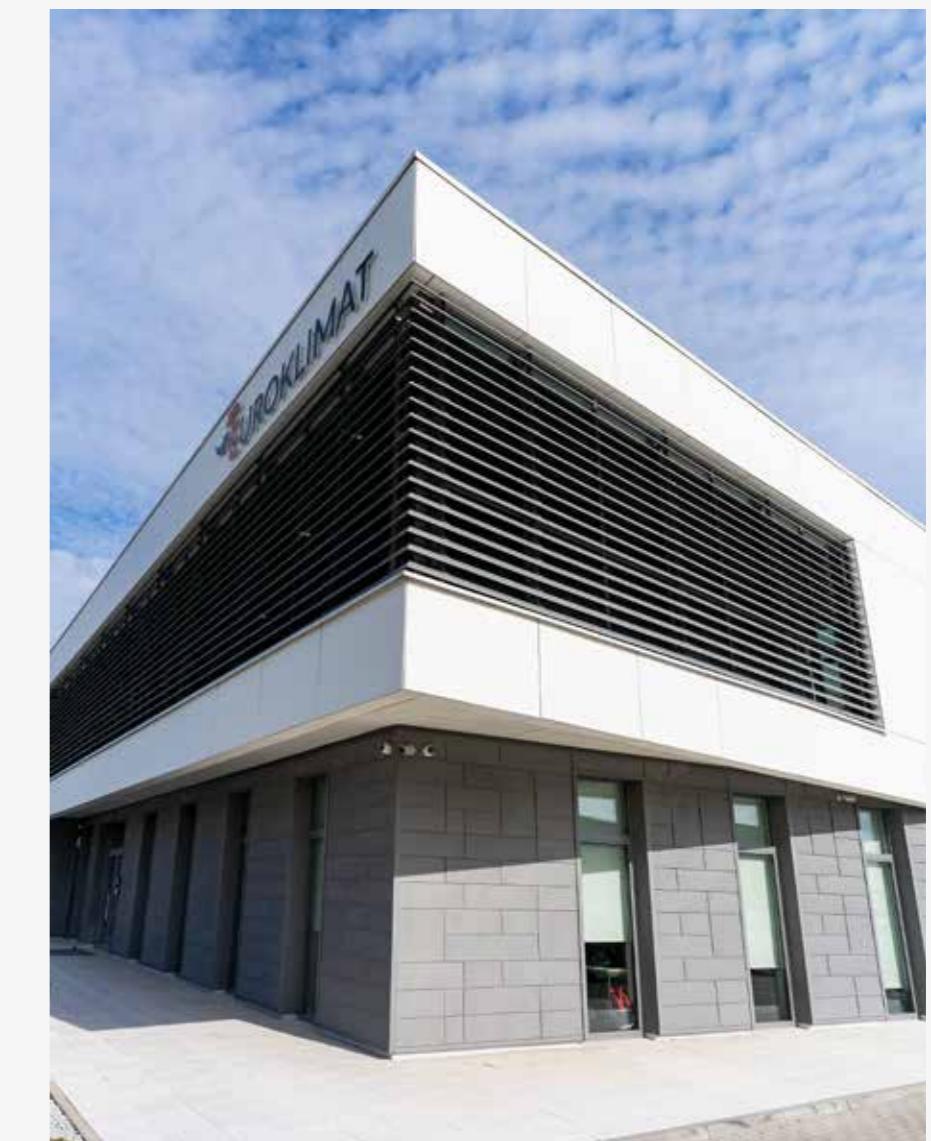
3.8

Differences between financial results and financial forecasts

Forecasts were not published.

3.9

Structure of main capital deposits and capital investments



Pekabex generates positive cash flows mainly due to the implementation of profitable contracts. The Group invests its financial surplus in overnight deposits and fixed-term deposits on a short-term basis, which ultimately constitute its own contribution to the investments made.

In 2019, the Issuer and its subsidiaries did not make any capital investments in entities outside the Group. The transaction, which took place within the Pekabex Group, concerned an increase in the share capital of Pekabex Development.

On 16 December 2019, the General Meeting of Pekabex Development sp. z o.o. increased the share capital of

3.10

Credit facilities and loans taken and terminated

In 2019, the following changes in the Group's credit facility agreements took place:

Annex to the credit limit agreement (DNB Bank Polska S.A.)

On 29 January 2019, Pekabex Bet signed with DNB Bank Polska annex No. 31 to the agreement of 29 September 2008 on the credit limit for documentary letters of credit, bank guarantees and an overdraft facility. The annex increased the credit limit to the maximum amount of PLN 120,000 thousand and extended the period of use of the credit line to 30 November 2020 and the date of final repayment to 29 November 2030.

Credit facility agreements of Kokoszki Prefabrykacja S.A. (BNP Paribas Bank Polska S.A.)

On 14 March 2019, Kokoszki Prefabrykacja signed with BNP Paribas Bank: (i) a letter of credit line agreement, (ii) a non-revolving credit agreement, (iii) a multi-purpose credit line agreement, and (iv) a framework agreement on FX and derivative transactions. The letter of credit line agreement sets the maximum amount of the credit limit at EUR 4,700 thousand, and the credit term until September 2020. The non-revolving credit agreement sets the credit amount at PLN 45,300 thousand, and the credit term at 120 months. The multi-purpose credit line agreement sets the limit amount at PLN 7,000 thousand, and the credit term at 120 months.

The framework agreement was concluded for an unspecified period of time and the transaction limit set for it for interest rate transactions is PLN 2,333 thousand.

The purpose of entering into the non-revolving credit agreement and the letter of credit line agreement was to finance and refinance the costs of construction of a new prefabrication plant in the Pomeranian Special Economic Zone in Gdańsk. The purpose of entering into the multi-purpose credit line agreement is to finance the operating activity conducted in the aforementioned investment.

Non-revolving credit agreement of Pekabex Investment II S.A. (BNP Paribas Bank Polska S.A.) Annex to the multi-purpose credit line agreement and the framework agreement of Pekabex Bet S.A. (BNP Paribas Bank Polska S.A.)

On 30 September 2019, the Issuer signed an investment loan agreement with PKO BP bank for the amount of PLN 8,131 thousand. The purpose of entering into the agreement is to refinance and finance the costs of construction of a production and storage hall with a staff and office part in Poznań ul. Szarych Szeregów.

Annex to the credit limit agreement of Pekabex Bet S.A. (PKO BP S.A.) Annex to the investment loan agreement of KokoszkiPrefabrykacjaS.A. (PKO BP S.A.)

On 28 October 2019, Pekabex Bet signed with PKO BP annex No. 1 to the multi-purpose credit limit agreement dated 6 March 2017, under which the bank increased the multi-purpose credit limit granted to the company to PLN 60,000 thousand.

As a consequence of the annex, the Issuer's subsidiary, KokoszkiPrefabrykacja, establishing common collaterals, concluded with the bank an annex to the investment loan agreement dated 6 March 2017 under which it increased the contractual collaterals.

Annex to the non-revolving credit agreement of Pekabex Development sp. z o.o. (BNP Paribas Bank Polska S.A.)

On 16 May 2019, Pekabex Development concluded with BNP

Paribas an annex to the non-revolving credit agreement dated 19 April 2018.

The conclusion of the annex is related to the implementation of the second stage of the construction project consisting in the construction of 4 blocks of flats on the property in Poznań ul. Jaselska 9. Under the annex, the bank made available to the company the second tranche of the credit in the amount of PLN 24,000 thousand for the period until 31 July 2022. The credit will be disbursed in tranches, depending on the progress of work.

Investment loan agreement of Pekabex S.A. (PKO BP S.A.)

On 26 February 2020, Pekabex Development signed an investment loan agreement with PKO BP in the amount of PLN 6,440 thousand to refinance and finance the net costs of the construction of 12 terraced housing units in Józefosławat ul. Osiedlowa.

Investment loan agreement of Pekabex Development S.A. (PKO BP S.A.)

On 24 March 2020, Kokoszki Prefabrykacja signed with BNP Paribas Bank annexes to (i) the non-revolving credit agreement, (ii) the multi-purpose credit line agreement, and (iii) the framework agreement on FX and derivative transactions. The annex to the non-revolving credit agreement increases the credit amount to PLN 61,400 thousand. Due to the common collateral, annexes to the multi-purpose credit line agreement and the framework agreement were also concluded. The purpose of concluding the annex to the non-revolving credit agreement is mainly to refinance

to the multi-purpose credit line agreement dated 26 March 2013, extending the current period of making the credit available until 30 November 2021.

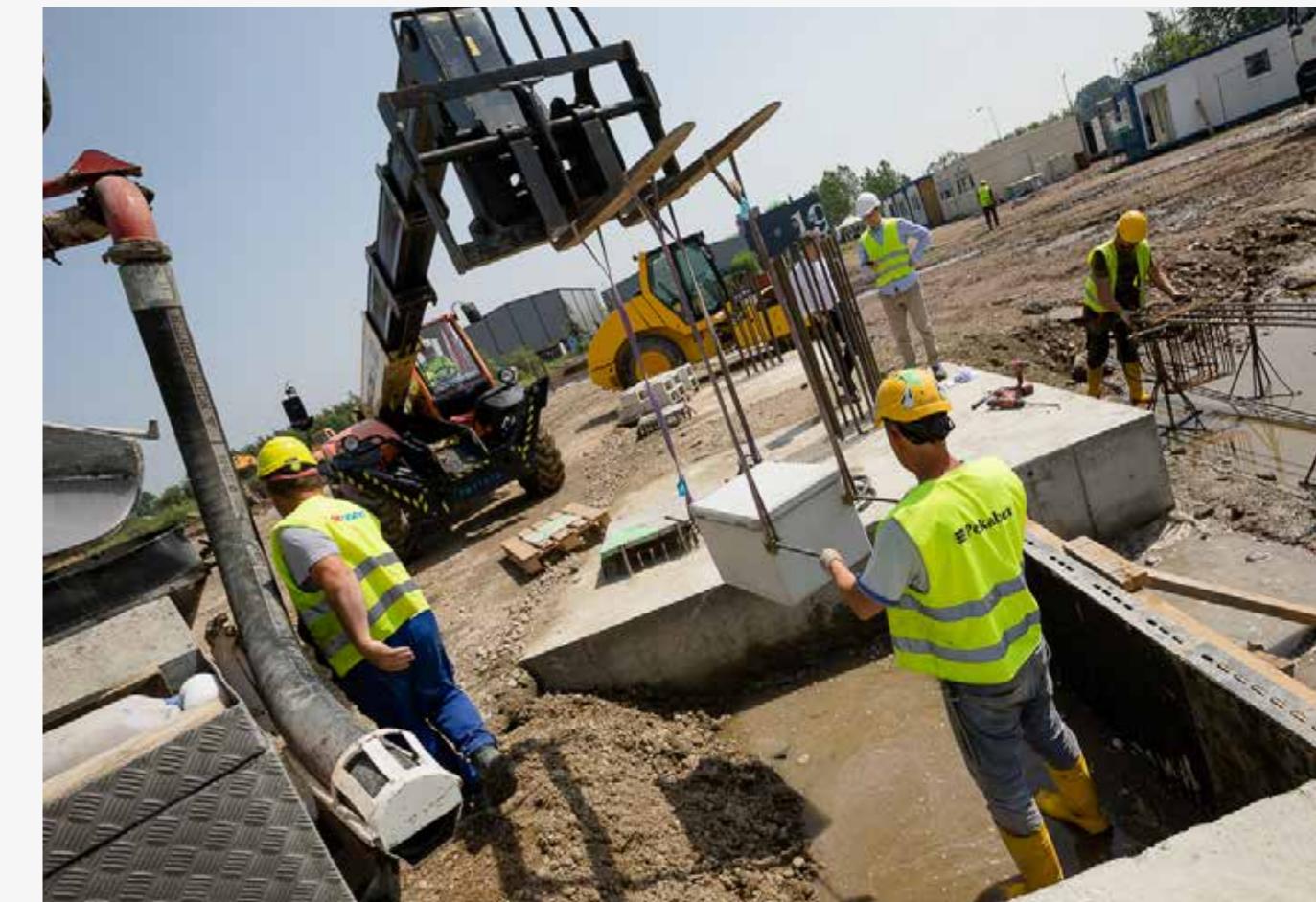
Annexes to the credit facility agreements of Kokoszki Prefabrykacja S.A. (BNP Paribas Bank Polska S.A.)

On 23 March 2020, Pekabex Bet signed with BNP Paribas an annex

the incurred increased costs of construction of the Group's new plant in Gdańsk.

In connection with the signing of the above-mentioned agreements and annexes, new collaterals and changes to the existing ones were established. More details on this subject can be found in the notes to the consolidated financial statements.

In 2019, the Group did not take out a loan and a loan agreement was not terminated with respect to the Group. In the presented period, the provisions of credit facility agreements were not violated.



3.11

Loans granted

In 2019 and 2018, the Pekabex Group companies did not grant loans to related parties outside the Group. Loans granted within the Group are described in the individual financial statements.

3.12

Significant transactions with related parties under conditions other than market conditions

In 2019, neither the Parent Company nor its subsidiaries concluded any significant transactions with related parties under conditions other than market conditions.

Revenue and costs incurred by the Company and the Group in

transactions with related parties in 2019 and the balance of liabilities and receivables to related parties as at 31 December 2019 were presented in supplementary information to the individual and consolidated financial statements, respectively.

3.13

Agreements providing for compensation for members of the management bodies in the event of their resignation or dismissal

No such agreements were in force in 2019.



3.14

The value of sureties and guarantees (in PLN thousand) as at 31 December 2019 was as follows:

Sureties and guarantees granted and received

	31/12/2019	31/12/2018
To other entities:		
Surety for repayment of liabilities	1,471	971
Guarantees granted	-	-
Guarantees granted to construction contracts	157,478	131,496
Disputes and litigation	-	-
Disputes and litigation with the Tax Office	-	-
Other contingent liabilities	-	-
Total contingent liabilities	158,949	132,467

Sureties for repayment of liabilities, securing trade liabilities, are granted only to companies belonging to the Group.

The values of guarantees granted for construction contracts are the sum of guarantees issued to contractors to secure the proper performance of contracts and the costs of removing defects and faults resulting from the

construction contracts. None of the guarantees granted exceeds the materiality threshold set at 10% of the Group's equity.

As at 31 December 2019, the total value of bank and insurance guarantees received by the Group for contracts with subcontractors was PLN 9,760 thousand.

As at 31 December 2018, it was PLN 6,843 thousand.

In addition, the Group companies issued promissory notes as security for lease liabilities, whose balance sheet value as at 31 December 2019 was PLN 16,461 thousand.

The credit sureties granted, effective as at 31 December 2019, are presented below:

Entity for which the surety was granted	Total amount of credit guaranteed	Subject-matter of the contract	Value of the liability as at 31/12/2019	Contract validity date	Collateral expiry date	Entity for which the surety was granted	Guarantors:	Surety value
DNB Bank Polska S.A.	120,000	Multi-purpose credit line to be used on:	Sublimit on guarantees up to the amount of PLN 120,000 thousand	30/11/2020	29/11/2031	Pekabex Bet	Pekabex Pref Centrum Nowoczesnej Prefabrykacji	180,000
		» guarantees up to the amount of PLN 61,053 thousand*	Overdraft – PLN 0					
		» letter of credit line up to the amount of PLN 25,000 thousand	Revolving credits – PLN 0					
		» overdraft facility up to the amount of PLN 40,000 thousand						
BNP Paribas S.A.	78,000	Wielocelowa linia kredytowa do wykorzystania na: gwarancje do wysokości 78 000 tys. zł	Sublimit on guarantees – PLN 47,058 thousand*	30/11/2020	31/03/2032	Pekabex Bet	Pekabex Pref Centrum Nowoczesnej Prefabrykacji	85,800
		» kredyt w rachunku bieżącym do wysokości 11 000 tys. zł	Overdraft facility – PLN 0					
		» kredyt odnawialny do wysokości 4 000 tys. zł	Revolving credits – PLN 0					
		» linia akredytyw do wysokości 5 000 tys. zł						
BNP Paribas S.A.	30,000	Kredyt inwestycyjny	16,287	16/12/2022	18/2/2025	Pekabex Bet Inwestycje II	Pekabex Pref Centrum Nowoczesnej Prefabrykacji	45,000
BNP Paribas S.A.	37,200	Kredyt nieodnawialny	5,689	31/07/2022	31/07/2025	Pekabex Development	Pekabex Bet Prefabrykacji Centrum Nowoczesnej Prefabrykacji Pekabex Inwestycje II	26,400

Entity for which the surety was granted	Total amount of credit guaranteed	Subject-Matter of the Agreement	Value of the liability as at 31/12/2019	Contract validity date	Collateral expiry date	Entity for which the surety was granted	Guarantors:	Surety value
BNP Paribas S.A.	45,300	Investment loan	44,448	14/03/2029	14/03/2032	Kokoszki Prefabrykacja	Pekabex S.A.	49,830
BNP Paribas S.A.	20,019**	Letter of credit line	3,960*	28/09/2020	14/09/2023	Kokoszki Prefabrykacja	Pekabex S.A.	22,612*
		Multi-purpose credit line to be used interchangeably for:						
		» guarantees up to the amount of PLN 7,000 thousand	0	30/06/2021	14/03/2032	Kokoszki Prefabrykacja	Pekabex S.A.	7,700
BNP Paribas S.A.	7,000							
		» overdraft facility up to the amount of PLN 7,000 thousand (available from 1 March 2020)						
BNP Paribas S.A.	10,000	Non-renewable credit	5,946	05/04/2026	31/03/2029	Pekabex II	Pekabex Bet Centrum Nowoczesnej Prefabrykacji	11,000
PKO BP S.A.	30,000		21,913	31/12/2026	31/12/2028	Kokoszki Prefabrykacja	Pekabex S.A. Pekabex Bet	30,000
		Multi-purpose credit line to be used on:						
		» guarantees up to the amount of PLN 60,000 thousand	Sublimit on guarantees – PLN 18,816 thousand*					
PKO BP S.A.	60,000		» overdraft facility up to the amount of PLN 10,000 thousand	06/03/2020	06/03/2024	Pekabex Bet	Pekabex S.A.	60,000
		» revolving credit up to the amount of PLN 15,000 thousand						
PKO BP S.A.	8,131	Investment loan	4,445	30/03/2022	30/03/2024	Pekabex S.A.	Pekabex Bet	12,97

*Off-balance sheet liabilities

** Amount denominated in EUR, converted at the balance sheet rate of 4,2585.

As at 31 December 2019, Kokoszki Prefabrykacja used its EUR 930 thousand letter of credit line. The letter of credit issued was a security for payments to the suppliers of the processing line and the concrete batching plant for the Group's new production plant. Its validity period expired in the first quarter of 2020.

After the balance sheet date, the Group concluded the following agreements and annexes to the existing agreements affecting the existing sureties:

Investment loan agreement of Pekabex Development S.A. (PKO BP S.A.)

On 26 February 2020, Pekabex Development signed an investment loan agreement with PKO BP for the

amount of PLN 6,440 thousand. Its collateral is, among others, a surety of PLN 9,666 thousand granted by Pekabex Bet and Pekabex S.A. pursuant to the Civil Code. It is valid until 31 December 2024.

Annex to the multi-purpose credit line agreement of Pekabex Bet S.A. (BNP Paribas Bank Polska S.A.)

On 23 March 2020, Pekabex Bet signed with BNP Paribas an annex to the multi-purpose credit line agreement dated 26 March 2013, extending the current period of making the credit available until 30 November 2021. In connection with signing the annex, the term of validity of the sureties granted by Pekabex S.A., Pekabex Pref and Centrum Nowoczesnej Prefabrykacji was extended until 14 December 2034.

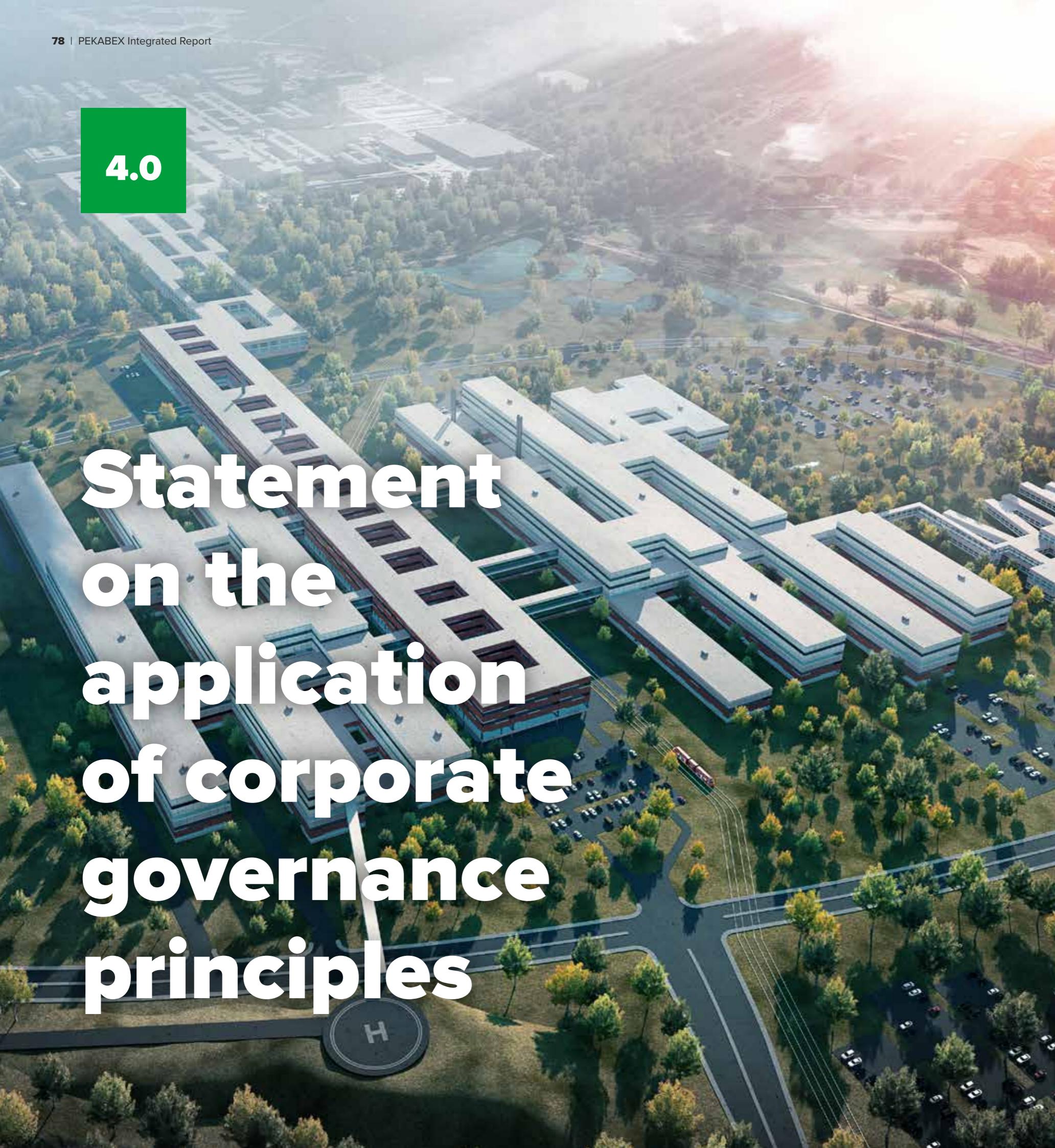
Annexes to the credit facility agreements of Kokoszki Prefabrykacja S.A. (BNP Paribas Bank Polska S.A.)

On 24 March 2020, Kokoszki Prefabrykacja signed with BNP Paribas Bank annexes to (i) the non-revolving credit agreement, (ii) the multi-purpose credit line agreement, and (iii) the framework agreement on FX and derivative transactions. The annex to the non-revolving credit agreement increases the credit amount to PLN 61,400 thousand. Due to the common collateral, annexes to the multi-purpose credit line agreement and the framework agreement were also concluded. One of the collaterals is the surety granted by Pekabex Bet and Pekabex S.A. under civil law, which was increased to PLN 67,540 thousand.



4.0

Statement on the application of corporate governance principles



4.1

Indication of the set of rules to which Pekabex S.A. is subject

The Management Board of Korporacja Budowlana Pekabex S.A. hereby declares that in 2019 the Company and its bodies applied corporate governance principles set forth in the "Best Practice for GPW Listed Companies 2016", adopted by Resolution No. 27/1414/2015 of the Supervisory Board of the Warsaw Stock Exchange S.A. of 13 October 2015, except for the following:

Recommendation I.Z.1.3. – a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1

The principle is not applied. No internal division of responsibility for particular areas of the Company's operations has been developed. The entire Management Board of the Company is responsible for all areas of its activity.

Recommendation I.Z.1.11. – information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.

The principle is not applied. The Company does not publish information in this respect on its website. The selection of entities authorised to audit the financial statements each time depends on the independent decisions of the Company's governing bodies and the applicable legal regulations.

Recommendation I.Z.1.15. – information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

The principle is not applied. The Company does not have a diversity policy in place. The Company employs people with appropriate qualifications and professional experience, regardless of age or gender.

Recommendation I.Z.1.16. – information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting.

The principle is not applied. The Company does not transmit the General Meeting. The Company observes the provisions of the Articles of Association in this respect, legal regulations and pursues an appropriate information policy.

Recommendation I.Z.1.19. – Annex I to the Commission shareholders' questions asked to the management board pursuant to Article 428 §1 or §6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13.

The principle is not applied. The Company observes the above principle to the extent provided for by law. The Company does not keep a detailed record of the course of talks, questions asked during General Meetings or answers given.

Recommendation I.Z.1.20. – an audio or video recording of a general meeting.

The above principle is not applied. Currently, the Company does not have the technical and organisational means to record the General Meeting in audio or video form.

Recommendation II.Z.1. – the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

The principle is not applied. The Articles of Association and the applicable internal documents of the Company do not impose any obligation to provide information on members of the Management Board in this respect.

Recommendation II.Z.2. – a company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

The principle is not applied. The Articles of Association and the applicable internal documents of the Company do not impose any obligation to provide information on members of the Management Board in this respect.

Recommendation II.Z.7. – Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

The principle is partially applied. Within the Company's Supervisory Board, an Audit Committee has been established, whose rules of operation are set out in the Articles of Association, the Regulations of the Supervisory Board and legal regulations. The rules of operation of the Audit Committee are broadly in line with the "common features of the Commission" set out in Annex I. The Supervisory Board has not appointed

any Appointment Committee, Remuneration Committee or Review Board.



Recommendation IV.Z.3. – presence of representatives of the media should be allowed at general meetings.

The principle is not applied. If questions concerning General Meetings are asked by media representatives, the Company immediately provides relevant answers. The presence of the media during the sessions is decided upon by the shareholders and the Chairman of the Meeting.

Recommendation VI.R.1. – the remuneration of members of the company's governing bodies and

key managers should follow the approved remuneration policy.

The Company does not apply this recommendation.

The remuneration of members of the Management Board is determined by the Supervisory Board on the basis of the provisions of the Company's Articles of Association and corresponds to the qualifications and responsibilities of individual persons. In accordance with the Commercial Companies Code, the remuneration of the Supervisory Board members is determined by the General Meeting. The remuneration of individual members of the Supervisory Board, as well as of senior managers, depends on the scope of duties and responsibilities.

Recommendation VI.R.2. – the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company does not apply the above recommendation due to the lack of adopted remuneration policy.

The full text of the set of rules is publicly available on the website of the Warsaw Stock Exchange S.A.: https://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf.

4.2

Shareholders of Pekabex S.A. holding significant blocks of shares

The shareholding structure of Pekabex S.A. as at 31 December 2019 was as follows (information on shareholders holding more than 5% of shares in the Company's share capital):

Shareholder	Number of shares held (pcs)	Number of votes at the GM	Share in the total number of votes at the GM	Share in the share capital	Nominal value of shares (in PLN)
Opoka II FIZ	9,784,585	9,784,585	39.81%	39.81%	9,784,585
Cantorelle Limited	2,838,658	2,836,658	11.55%	11.55%	2,838,658
Fernik Holdings Limited	2,046,722	2,046,722	8.33%	8.33%	2,046,722
Nationale Nederlanden	1,314,065	1,314,065	5.35%	5.35%	1,314,065
Others in total	8,595,678	8,595,678	34.97%	34.97%	8,595,678
Total	24,579,708	24,579,708	100%	100%	24,579,708

On 10 April 2019, Pekabex S.A. received a notification from Nationale Nederlanden Powszechnie Towarzystwo Emerytalne S.A. ("Nationale Nederlanden") pursuant to Article 69 and Article 87(1)(5) of the Act of 29 July 2005 on the conditions governing the introduction of financial instruments to the organised trading system and on public companies. Nationale Nederlanden thereby notified of an increase in its shareholding in the Company resulting in a share in the total number of votes at the General Meeting exceeding 5%.

On 18 June 2019, as part of the conditional increase of the share capital adopted by Resolution No. 3 of the Extraordinary General Meeting of the Company held on 11 October 2016, 210,884 shares with a nominal value of PLN 1 each, carrying a total of 210,884 votes at the General Meeting of the Parent Company were issued.

On 18 September 2019, Poznańska Korporacja Budowlana Pekabex S.A. received a certificate of registration of the increase in the Company's share capital by the registry court on 13 September 2019.

After the registration of shares, the share capital of the Parent Company is PLN 24,579,708, which consists of 24,579,708 shares with a nominal value of PLN 1 each, carrying a total of 24,579,708 votes at the General Meeting of the Company.

All shares are non-preference bearer shares and are divided into:

- » 21,213,024 series A shares
- » 3,000,000 series B shares
- » 366,684 series C shares

After the issue of the shares, the conditional share capital of the Company is PLN 359,707.

The shares registered in the third quarter of 2019 were fully subscribed by other shareholders, hence the share of individual shareholders in the number of votes and share capital changed: compared to the balance sheet date of 31 December 2018: Opoka II FIZ – a decrease from 40.15% to 39.81%, Cantorelle Limited – a decrease from 11.65% to 11.55%, Fernik Holdings Limited (8.33%) – unchanged, the share of Nationale Nederlanden (the investor was not

listed at the end of 2018) 5.35%, other shareholders in total – a decrease from 39.87% to 34.97%.

By increasing the share capital through the issue of series C shares, there was an increase in the number of shares held by Vice-President Przemysław Borek (an increase by 14,500 shares) and the number of shares held by Vice-President Beata Žaczek (an increase by 13,000 shares).

On 9 September and 23 September 2019, Mr Robert Jędrzejowski acquired 15,000 and 1,144 shares in the Company, respectively.

The share of members of the management and supervisory bodies in the total number of votes and shares (according to the declarations received) at the end of particular years is presented in the table below:

Members of the management and supervisory bodies	Number of votes at the GM as at 31/12/2019	Number of votes at the GM as at 31/12/2018
Robert Jędrzejowski (indirectly through Fernik Holdings Ltd) – President of the Management Board of Pekabex S.A.	8.33%	8.33%
Maciej Grabski (indirectly through Pekabex Wykup Managerski S.A.) – Member of the Supervisory Board of Pekabex S.A.*	1.33%	1.34%
Przemysław Borek (directly) – Vice-President of the Management Board of Pekabex S.A.	0.61%	0.56%
Beata Žaczek (directly) – Vice-President of the Management Board of Pekabex S.A.	0.32%	0.27%

* According to the statement available to the Company, as at 13 March 2020, Mr Maciej Grabski was also a holder of 100% of investment certificates (directly and indirectly) of the Opoka II FIZ fund, which holds 39.81% of the Company's shares.

After the balance sheet date, in February 2020, Mr Robert Jędrzejowski sold 15,519 shares held. To the best of the Company's knowledge, there were no other changes in the ownership in the period from the balance sheet date.

All shares of the Company are ordinary shares, each of which entitles to one vote at the General Meeting.

Major shareholders have no voting rights other than those attached to their shares. The shares are ordinary bearer shares and are not associated with any special rights or obligations, except those arising from the provisions of the Commercial Companies Code. The entity having a significant impact on the Company is Opoka II, which directly holds 39.81% of shares in the share capital and votes at the Company's General Meeting.

There are no restrictions as to the exercise of voting rights or the transfer of ownership rights to the Company's shares.

The Company is not aware of any agreements (including agreements concluded after the balance sheet date) which may result in future changes in the proportions of shares held by the existing shareholders and bondholders.



4.3

Appointment and dismissal of members of the management bodies and their powers

The Management Board consists of one to four members. The Supervisory Board may appoint an elected member of the Management Board to the position of President of the Management Board. Members of the Management Board are appointed for a joint three-year term. They are appointed and dismissed by the Supervisory Board in a secret ballot. Members of the Management Board may also be dismissed or suspended by the General Meeting. The Supervisory Board may dismiss individual or all members of the Management Board before the end of their term. Each member of the Management Board may resign before the end of their term by submitting a written resignation to the Chairman of the Supervisory Board, or in case of their absence to any member of the Supervisory Board – to the Company's address.

The competences and principles of work of the Management Board of Pekabex S.A. are defined in the following documents:

(i) the Articles of Association of Pekabex S.A. (available on the Company's website),
 (ii) the Regulations of the Management Board (available on the Company's website),
 (iii) the Commercial Companies Code. The competence of the Management Board includes all matters not reserved to the competence of other bodies of Pekabex S.A. The Management Board is not entitled to make decisions on the issue or redemption of shares. Decisions in this respect are made by the General Meeting.

The competences and principles of work of the Supervisory Board of Pekabex S.A. are defined in the following documents: (i) the Articles of Association of Pekabex S.A., (ii) the Regulations of the Supervisory Board (available on the Company's website), (iii) the Commercial Companies Code.



4.4

Principles of amending the Articles of Association of Pekabex S.A.

Amendments to the Articles of Association require a resolution of the General Meeting and registration by a competent registry court.

4.5

The General Meeting and shareholders' rights and how they can be exercised

The principles of operation, competences and organisation of the General Meeting are governed by: (i) the Articles of Association of Pekabex S.A., (ii) the Regulations of the General Meeting, (iii) the Commercial Companies Code.

Convening the General Meeting

- » The General Meeting convenes as an Ordinary or Extraordinary Meeting
- » The General Meeting may be held in the Company's registered office in Poznań, Warsaw or Gdańsk
- » An Ordinary General Meeting is held annually within 6 months after the end of the financial year
- » The convening the General Meeting together with the date (day, time) and place is announced by the Management Board on the Company's website and in the manner specified for the provision of current information in accordance with the regulations on public offerings and the conditions governing the introduction of financial instruments to the organised trading system and on public companies
- » The announcement on convening the General Meeting should be published 26 days before the date of the meeting and contain all the elements required by the Commercial Companies Code

Uprawnienia Walnego Zgromadzenia

- » Examining and approving the Company's financial statements for the previous financial year and the Management Board's report on the activity of Pekabex S.A.
- » Granting discharge of the fulfilment of duties to members of the Company's governing bodies,
- » Decision-making on profit distribution or loss coverage
- » Postponing the dividend payment date or dividing the dividend payment into instalments
- » Adopting resolutions on appointing or dismissing members of the Supervisory Board
- » Adopting resolutions on the suspension of members of the Management Board and their dismissal
- » Adopting resolutions on the disposal and lease of the enterprise or its organised part and establishing a limited property right on them
- » Adopting resolutions on increasing or decreasing the share capital
- » Adopting resolutions on the issue of convertible bonds and subscription warrants
- » Adopting resolutions on the creation, use and liquidation of reserves
- » Adopting resolutions on the use of supplementary capital
- » Adoption of resolutions on the merger, division or transformation of the Company, its dissolution and liquidation
- » Adopting resolutions on the redemption of shares
- » Adopting resolutions on amendments to the Articles of

Association and the Company's object of activity

- » Deciding on other matters reserved for the competence of the General Meeting in the Commercial Companies Code and the provisions of the Articles of Association

Session of the General Meeting

- » The General Meeting is opened by the Chairman of the Supervisory Board, and in the case of their absence, by any member of the Supervisory Board. In the event of absence of members of the Supervisory Board, the General Meeting is opened by any member of the Management Board.
- » From among the persons entitled to vote, the General Meeting elects a Chairman who directs its work

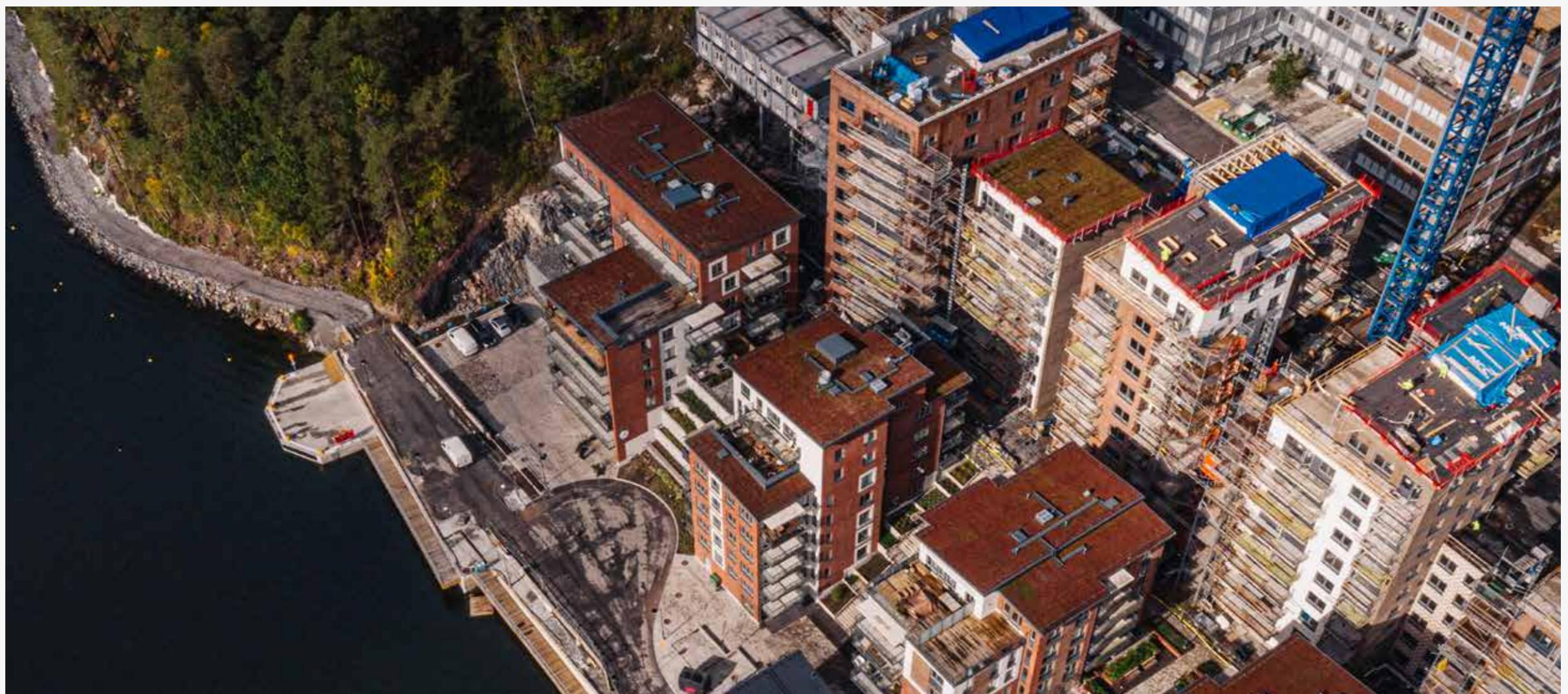
and ensures an efficient and correct course of the meeting.

- » The General Meeting adopts resolutions only on matters included in the agenda, unless the entire share capital is represented at the Meeting and none of those present has objected to the holding of the General Meeting or to the inclusion of particular issues in the agenda.
- » Resolutions of the General Meeting are included in the minutes drawn up by a notary public.
- » The General Meeting is valid regardless of the number of shares represented.

Voting

- » Voting at the General Meeting is open. A secret ballot is ordered for the election of the Company's

bodies or liquidators and for motions to dismiss members of the Company's bodies or liquidators, to hold them liable, as well as in personal matters. Additionally, a secret ballot is ordered at the request of at least one shareholder or their representative.



4.6

Pekabex S.A. bodies and their composition

As at 31 December 2019 and as at the date of this report, the Management Board was composed of:

Robert Jędrzejowski
President of the Management Board

Przemysław Borek
Vice-President of the Management Board

Beata Żaczek
Vice-President of the Management

In the period from 1 January 2019 to the date of approval of the financial statements for publication, the composition of the Company's Management Board did not change

As of the date of approval of the financial statements for publication, the Company's Supervisory Board was composed of:

Piotr Taracha
Chairman of the Supervisory Board

Piotr Cyburt
Vice-Chairman of the Supervisory Board

Maciej Grabski
Member of the Supervisory Board

Stefan Grabski
Member of the Supervisory Board

Ryszard Klimczyk
Member of the Supervisory Board

Marcin Szpak
Member of the Supervisory Board

Lesław Kula
Member of the Supervisory Board

As at the balance sheet date and as at the date of publication of the financial statements, the Audit Committee established by the Company's Supervisory Board was composed of:

Piotr Cyburt
Chairman

Piotr Taracha
Member of the Committee

Stefan Grabski
Member of the Committee

The tasks of the Audit Committee include in particular:

- » monitoring the financial reporting process
- » monitoring the effectiveness of internal control, internal audit and risk management systems
- » monitoring the performance of auditing activities
- » monitoring the independence of the statutory auditor or audit firm, including receiving from the statutory auditor or audit firm annual written confirmation of their independence and discussing its threats and, in the case of doubt whether the statutory auditor or
- audit firm has become excessively dependent on the Company, deciding whether the statutory auditor or audit firm may continue to conduct statutory audits
- » supervision over the organisational unit dealing with the internal audit
- » ensuring compliance with the procedure for selecting the entity authorised to perform auditing activities, including the audit of financial statements, in accordance with Article 16(3) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014
- » recommending to the Supervisory Board at least two entities

authorised to audit financial statements, indicating a duly justified preference for one of them

- » following an assessment of the risks and safeguards for independence, approving the performance of services other than the audit of financial statements by a statutory auditor or audit firm



Two of the three members of the Audit Committee, Mr Piotr Cyburt and Mr Piotr Taracha, meet the independence criteria in accordance with Article 129(3) of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

A member of the Audit Committee who has knowledge and skills in accounting or auditing financial statements is Mr Piotr Cyburt, a PhD in economics, associated with the Institute of National Economy in Warsaw, President of the Management Board of one of the banks in Poland and Member of the Council of the Polish Bank Association. In the years 1990-1992 he was one of the founders and first employees of Deloitte and Touche in Poland.

A member of the Audit Committee who has experience, knowledge and skills in the broadly understood construction industry is Mr Stefan Grabski, a construction engineer who graduated from the Gdańsk University of Technology (General Construction Department). He worked, among others, as a Sites Manager, for a few years leading the so-called Start-up Group, dealing with the start-up of technological installations in industrial facilities in northern Poland.

The Audit Committee held 2 meetings in 2019.

The audit firm auditing the report of Pekabex S.A. and the consolidated report of the Pekabex Group, Grant Thornton Polska sp. z o.o. Sp.k., did not provide any non-audit services to the Group.

The main principles of the policy concerning the selection of the auditor in Pekabex S.A., adopted by the Audit Committee, are as follows:

- » The Audit Committee submits a recommendation to the Supervisory Board, including an indication of the audit firm to which it proposes to entrust the statutory audit.

- » Where the selection of an audit firm does not involve the extension of a contract for auditing the financial statements, the recommendation of the Audit Committee indicates at least two entities to choose from and duly justifies the preference for one of them.

- » The recommendation concerning the selection of an audit firm is drawn up in accordance with the procedure described in the "Selection procedure for the audit firm of Poznańska Korporacja Budowlana Pekabex S.A.".
- » Before making the recommendation referred to above, and before accepting or continuing a statutory audit engagement, the audit firm and the key statutory auditor shall submit to the Audit Committee a written statement confirming their independence and the required powers and competences.

When issuing a recommendation, the Audit Committee takes into account whether the audit firm, the key statutory auditor and the members of the audit team have experience in auditing individual and consolidated financial statements of companies operating in the construction or manufacturing sector with a scale of activity similar to that of Pekabex.

The recommendation concerning the selection of the auditing company for the report for 2019 met the applicable conditions.

The main principles of the Pekabex S.A. policy, adopted by the Audit Committee, regarding the provision of allowed non-audit services by audit firms and related entities are as follows:

- » Neither a statutory auditor or audit firm carrying out statutory audits of Pekabex nor any member of the network to which the statutory auditor or audit firm belongs shall, during the period from the beginning of the audited period to the issuance of the audit report, provide directly or indirectly any non-audit services to the Pekabex Group, Pekabex S.A.

or its controlled entities within the European Union, with the exception of non-prohibited services referred to in Article 136(2) of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight. The provision of non-prohibited services is possible only with the consent of the Audit Committee, after the Audit Committee has carried out an assessment of the threats and safeguards to the independence referred to in Articles 69-73 of the Act.

- » A key statutory auditor, an audit firm, its employees involved in the audit and any natural person directly involved in the audit activities whose services are used by, or who is supervised by the key statutory auditor or the audit firm, as well as persons closely related to them, may not participate in keeping accounting books or preparing accounting records or financial statements of Pekabex during the financial year preceding the period covered by the audit, in the period covered by the audited financial statements or in the period covered by the audit.
- » The Management Board of Pekabex monitors the amount of remuneration paid for the services of an audit firm and immediately passes this information on to the Audit Committee.

4.7

Internal control system and risk management

Consolidated financial statements are prepared based on uniform consolidation packages. The Pekabex Group companies apply uniform accounting principles.

Control activities applied in the preparation of financial statements include:

- » assessment of significant unusual transactions in terms of their impact on the Group's financial position and the manner in which they are presented in the financial statements
- » verification of the adequacy of assumptions made for the valuation of estimated values
- » comparative and substantive analysis of financial data
- » verification of the arithmetic accuracy and consistency of data
- » an analysis of the completeness of disclosures
- » verification of the compliance of data with reports resulting from the management reporting system

procedures for warehouse management and periodic stocktaking

- » ongoing monitoring of the implementation of contracts in terms of material and financial aspects, including the involvement of managers of individual projects

- » a document workflow procedure to ensure that entries in the accounting books are consistent with the accounting evidence and that the system costs are properly allocated
- » analysis of current financial reports

The basic external control in the process of preparing the financial statements is:

- » verification of data by an independent statutory auditor
- » direct supervision of the Audit Committee and the Supervisory Board

The Company's Management Board is responsible for the implementation and functioning of the internal control system in the process of preparing financial statements. The risks are described in detail in chapter 5.4.

The financial statements are prepared by qualified staff of the Accounting Department and the Finance and Controlling Department under the supervision of the Vice-President of the Management Board, acting as the Financial Director of PKB Pekabex, responsible for their verification in terms of complete and correct presentation of all economic events. Financial statements are prepared on the basis of accounting books maintained with the use of the Symfonia financial and accounting program, operated by employees with the appropriate qualifications.

The correct application of accounting principles by individual companies is monitored on an ongoing basis by the Chief Accountant, the Accounting Department and the Finance and Controlling Department.

The preparation of financial statements is a planned process that includes an appropriate division of tasks among the employees of the financial division, adequate to their qualifications. Accounting books are the basis for preparing individual financial statements.

The annual financial statements are prepared by the Chief Accountant and the Deputy Chief Financial Officer and submitted to the Chief Financial Officer for verification and then to the entire Management Board for final verification and authorisation.

The annual financial statements are audited by an independent statutory auditor, who, having completed the audit, presents its conclusions and observations to the Audit Committee or the entire Supervisory Board.

In addition, the basic elements of internal control include:

- » current analysis, conducted by the Management Board, based on the assumed financial budget and historical data, of financial results and basic ratios relevant to the business activity
- » participation of senior management in the planning phase and then in the analysis of budget deviation

5.0

Other management principles

5.1

Employees of the Pekabex Group

The Pekabex Group employs a team of professionals who, based on their knowledge and experience, strive to achieve success and, at the same time, job satisfaction.

The company is open to diversity in terms of form of employment, age, gender, nationality and disability.

As a major employer, the Pekabex Group offers development opportunities to high-class engineers, specialists and manual workers, as well as young people entering the employment market, to whom it gives the possibility of working and studying at the same time. Young employees gain experience and learn from older employees, while, in turn, their energy and fresh ideas stimulate innovation in the Group.

5.1.1

Policies applicable to employees

Employees employed by the Group under the employment relationship are entitled to the following wage and non-wage benefits: (i) discretionary bonuses, prizes, (ii) functional allowances, (iii) financing of accommodation, in particular for employees coming to Poland from abroad or delegated to foreign projects, (iv) benefits resulting from the provisions of the Labour Code, e.g. severance pay, overtime, night allowances, (v) benefits paid on account of business trips in the country and abroad, (vi) employer – provided supportive meals, PPE and safety clothing.

Within the organisation, employees can participate in a group insurance scheme and medical care on favourable terms.

The Group provides its employees with the necessary working tools, in accordance with their position – pliers and hammers, as well as business phones, laptops or cars.

In 2019, as part of the Company Social Benefits Fund, the Group spent PLN 1,759 thousand (PLN 1,292 thousand in 2018) on one-time benefits and holiday allowances, loans, camps, sports cards and recreation and sports activities (including canoeing, skiing competitions, family picnics, mushroom picking, employee participation in marathons).



5.1.2

Employment structure and remuneration policy

The Pekabex Group strives to provide its employees with the greatest

possible comfort at work and sense of safety.

It complies with the provisions of the Labour Code and the regulations on the posting of workers abroad.

Data on the Group's full-time employees are presented in the tables in chapter 9 of this report.

In 2019, the Pekabex Group here had no collective labour agreements in force.

5.1.3

Relations with employees

Employees are valued for their individuality, innovative approach to tasks, commitment, loyalty, identification with the Group and building its positive image.

The Group supports its employees in developing their passions and

interests; the curiosity of the world and the diversity of employees from different cultures and countries translate into their creativity and performance.

5.1.4

Remuneration of members of the management and supervisory bodies

The key management personnel of the Group includes members of the Management Board of Pekabex S.A. and members of management boards of its subsidiaries. Benefits (including salaries) paid to key personnel in 2019 and other information on the

value of salaries, awards and benefits are presented in Note 26.1 of the notes to the consolidated financial statements of the Pekabex Group.

Pekabex has no liabilities arising from pensions and benefits of

a similar nature for former managers, supervisors or former members of administrative bodies.

5.1.5

Ethics

Pekabex S.A. attaches particular importance to ensuring that the companies belonging to the Group and their employees and associates act ethically, both in external and internal relations. Any employee or associate who discovers unethical practices may report them to their supervisor or the Management Board.

All reports are considered on a case-by-case basis and constitute the grounds for preventive and corrective action. In 2019, the Management Board of the Company did not record any cases of ethics violations in the Group.



5.1.6

Occupational health and safety

The Pekabex Group implemented an occupational health and safety management system based on BS OHSAS 18001:2007 standard, without certification. It covers employees of the Group companies as well as persons who do not have this status, but whose work or workplace is controlled by the organisation. The implemented system includes hazard identification, communication, health and safety consultations, monitoring, compliance assessment, emergency situations, legal requirements, contractor safety management and accident investigation.

At the turn of 2018/2019, an AED (automatic external defibrillator) was purchased for each of the Group's plants – a device used to rescue people with heart rhythm disorders. In 2019, all employees were trained in first aid, with a special focus on operating the AED.

There is an OHS Service in the organisation. It consists of 6 people: one employee from each branch coordinated from the head office, and two employees from the Assembly Department.

The Health and Safety Committee meetings are held once a quarter and are attended by members of the Management Board, managers, the OHS Service officers and employee representatives. Each Committee meeting finishes with conclusions, which are later implemented.

Investigation and proceeding with accidents

The Group defined the procedure to be followed when investigating the course of accidents, determining their causes and taking corrective and preventive action.

This guarantees a thorough analysis of all accidents to avoid similar incidents in the future.

Hazard identification, risk assessment and control

The organisation identifies and assesses occupational health and safety risks. This process consists of verifying the adequacy of existing control measures regarding acceptable levels of risk, relating to the applicable legislation. This enables effective management of occupational health and safety risks.

Consultation on the OHS system

Any changes related to occupational health and safety management must be consulted with involved parties. This requires the employees of the OHS Service to present the changes introduced, their causes and detailed procedures for new processes. At the same time, involved parties, including heads of departments, are obliged to inform the affected employees about the scope of the changes and the need for appropriate training.

Monitoring the efficiency of the OHS system

The Group defined the principles for monitoring the effectiveness of the OHS management system. It allows the identification of areas which give no reason for concern and those for which corrective and preventive action is necessary. Efficient day-to-day supervision of working conditions is possible thanks to the monitoring of key parameters of the OHS management system. In addition, an occupational risk assessment is carried out on a regular basis.

Assessment of compliance with applicable legal and other OHS requirements

The organisation applies specific rules for periodic checks of compliance with legal regulations and other OHS requirements.

The OHS Service analyses the results of checks, which is the basis for taking corrective actions.

Emergency identification and response

The Group identifies potential emergency situations that may affect occupational health and safety. The basis for predicting and recognising such situations is determining the probability of occurrence of previously defined threats. The Group also introduced rules for responding to situations that may have a negative impact on safe and hygienic working conditions.



Employees report safety issues

to their immediate supervisor or to an OHS officer during individual conversations, training sessions or regular meetings with the staff as part of "A Minute for Safety".

If the life or health of an employee or third parties is threatened, or if working conditions do not comply with OHS regulations, the employee has the right to stop performing their tasks (refrain

from performing work) and the obligation to immediately notify their superior.

If refraining from work does not remove the danger, the employee has the right to move away from the danger area, of which they must also notify their supervisor. Importantly, such an employee is not at risk of any consequences for refraining from work or moving away from the danger area.



1456*

number of employees and persons whose work or workplace is controlled by the organisation, covered by the OHS system



100%

percentage of employees and persons whose work or workplace is controlled by the organisation, covered by the OHS system



44

number of accidents** in the Pekabex Group plants in 2019 (47 in 2018)



8

number of accidents at construction sites operated by the Pekabex Group in 2019 (9 in 2018)



1,67

accident-related absenteeism rate*** in 2019 (0.98 in 2018)

* As at 31 December 2019.

** Defined as work related sudden events, triggered by an external cause and causing injury.

*** Average number of hours of absence due to accidents per 1,000 hours worked.

In addition to initial training and annual periodic training sessions in the field of occupational health and safety and fire protection, other training is organised, including thematic training, training as part of safety campaigns conducted within the Group, instructions in the event of purchasing new equipment and meetings with the staff as part of "A Minute for Safety". Once a year, the OHS Service organises "A Safety Month", where every week different activities aimed at increasing safety and employee awareness are undertaken.

The Awareness of OHS issues is raised incooperation with the National Labour Inspectorate.

In 2019, an information campaign was conducted on the problem of dust in factories and on construction sites, as well as training on safe welding and scaffolding work and first aid.

The Pekabex construction sites are some of the safest in Poland because, among others, prefabrication technology requires the involvement of small assembly teams. The teams are also very well equipped and thoroughly trained in safe assembly.

The Group raises the occupational safety awareness of all persons involved in implemented projects (as well as employees of the production plants) through:

- » construction site introduction training
- » regular health and safety training (initial, periodic)
- » fire safety training » first aid training
- » regular meetings with employees



and management as part of "A Minute for Safety"

- » briefing with employees at the beginning of each working day
- » thematic safety campaigns (e.g. excavation works, work at height, work with chemicals)
- » "A Safety Week" » register of near misses

In order to improve occupational health and safety, the principle of combined forces is applied, which consists of employee involvement, the activities of persons who supervise work and the determination of the Management Board, which sets strategic objectives in this area and settles their implementation.

The level of safety is significantly affected by:

- » the developed safe working methods, especially in areas of increased risk
- » daily OHS checks, weekly OHS audits and monthly reviews of working conditions
- » appropriate personal and collective protective equipment
- » certified work equipment/tools in good technical condition
- » a separate safety information board and an accident board
- » safety mirrors
- » information, warning, mandatory/prohibition signs required by law

The Group has implemented an occupational health and safety procedure for subcontractors and external contractors. It guarantees that the developed security principles will be respected by any entity with

which a cooperation agreement will be signed. Employees of contractors and subcontractors are provided with the same health and safety conditions as employees of the Group. For each contractor, an OHS Coordinatorcooperating with the Legal Department and the OHS Service is appointed.

The standard health and safety information package provided by the potential contractor in the bidding process includes:

- » security policy
- » accident history for the last three years
- » instructions for carrying out planned work, including particularly hazardous work (IBWR-safe working instructions)
- » procedure to be followed in the event of an accident or other local danger

Compliance with the above requirements is one of the conditions which determine the selection of the contractor.

Agreements with contracting parties include:

- » provisions to ensure the contractor's responsibility for compliance with the occupational health and safety requirements of the Pekabex Group and the relevant laws and regulations
- » a clause allowing the designated persons to stop work carried out in breach of safety regulations and rules
- » a statement that all public-law liabilities are paid by the contractor in accordance with applicable regulations, in particular those governing the employment of employees (ZUS – the Social Insurance Institution, US – the Tax Office).

5.1.7

Internal communication

The Group's employees are employed in its five plants – in Poznań, Mszczonów near Warsaw, Bielsko-Biała and two plants in Gdańsk – and also in Łódź, where one of the design offices is located. Projects are implemented on construction sites in Poland and abroad.

In order to provide employees with the best possible access to knowledge about company events, including

organisational changes, as well as to knowledge related to important employee and social issues, the following tools are used: messages sent in electronic form (e-mail) and placed on information boards, quarterly employee newsletter (in electronic and paper version), a website, social media.

Apart from the standard substantive meetings on operational issues, which are attended by persons from different organisational levels, a video conference lasting several hours is held periodically for the Management Board as well as senior and middle managers (over 50 people).

This is where important current events are discussed and new initiatives presented, both by the Management Board and lower-level managers.

The company has a communication unit, which cooperates with the Management Board and the Human Resources Department, prepares announcements and initiates and implements tasks in the field of employee integration.

Transparency of activities and involvement of employees in the Group's life is one of its important objectives.

parents, canoeing, mushroom picking, mountain trips in winter and summer.

The Group also co-finances sports activities with the MultiSportcard.

5.1.8

Internal integration

Integration events build positive relations between employees and increase the efficiency of their cooperation. In 2019, the following events took place:

- » "Pekabex Giant Slalom" skiing competition
- » Builders' Day celebration in company branches
- » St. Nicholas' Day celebration for children of employees at all company locations
- » company Christmas party for employees at all company locations
- » picnics for employees and their families » mushroom picking
- » canoeing

The Group supports grassroots employee initiatives by financing and co-financing them. These include the participation of employees in the Ekidenrelay race or a beach volleyball court constructed on the company premises in Mszczonów.

The Group's staff includes runners who represent the Group at charity competitions, half-marathons and other events, as well as motor sports fans and a group of winter swimmers.

Employees meet for family picnics (e.g. a picnic organised next to the JA_SIELSKA investment in order to get acquainted with the pilot project implemented by the Group), the Day at the Plant event, where children of employees visit the plant with their

5.1.9

Employee development

People are the most valuable resource of the Pekabex Group, therefore the Management Board focuses on their development and helps them acquire the necessary qualifications. The Group itself is also constantly developing, so that every employee can find an area in which they can achieve their professional goals in a satisfactory manner. The construction industry is undergoing constant changes, which is why the Group's employees participate in specialist conferences, both as speakers who share their experience, and as participants who broaden their knowledge and draw inspiration for further work.

Depending on the demand, training courses, including internal courses (exchange of knowledge between

departments), covering technical knowledge (specific issues, IT skills) and those which strengthen the so-called soft skills (e.g. negotiation, teamwork, time management at work) are organised in individual departments.

The Group's training courses are based on technical courses for employees working in factories and on construction sites. These are primarily training courses for material handling equipment, electrical and welding qualifications licences. The Group takes advantage of the opportunities offered by the National Training Fund and raises funds for training for the employees of all its plants.

Due to the Group's presence in foreign markets, it offers foreign language courses. The employees learn English, German and Swedish at different advancement levels.

In addition, employees submit their own proposals for training and post-graduate studies, which will strengthen their competences in a given position.

In 2019, the Group spent about PLN 500 thousand on training.

Pekabex organises annual evaluation and development meetings for all its employees. They include a summary of the previous year and verification of the set objectives and progress in the development of various areas of employee competence. During these meetings, a list of objectives for the following year is also established together with the supervisor.

The Group employs a Talent Acquisition & Development Manager whose task is to search for talent (both outside and inside the organisation) and support employees in their development

by developing individual career paths and offering tailor-made training.

5.1.11

Control system for employee programmes

On 11 October 2016, the Extraordinary General Meeting adopted a resolution on the issue of series A subscription warrants with the exclusion of pre-emptive rights of the existing shareholders and the consent to conduct the I Management Options Programme in the Company.

The aim of the MO Programme is to identify, motivate and retain, in the Group, those persons in a business relationship, whose work creates the greatest value for the Company and its shareholders. To this end, such persons were allowed to participate in the profit from the increase in the market value of the Company's shares. Such a mechanism creates optimal conditions for the improvement of the Company's financial results and long-term increase in its value, thanks to the close connection of the economic interests of the persons covered by the MO Programme with the interest of the Company. The programme will be implemented until 31 December 2020 and assumes the issue of warrants to eligible persons. When determining the eligible persons, the Supervisory Board took into account

the Management Board recommendations approved by the General Meeting. According to the programme assumptions, warrants were issued in three tranches – until 30 May 2017, 30 May 2018 and 30 May 2019.

Due to the obligation to apply the provisions of the Act on Employee Capital Plans (PPK), the Management Board of the Pekabex Group, together with employee representation, decided to create such a plan in cooperation with PKO Towarzystwo Funduszy Inwestycyjnych S.A. As of 12 November 2019, PPK management agreements were concluded in all companies of the Group, and a total of 381 employees decided to join the programme.

5.1.10

Diversity and social inclusion

Diversity is one of the important characteristics of the Group. The female employment rate is more than twice as high as the industry average (more than 18% compared to 8% for the whole country). The largest number of women work in the Design.

Department, and the smallest – in the concrete plant. In total, the Company employs 84 female engineers.

The Group employs people of various nationalities, including citizens of Ukraine, Belarus, Georgia, Russia, Afghanistan, Brazil and Nepal. They mostly work in the Design Department and in prefabrication plants.

The Group creates friendly workplaces for people with disabilities. Currently, the Group employs one person with a moderate degree of disability and three people with a mild degree of disability.

Social inclusion also involves supporting social rehabilitation. The Group's factories employ convicts from facilities in Koziegłowy (Poznań plant) and Grójec (Mszczeń plant). More than 40 prisoners work in the Poznań plant and 5 work in Mszczeń. Convicts constitute about 7% of the total number of plant workers.



5.1.12

Recruitment

The Pekabex Group implements a recruitment policy aimed at attracting the best engineers and specialists from the market. Their knowledge, experience and professionalism guarantee the best results and implementation of all planned business processes.

The Group focuses on internal recruitment: it promotes the initiative and ambitions of current employees, giving them the opportunity to climb the career ladder and thus strengthen their conviction that it is worthwhile to get involved.

The Group has a candidate recommendation system, for which employees are additionally remunerated.

The Group is active on the external market and has developed a number of ways of reaching potential candidates, from announcements on recruitment websites, industry forums and career offices, to actions aimed at attracting people who are not currently looking for a job.

The Pekabex Group actively cooperates with universities. It is one of the partner companies of the dual studies provided by the Poznań School of Logistics. This form of education enables students to combine the knowledge gained during their studies with practical experience acquired during nine-week internships in the Company. As part of cooperation with the Universities of Technology (Poznań, Śląsk, Wrocław and Kraków), the Company also organises summer internships in its units.

The construction industry is facing a shortage of suitably qualified staff, especially manual workers. For this reason, the Pekabex Group is involved in activities promoting vocational education, including cooperation with technical universities and vocational and technical schools.

5.2

Environment

The Group has adopted an Environmental Policy which is taken into account when making business and operational decisions. The Company not only complies with the law in this respect, but also engages in environmental initiatives and research into more environmentally friendly products.

Basic principles of the Group's conduct concerning environmental issues:

- » rational use of resources and optimal energy management
- » reducing pollution emissions to the atmosphere
- » striving to minimise the amount of waste generated and recycling and recovering the waste
- » reducing noise emissions
- » raising the environmental awareness of employees.
- » care for the environment at every stage of the technological process cooperation with local communities to protect the environment

The Pekabex Group does not carry out projects in areas of particular natural value or in their immediate vicinity. In 2019, there were no incidents resulting

in environmental damage and no penalties were imposed on the Group companies on this account.

Environmental impact of production plants

The Group has established an Environmental Management System Team which has identified the environmental aspects of its activities. They are monitored on an ongoing basis (in accordance with the ISO 14001 standard), and a register of the environmental impact of the Company and its products and services is maintained. If additional environmental impacts are identified by employees or team members, the register is completed. The Company also has periodically updated emergency procedures.

Pekabex applies the following principles when purchasing goods and services:

- » purchasing only aggregates obtained in an environmentally-friendly manner
- » purchasing only cement produced in an environmentally-friendly manner
- » cooperating only with logistics companies that comply at least with the Euro 6 exhaust emission standard
- » where possible, purchasing recycled materials (this applies in particular to steel: 90% of the material purchased is recycled)

The Group's Research and Development Centre conducts research aimed at changing design technologies and organisational and production changes, which will reduce the use of steel and concrete, while maintaining product properties.

As part of its investments, Pekabex cooperates with clients to obtain the BREEAM and LEED environmental certification.

These are the two most popular tools to assess buildings on the basis of objective criteria, including

clearly defined technical parameters. Among other things, the origin and characteristics of the building materials used, energy and water consumption, proximity to public transport stops and the impact on biodiversity are assessed.

The most important environmentally friendly investments carried out by the Group include the Olivia Business Centre, Business Garden Poznań and halls constructed in cooperation with Prologis and Panattoni.

The register of environmental aspects of the Group's operations is as follows:

Environmental aspect	Source of the aspect – process/activity/service	Location
1 Non-hazardous waste generation	Production processes, administrative management of the company	Production plants, administration and office buildings
2 Hazardous waste generation	Production processes	Production plants
3 Electricity consumption	Production processes, administrative management of the company	Production plants, administration and office buildings
4 Emissions to the air	Production processes	Production plants
5 Use of natural resources	Production processes, administrative management of the company	Production plants, administration and office buildings
6 Noise emissions	Production and storage processes	Production plants where machinery and equipment emit noise
7 Vibration emissions	Production processes	Production plants in areas where machinery and equipment emit mechanical vibrations
8 Exhaust emissions	Transport, administrative management of the company	Production plants, administration and office buildings (diesel-powered industrial trucks, dump truck, gas boiler room)
9 Water consumption	Production processes, administrative management of the company	Production plants, administration and office buildings
10 Discharge of waste water	Production processes, administrative management of the company	Production plants, administration and office buildings

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Use in production and on the construction site (thousand kg)	7.8%	15.7%	6.1%	8.8%	9.9%	15.6%	17.3%	24.4%	19.8%

Prefabricated elements are modern, functional, durable and environmentally friendly. The Group estimated that for one of its large contracts using this technology, the carbon footprint, i.e. total greenhouse gas emissions, has been reduced by as much as 22% compared to the emissions that would have occurred using traditional methods.

Concrete is an eco-friendly material, made from local raw materials (cement, aggregates, water, admixtures and mineral additives). It also has a smaller carbon footprint compared to other structural materials such as steel, wood or plastic. What is very important, concrete is 100% recyclable.

The Group's activities in the field of waste reduction:

- » production waste/dismantled structural elements:
- » concrete sent to the crushing plant, aggregates used e.g. as a road foundation
- » reinforcing bars sent to a steel recycling facility
- » recycling water from the washing processes of concrete containers and mixers used for concrete production
- » concrete from washing feeders and mixers goes to the separator, where the aggregate is mechanically separated and used later on
- » reheating of aggregates with flue gases from gas combustion (from the boiler room)
- » residual bars welded together into solid bars
- » waste prestressing strings used as slings for transporting components
- » re-use of wooden formwork elements (sent to specific construction sites)

In 2019, the Group completed the construction of a modern production plant in Gdańsk. Thanks to the robotisation of the work and the precision technology used in the plant, the efficiency of material use will be significantly increased: the machines will precisely measure the exact amount of raw materials needed to produce a given component.

Pekabex also carries out its own investments in a way that is as environmentally friendly as possible. Thanks to the use of prefabricated elements in the JA_SIELSKA pilot project the following was achieved:

The gross value of the Group's tangible fixed assets increased by over PLN 100 million in 2019.

This increase consists of the modernisation of existing machines and equipment and the purchase of modern equipment for production of prefabricated elements, as

well as investment in a new plant. Each investment decision of the Management Board takes into account the Group's impact on the environment, so that it is constantly reduced.

In 2019, no significant non-financial penalties or sanctions for non-compliance with the environmental law

and regulations were imposed on the Group.

In 2019, the first photovoltaic installation in the Group was launched at the Mszczonów plant. The Group plans to expand it and make similar investments in other plants.

In April 2018, the Group completed an investment project in the Poznań plant consisting in the replacement of

a boiler room, which heats water used in production processes and office space.

The new boiler room is based on an innovative technology – it enables the use of exhaust fumes generated in the heating process to heat the aggregates, which allows the optimum

temperature of the concrete mixture to be achieved.

The new facility meets the highest environmental standards and contributes to reduction of gas consumption. At the same time, it ensures increased efficiency by eliminating heat transfer losses.

5.2.1

Materials and raw materials

Pekabex conducts activities aimed at further automation of the reinforcement plant in all factories, which will significantly reduce the amount of prestressed and reinforced steel waste. Unused steel is sold as scrap to contractors cooperating with the Company.

5.2.2

Energy

The Pekabex Group companies are implementing further projects aimed at improving energy efficiency, such as

Steel	2019	2018	2017
Use in production and on the construction site (thousand kg)	25,000	32,000	27,826
Waste (thousand kg)	1,693	2,110	2,100
Waste in percent	6.77%	6.59%	7.55%

Other production waste materials are crushed and reused. The Group does not use hazardous materials in production.

the improvement of thermal efficiency of the buildings in use and replacement of machinery and equipment.

In 2019, the indoor lighting of the production halls in the Bielsko-Biała plant was replaced with LED lighting, which increases the comfort of work and reduces operating costs.

In 2017-2018, similar investments were made in the plants in Mszczonów, Gdańsk and Poznań.

The table below shows the electricity consumption during the production of m³ of product. Nearly 100% of the energy consumed by the Group comes from non-renewable sources.

5.2.3

Water

Water is a key raw material in the production of concrete mix. The use of water for production purposes is monitored on an ongoing basis. The process is fully automated, which affects both the quality of the product offered and the optimisation of water use.

Post-production washing of equipment and machines results in large amounts of waste water. The Company undertakes actions aimed at recovering at least part of the water. It is currently being reused in technological processes at two of the Group's plants. The rest of waste water requires a special method of disposal, so the Company signed agreements with entities that have appropriate authorisation.

The Mszczonów plant has a system of almost total recovery and use of dirty water.

In 2019, an investment was carried out to enable total recovery of dirty water in the Poznań plant. Aggregate is separated and reused, while dirty water is used to produce concrete mix. The remaining plants use sedimentation tanks, but similar investments are planned for the following years.

Electricity consumption (MWh)	2019	Consumption per m ³ of production	2018	Consumption per m ³ of production	2017	Consumption per m ³ of production
Poznań	1 950	0,043	2 166	0,034	2 713	0,040
Mszczonów	2 089	0,039	2 151	0,033	1 893	0,030
Gdańsk	1 500	0,048	1 652	0,045	1 575	0,052
Bielsko-Biała	553	0,037	593	0,039	567	0,040
Total	6 092	0,042	6 562	0,036	6 748	0,039

The tables below show water consumption and the amount of waste water discharged by each plant. The water comes entirely from the water-pipe network – the Group does not draw underground or surface water.

Water consumption in m ³	2019	Consumption per m ³ of production	2018	Consumption per m ³ of production
Poznań	14,270	0,318	12,177	0,190
Mszczonów	10,227	0,196	11,464	0,174
Gdańsk	11,525	0,365	13,405	0,368
Bielsko-Biała	5,450	0,370	3,949	0,258
Total	41,472	0,289	40,995	0,226

Amount of waste water discharged in m ³	2019	Consumption per m ³ of production	2018	Consumption per m ³ of production
Poznań	11,265	0.251	8,632	0.135
Mszczonów	1,976	0.038	2,796	0.042
Gdańsk	5,609	0.178	6,281	0.172
Bielsko-Biała	3,410	0.231	2,081	0.136
Total	22,260	0.155	19,790	0.109

5.2.5

Waste

Hazardous waste (e.g. fluorescent lamps, silicone and paint packaging, used sorbent and oils) is stored in properly secured places. It is collected and disposed of by authorised companies on a regular basis. In the hazardous waste warehouse, sump trays are used, which are one of the ways of protection against unwanted environmental impact.

Waste is first and foremost transferred to recovery, especially recycling. The transfer of waste to disposal takes place only when its recovery is impossible for technological reasons or is not justified for environmental or economic reasons.

The waste generated is stored selectively in appropriate containers or bins at designated locations.

In the case of transport carried out by external companies, Pekabex Bet S.A. indicates the destination of the waste and its holder to whom it should be delivered. When selecting a transport company, its authorisation to provide this type of service is verified.

5.2.4

Transport

Centralised planning and coordination of deliveries across the Group enables effective management of the process, which also helps to reduce the negative environmental impact. The Group strives to make greater use of semi-trailer capacity, which translates into fewer deliveries and less involvement of the truck fleet.

Analysed values	2019	2018
Average cargo weight [t]	21.00	20.55
Load capacity [t]	24.00	24.00
Use of semi-trailer capacity [%]	87.5	85.6

Centralisation also facilitates picking smaller loads into full truckloads. As a result, the Group makes more efficient use of semi-trailer capacity and the truck fleet.

The table below shows how the number of shipments has been reduced by means of appropriate load picking.

Analysed values	2019	2018
Number of orders received	2,323	2,287
Number of loads created	1,463	1,600
Decrease in the number of shipments due to load picking [%]	37%	30%

5.2.6

Other environmental aspects

Noise emissions and vibrations are part of technological processes and construction works. Such inconveniences include in particular:

- » increased vehicle traffic around construction sites
- » increased vehicle traffic in the vicinity of plants, especially at night when bulky products can be transported

The Poznań plant is located within the administrative boundaries of the city. Noise emissions and nuisance to employees and residents are reduced by:

- » using a special self-compacting mix wherever possible
- » installing information boards for truck drivers, reminding them of the need to respect quiet hours and containing instructions on how to proceed
- » setting up special waiting and loading areas
- » training for employees and external companies

In 2019, the Group implemented further investments to reduce the level of noise emissions, including the modernisation of gantry cranes operating on the plant landfill sites.

5.3

Pekabex for society



5.3.1

Local communities and social engagement

The Pekabex Group cares for the development of the communities in which it operates: it cooperates with local suppliers and subcontractors, pays taxes and fees to local budgets, cooperates with local governments.

The Group cooperates with public institutions and non-governmental organisations in solving important

socio-economic problems. Pekabex creates jobs directly, as an employer and customer, and indirectly, on the premises of plants or offices it builds.

The Group's operations contribute to the improvement of housing conditions and the development of infrastructure. Not only for people: in 2019, the Company signed a contract for the construction of a dog shelter in Poznań.

The Group has been involved in social initiatives, employee volunteering and support of non-governmental organisations for years. The numerous activities in this area undertaken in 2019 include:

- » support of KKS Sporty Walki Poznań in organising a charity tournament with the participation of stars
- » sponsoring the Bielska 10 event,

during which funds were raised for needy children from Podbeskidzie

- » toy collection for the "Przemek Dzieciom" Foundation and for the Polanki Children's Hospital in Gdańsk, which was conducted by the Company's volunteers from the Gdańsk branch
- » support for the Christmas action of "Gazeta Wyborcza" under the slogan "Donors' Christmas Tree", from which funds were donated, among others, to the Pomorze Dzieciom Hospice in Gdańsk and the "Potrafię Więcej" Association from Poznań

5.3

5.3.2

Respect for human rights

Pekabex respects human rights and condemns all human rights violations.

Any employee or associate who discovers such violations may report them to their supervisor or the Management Board. All reports are considered on a case-by-case basis and constitute the grounds for preventive and corrective action. In 2019, the Management Board of the Company did not record any cases of human rights violations in the Pekabex Group.

The risks associated with this issue are described later in this chapter.

The Group also actively cooperates with the State Construction Schools in Gdańsk and with the Civil Engineering Schools and Technical School of Construction No. 1 in Poznań, where patronage classes are offered.

Since 2014, the Company has been organising a competition for the best thesis. The winners are awarded cash prizes and paid internships.

In 2018, Pekabex began analysing the process of introducing new employees to the organisation. Feedback from newly recruited employees is obtained at meetings with the person responsible for employee development in the Group.

5.3.3

School and academic communities

The Pekabex Group is engaged in the development of social and intellectual capital in Poland by supporting young people's education, participating in scientific conferences and sponsoring educational events.

The Group cooperates with all technical universities in Poland by offering:

- » the possibility of practical training of students during plant and construction site visits
- » its experts' presentations and lectures
- » supporting Master's and PhD theses
- » offering a programme for interns and apprentices, also from abroad

Pekabex has been cooperating with the Poznań School of Logistics for many years, among others, by participating in the dual study programme (logistics, production, transport and logistics), organising study visits and preparing educational materials.

In order to minimise them, the Management Board creates an atmosphere of mutual respect, combats all forms of discrimination, promotes diversity and implements projects to prevent social exclusion.

In 2019, 78 such conversations were conducted (33 in 2018), and the data collected made it possible to improve the process.

The Group offers great development opportunities for young people who are choosing a profession and taking the first steps in their professional career. It has the best engineers on the market, who can share their knowledge and experience with interns and apprentices.

Pekabex maintains constant contact with students and school pupils. Every year, several dozen people take part in student internships in the Group, after which the best participants receive an employment offer.



5.4

Risk management

The Company's Management Board is responsible for the implementation and operation of the risk management system.

5.4.1

Significant risk factors and hazards

The Pekabex Group is exposed to risks related to its operations.

Risk of negative impact of the COVID-19 pandemic on the Group's operations

The Management Board of the Parent Company monitors on an ongoing basis the development of the situation related to the spread of the SARS-CoV-2 coronavirus and the pandemic of COVID-19 disease caused by it. Moreover, it re-examined the risks for the Group as summarised below.

Detailed information on the possible impact of the COVID-19 pandemic on the Group's operations is presented in Note 30 of the consolidated financial statements of the Pekabex Group.

Risk description

Risk related to the macroeconomic situation

Materiality (1-5, with 5 being the maximum materiality)
Countermeasures

The achievement of the Group's strategic objectives and financial results is affected, among others, by macroeconomic factors, the effects of which are independent of the Company's actions. These include the stability of the political situation, inflation, the general condition of the Polish economy, changes in the economic situation, the level of gross domestic product, tax policy, changes in interest rates and national real estate market policy. The Group's operations are primarily closely dependent on the economic situation in the construction industry, investment demand, business development plans and plans concerning infrastructure expenditure.

Due to the current economic situation, the development of the industries in which the Group operates, or intends to operate, may be slowed down, due to, among other things, the suspension of investment processes, incomplete implementation of investment assumptions, abandonment of investment programmes and changes in the investment conception, often after the completion of two-stage tendering procedures, which are costly for bidders.

The construction industry is highly sensitive to the macroeconomic situation and its development is highly dependent on the economic cycle. From the point of view of the Company's strategic decisions, the ability to adapt the organisation and its operations to the changing economic situation in the country and in the regions where the Group companies implement projects is of key importance to the Group.

Risk of slowdown in the development of the industries in which the Group operates

In order to minimise the risk, the Group monitors the market situation and cooperates with reputed external advisers.

The Company conducts activities aimed at cost optimisation and development on new markets.

Risk description

Materiality (1-5, with 5 being the maximum materiality)

Countermeasures

Risk of engineering error

The Company offers comprehensive design services provided by internal and external engineers. Design and construction involves the risk of engineering error, resulting in significant costs or even demolition of a facility.

4

Careful selection of engineering staff with appropriate qualifications and experience, as well as continuous training of designers make it possible to mitigate this risk. Additionally, the Group applies internal quality control procedures.

The Group diversifies its sources of revenue, also by operating on foreign markets, which allows it to reduce the risks associated with the slowdown in the development of particular industries. Moreover, in order to minimise the risk, the Company monitors the market situation and carries out activities aimed at cost optimisation and development on new markets.

The activities undertaken are aimed at preparing the Group, from the financial and organisational point of view, for variable economic cycles.

Risk of accidents at work

The operations of the Group's companies, like any other company involved in production and the provision of construction and assembly services, are exposed to the risk of accidents at work. This applies mainly to employees who operate machines and equipment in production plants and on construction sites.

4

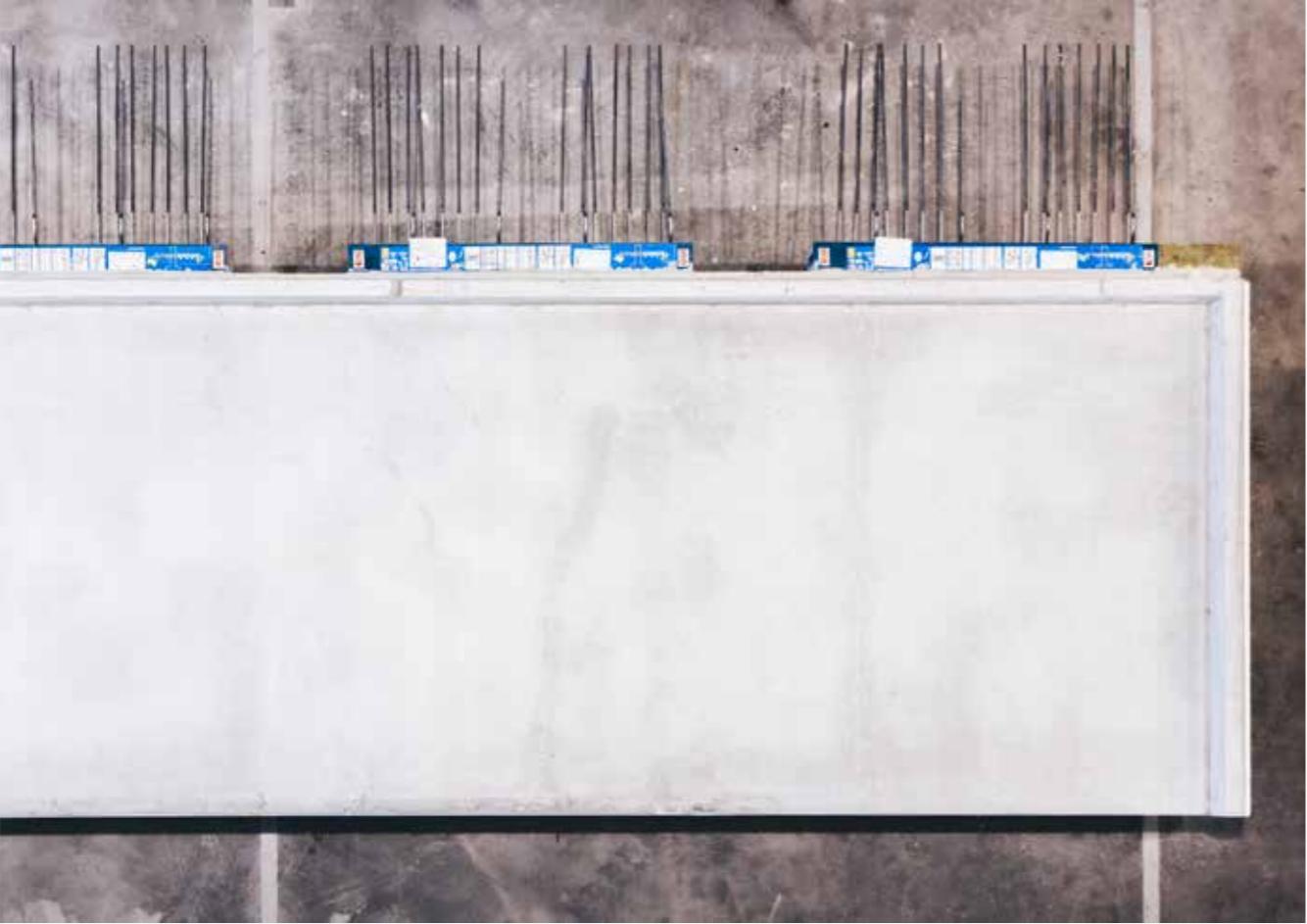
In order to minimise this risk, the Company takes actions to improve occupational health and safety. Before being allowed to start work, each employee receives OHS and on-the-job training, and each employee in the production area is provided with protective clothing and personal protective equipment. The Group monitors this risk on an ongoing basis and takes appropriate action.

In order to minimise the risk, the Management Board monitors and directs the implementation of the Group's strategy on an ongoing basis.

Risk related to strategic objectives

The Group's strategic objectives may not be achieved. The market on which the Group companies operate is subject to constant changes, therefore its financial situation depends on developing an effective, long-term strategy and adapting it to changing conditions. Any wrong decisions made as a result of inability to adapt to the changing market conditions may have a material adverse effect on the Group's operations, financial position, results or development prospects.

2

Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures	Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures
Risk related to the nature of construction activity			The economic efficiency of the production conducted by the Group companies is largely dependent on the fluctuations in raw material prices, including primarily steel, cement and aggregates. An increase in raw material prices may result in an increase in the Group's production costs. There is a significant risk that in the future the prices of the strategic raw materials it uses will increase which will cause the prices of the offered products to increase and, as a result, their sale will decrease. It should be noted that the increase in raw material prices should equally affect all manufacturers, including the Company's competitors, which increases the chances of passing these costs on to customers. The Group analyses raw material markets as well as prices of services on an ongoing basis. Tenders submitted to contracting entities take into account current market prices and the anticipated price volatility. Due to average contract execution periods, this risk has so far been limited. The Group does not use derivatives to hedge prices of goods and services.	2	The risk is minimised by, among others, cooperation with reliable suppliers based on long-term contracts, monitoring the market of raw materials used by the Company, not being dependent on a single supplier, executing contracts with a relatively short execution period and reacting to changes in raw material prices by adjusting valuations and offers to customers.
Risk related to the loss of capability to perform contracts due to failure, destruction or loss of assets			Risks related to possible claims for damages from contractors		
In the event of failure of machines used by the Group companies, their destruction or loss, there may be a risk of temporary suspension of the performance of the concluded contracts, in whole or in a substantial part. Significant downtime may lead to failure to meet the agreed contract execution deadlines and may result in contractual penalties, which may have a negative impact on the Group's operations, financial position or results.	2	The Group monitors the machinery park on an ongoing basis, carries out modernisations and expansions, and has appropriate insurance at an adequate level. Additionally, in the case of a failure, production may be transferred to other Group plants.	The Group companies execute orders and construction projects for a variety of customers. Contracts concluded with them contain clauses obliging the Group companies to perform the subject of the contract in accordance with specified technical requirements, as well as within specified deadlines. The parties also include provisions on liability for damages and contractual penalties in their contracts.		
Risk related to changes in market prices of raw materials			In particular, delays in the various stages of the production process may cause delays in the delivery of products manufactured on contractors' request, and thus result in the obligation to pay contractual penalties to them. This may contribute to a decrease in the profitability of a given contract and, consequently, have a negative impact on the Group's financial position.	3	The Group applies internal procedures for the monitoring and control of the production process as well as contract execution. This means that its reaction to events is immediate.
			In addition, non-performance or improper performance of contracts or the occurrence of other events giving rise to liability on the part of the Group companies results in the risk of raising significant claims for damages and claims for contractual penalties against them.		
			It also cannot be ruled out that the occurrence of claims will result in the loss of contractors, deterioration of financial conditions for the provision of services or weakening of the Group's competitive position. The occurrence of any of the above circumstances may have a material adverse effect on the Group's operations, financial position, results or development prospects.		
			Risk related to the implementation of property development projects		
			Due to their complex legal and technical nature, there are many significant risks associated with the implementation of property development projects. These include, in particular, failure to obtain the required permits, necessary to use the land in accordance with the Group's plans or to commission the building, delays in the completion of construction, costs exceeding budget assumptions due to adverse weather conditions, insolvency of contractors or subcontractors, labour conflicts with contractors or subcontractors, shortage of materials or construction equipment, accidents or unforeseen technical difficulties, as well as changes in regulations governing land use. The occurrence of any of these risks may result in a delay in the implementation of a property development project, an increase in costs or loss of revenue, the freezing of funds invested in the purchase of real property for the project and, in some cases, the inability to complete the investment, which may have a material adverse effect on the Group's operations, financial position, or results.	2	The Group has an organisationally separate team of specialists in the field of implementation of property development projects. The Group applies internal procedures for the monitoring and control of the production process as well as contract execution. This means that its reaction to events is immediate.

Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures	Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures
Risk related to liability under warranty for physical defects and guarantee of quality of manufactured products			Interest rate risk		
The Group companies are responsible for the warranty for physical defects of manufactured products, unless it has been excluded on the basis of a concluded agreement, and for the guarantee of quality of performed works in cases where it has been granted. There is a risk that if defects or faults occur during the warranty or guarantee periods, the contracting entities will make relevant claims against the Group companies, which may result in additional costs and consequently have a material adverse effect on the Group's operations, financial position and results of operations. This risk is lower with respect to prefabricated structures manufactured by the Group than in the case of comprehensive services.	3	The Group applies internal procedures for quality control and contract performance, and employs suitable, trusted subcontractors. The level of defectiveness of prefabricated elements is very low compared to traditional construction. A post-contract service department was established in the Group, which responds to possible remarks of the contracting entity on an ongoing basis.	The Group is exposed to interest rate risk in connection with the following categories of financial assets and liabilities: loans, borrowings, debt securities (other financial assets), other debt instruments, financial leasing.	1	The Group assesses the risk related to a given credit facility agreement on a case-by-case basis. In the case of investment/long-term credits, the Group enters into interest rate hedging transactions (IRS). In 2018, the Group implemented a hedge accounting policy in order to limit the risk of result fluctuations resulting from changes in the valuation of the derivative instrument, which is the IRS.
Risk related to the insolvency of contractors			Risk related to guarantees		
Applied assessment systems, the monitoring of the financial standing of contractors, receivables collateral and the internal system of procedures and reporting may not be appropriate and suitable for each type of a contractor. Moreover, there is a possibility of underestimating the risks related to the financial standing of contractors.	3	The Group monitors arrears on an ongoing basis by analysing credit risk individually or within particular asset classes, determined on the basis of that risk (resulting from e.g. industry, region or customer structure). Trade credit is granted to reliable contractors, and the sale of products to new customers is in most cases made with the use of additional collateral in the form of advances, bills of exchange, prepayments, bank guarantees and corporate guarantees and sureties. Moreover, most contractors with trade credit have a reservation of title to prefabricated elements supplied by the time of payment of the amount due in their contracts.	In connection with their business activity, the Group's companies request insurance companies and banks to issue guarantees concerning, among other things, payment of the bid bond, performance bond, proper removal of defects and faults, as well as reimbursement of advance payments, which are required by investors, contracting entities and other contractors. If the contractor is satisfied with the guarantees granted by insurance companies and banks at the request of the Group companies, the guarantors will be entitled to a return claim against the Group companies for the refund of the amount paid out, increased by the costs of guarantee performance, including interest. Moreover, in the event of breach of the Group companies' obligations under agreements with insurance companies and banks, on the basis of which guarantees are issued, these entities will be able to satisfy their claims through the performance of the collaterals indicated in the agreements.	2	The Group applies internal procedures for the monitoring and control of the production process as well as contract execution. This means that its reaction to events is immediate.
Risk related to new investments			Risk related to entering into agreements with related parties		
The Group's investments mainly concern the acquisition of investment land, other entities or enterprises, as well as the construction of new plants and the increase of production capacity. There is a risk that the planned investments will not be implemented and that they will not yield a satisfactory return on capital employed. The occurrence of these risks may result in a slowdown in the Group's development and strategy implementation.	2	In order to minimise the risk of taking over an entity burdened with risks (from capital to legal and organisational), the Group conducts a legal and a functional and organisational audit of the entity to be taken over before assuming financial obligations. In the case of building new plants and increasing production capacity, the Group conducts a market analysis and discerns possible scenarios in order to make an optimal decision and secures the financing of a given investment at an early stage. In addition, the Group prepares plans for its operations after the expansion of operations.	The Group companies enter into transactions with other entities belonging to the Group, including related entities within the meaning of the Corporate Income Tax Act. These transactions ensure effective business operations within the Group and include, among others, mutual provision of services, including design services, execution of works and sale of goods. Due to the specific nature of transactions between related parties, the complexity and the ambiguity of legal regulations concerning the methods of examining the applied prices, as well as difficulties in identifying comparable transactions, it cannot be ruled out that the methods of determining market conditions adopted by the Group entities will be challenged by the tax authorities or tax inspection authorities. This may have a material adverse effect on the Group's operations, financial position, results or development prospects.	2	As a rule, the Group does not enter into agreements with related parties on terms other than market terms. The Group employs qualified staff and monitors changes in regulations and case-law on an ongoing basis, cooperating with reputed external advisers, and requests individual interpretations.
Credit risk			Risk related to the possibility of breaching obligations under financial agreements by the Group companies		
There is a possibility of insufficient monitoring of customers' and creditors' arrears. The applied credit risk analysis, either individual or within particular asset classes, determined on the basis of risk, may overestimate or underestimate the real level of risk.	3	The Group limits its exposure to credit risk by assessing and monitoring the financial standing of its contractors, using collateral for receivables and an internal system of procedures and reporting. In addition, the Group tries to make transactions with reliable contractors.	Financial agreements entered into by the Group companies as part of their business activities impose certain obligations on them, including the requirement to maintain certain financial ratios at agreed levels and to provide information, among others, on their financial position. Failure to comply with these obligations and breaches of prohibitions may result in a breach of the agreement and an obligation to repay the credit early. In addition, the financing entity may be entitled to satisfaction through the exercise of rights related to the established collaterals, including taking over the ownership of encumbered assets of the Group or ordering their sale. Additionally, the Group companies use part of their car fleet, computer hardware, machinery and equipment under lease agreements. Non-performance of obligations under lease agreements or other breach of their provisions may result in termination of the agreements by the financing parties and the obligation to return the leased assets, which may affect the Group companies' ability to conduct business activity, and, consequently, the ability to perform their obligations under contracts.	3	The Group applies internal procedures for monitoring and reporting obligations arising from the concluded financial agreements and fulfils them in a timely manner. The Group monitors and adapts its financial policy to the operational needs on an ongoing basis.

Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures	Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures
Bond risk			Risk related to the Poznań plant's location in the vicinity of single-family buildings and the proceedings conducted in connection with the determination of the permissible noise level		
The benefits from bonds consist in the redemption of the bonds through the payment of their nominal value and the payment of interest and, in some cases, also bonuses. These benefits will not be provided or may be delayed if, as a result of the deterioration of the financial standing, the Company does not have sufficient funds at its disposal when due. In the event of failure to cover the liabilities arising from bonds, in whole or in part, within the time limit, the bondholder will be entitled to submit a written demand for immediate early redemption of all bonds held by them. Additionally, failure to cover liabilities relating to bonds may result in the risk of bankruptcy of the Company, and consequently in the risk of loss of all or part of the funds invested in the bonds. Bonds do not constitute a bank deposit and are not covered by any deposit guarantee scheme.	2	The Group monitors its obligations under the concluded agreements and fulfils them in a timely manner. Furthermore, it monitors and adapts its financial policy to the operational needs on an ongoing basis.	One of the Group companies, Pekabex Bet, was a party to administrative proceedings aimed at determining the maximum permissible noise level emitted to the environment by the Poznań plant. As of the date of publication, no proceedings are pending in this case, however, the Group cannot exclude that any future proceedings, if they occur, will result in a final and legally binding decision unfavourable to Pekabex Bet. In such a case, the Company will be obliged to comply with reduced noise emission standards. Moreover, according to the environmental protection regulations, if the noise level specified in the decision is exceeded, the Voivodeship Inspector of Environmental Protection may impose a fine on Pekabex Bet, and in special situations, i.e. a threat to life or health or significant deterioration of the environment, it may suspend the operation of the plant to the extent necessary to prevent the deterioration of the environment. The above may have a material adverse effect on the Group's operations, financial position and performance.	4	Wherever possible, the Group reduces noise emissions by using a special self-compacting mix. The Group has implemented and continues to implement further investments to reduce noise emissions (e.g. crane noise reduction).
Risk of insufficient insurance cover			Risk related to competition		
Insurance policies held by the Group may not protect it against all risks and losses that it may incur in connection with its operations. Certain types of insurance may not be available at all, or may not be available on commercially reasonable terms, e.g. in the case of risks related to natural disasters, terrorist attacks or wars. Other factors, including, in particular, inflation, changes in construction law and environmental issues, may also result in insurance proceeds not being sufficient to repair the damage that has occurred. In addition, the Group may incur significant losses or damage for which it is impossible to obtain full or any compensation. In other words, the Group may not have sufficient insurance coverage against all the damage it may suffer. Nor can it ensure that in the future there will be no significant damage exceeding the limits of insurance coverage.	2	The Group periodically verifies the level of insurance coverage, and in the case of the contracts being performed, it analyses the adequacy of the insurance held in relation to operational risks and customer requirements on an ongoing basis. The Group cooperates with an experienced insurance broker. The Group has property, civil liability (including personal liability), transport, construction and assembly risks, machinery and equipment, electronic equipment and employee insurance.	The Group's operations are exposed to the risk of competition from entities offering services in the same markets. The Group is exposed, in particular, to significant competition on the market of enclosed structures, where it offers the construction and assembly of prefabricated structures. Due to strong competition on the Polish construction and prefabrication market, the Group also accepts orders from foreign customers, geographically diversifying its sales revenues.	2	The Pekabex Group reduces the risk of competition by: taking care of the high quality of services provided, systematic improvement of knowledge and qualifications in the field of modern technologies, diversification of revenue sources (product and geographical), comprehensive services and customer service, innovation, investing in highly qualified engineers and specialists, systematic work on improving efficiency and effectiveness.
Risk related to administrative and legal proceedings			Liquidity risk		
The Group companies are parties to administrative and legal proceedings, including those concerning receivables and liabilities under trade agreements. It cannot be ruled out that they will result in decisions unfavourable to the Group. Moreover, it is possible that other proceedings may be initiated in the future against the Group companies or by the Group companies in connection with their business activities, which may also involve decisions unfavourable to the Group. Some of the unfavourable outcome of legal, arbitration or administrative proceedings may have a material adverse effect on the Group's operations, financial performance, financial position and development prospects.	3	The Group employs qualified staff and monitors changes in regulations and case-law on an ongoing basis, cooperating with reputed external law firms. When regulations change, the Group adjusts to the new rules and obligations on an ongoing basis.	The Group, like any other business entity, is exposed to the risk of loss of liquidity, i.e. the ability to meet financial liabilities on time.	2	The Group actively manages the liquidity risk by monitoring the maturity of its receivables and liabilities and the demand for cash to service short-term payments (current transactions monitored on a weekly basis), as well as long-term demand for cash, based on cash flow forecasts updated on a monthly basis. The demand for cash is compared with the available sources of funds (especially by assessing the ability to obtain credits) and collated with investments of free funds.

Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures	Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures
Foreign exchange risk			Environmental protection risk		
The majority of the Group's transactions are carried out in PLN. The Group's exposure to currency risk results from foreign sales and purchase transactions, which are made primarily in EUR and SEK, as well as from construction contracts performed in Poland, in particular as a general contractor, denominated in EUR. Therefore, significant fluctuations of EUR or SEK to PLN exchange rates may, in particular, reduce the value of the Group's receivables, or increase the value of its liabilities. Changes in exchange rates may therefore have an adverse effect on the Group's operations and financial position.	1	Revenue and costs in Scandinavia are mainly earned and incurred in PLN. Revenue and costs earned and incurred by the German branch in EUR are, to a large extent, balanced. In the case of significant contracts denominated in foreign currencies (especially in EUR), the Group minimises the risk by entering into currency transactions (forwards). In order to limit the impact of changes in the EUR/PLN exchange rate on the results achieved by the Group in 2018, a hedge accounting policy was implemented.	The provisions of the law on environmental protection in Poland impose obligations pertaining to the remediation of land contaminated with hazardous or toxic substances on owners. It should be noted that if the so-called historical pollution of the ground surface (damage which occurred until 30 April 2007, as well as damage which was caused by activities completed before 30 April 2007) is revealed in the areas for which the Group companies are the entity in charge, they may be obliged to remediate the land, regardless of who caused the damage and when it was caused, and the costs of pollution removal or remediation may be significant.	2	In the Group's opinion, the risk is small, however, its occurrence may have a material adverse effect on the Group's operations, financial position and results. The Group makes every effort to reduce the use of natural resources in its production processes through the use of new technologies, and implements procedures to reduce the environmental impact of the Company. The Group holds all the permits required by law.
Risk related to inability to find new employees and retain qualified employees	4	The market for qualified employees is complex and the Group encounters difficulties in attracting them. In order to recruit a sufficient number of appropriately qualified people, the Group has an internal recruitment department and an internal incentive programmes and cooperates with employment agencies. The Group also hires employees from Ukraine.	Tax law regulations are complex and unclear and subject to frequent changes. There is a risk that with the introduction of new regulations, the Group companies will have to incur significant costs related to compliance and/or non-compliance with the new regulations. In addition, tax authorities apply tax law in a non-uniform manner, and there are significant discrepancies in the judicial decisions of administrative courts with regard to tax law. The Company cannot guarantee that tax authorities will not interpret the tax regulations implemented by the Group companies in a different way, which is unfavourable to the Group companies. It also cannot be ruled out that particular tax interpretations already obtained and applied by the Group companies will be challenged.	4	The Group employs qualified staff and monitors changes in regulations and case-law on an ongoing basis, cooperating with reputed external advisers, and requests individual interpretations.
Risk related to the loss of key employees	4	The Group strives to mitigate this risk by building long-term relations with its employees and providing an attractive working environment. The status of a public company listed on the WSE additionally contributes to building a good image.	In view of the above, it cannot be excluded that disputes with tax authorities may arise, and as a result, they may question the correctness of tax settlements of the Group companies with respect to their non-time-barred tax liabilities and determination of their tax arrears. In addition, due to the fact that the Group operates in different jurisdictions, its operations are also affected by double taxation agreements concluded by the Republic of Poland with other countries. A different interpretation of these agreements by tax authorities and amendments to these agreements may have a material adverse effect on the Group's operations, financial position, or results. In addition, in 2017, regulations on VAT reverse charge were introduced (as of the balance sheet date no longer in force) with respect to the specified types of construction services. Due to the lack of practice and judicial decisions regarding the application of the above-mentioned regulations, there is a risk of misinterpretation by the Group companies and, consequently, of issuing invoices with an incorrect VAT rate, which will result in the necessity to make corrections and possible refunds of underestimated tax.	4	The Group employs qualified staff and monitors changes in regulations and case-law on an ongoing basis, cooperating with reputed external advisers, and requests individual interpretations.
Risks related to employees working in Germany	3	As of the date of this report, to the best of the Group's knowledge, there are no grounds to question the practice adopted by the Group. The status of a public company listed on the WSE should further mitigate this risk, as it builds a good image of the company.	Risk related to changes in foreign law	3	The Group also operates abroad, mainly in Germany and Scandinavia. Foreign laws may be subject to different interpretations and may be applied in a non-uniform manner. In addition, the laws of the jurisdictions in which the Group operates are subject to change. It cannot be excluded that the introduction of new regulations will give rise to significant costs related to compliance and possible costs related to non-compliance with them. The Group cannot guarantee that its interpretations of the laws in force in the countries in which it operates will not be challenged, which may result in corresponding legal consequences for the Group. The above may have a material adverse effect on the Group's financial position, or results.
Pekabex Pref hires Polish employees and posts them to Germany to work for the customers of the local branch of the company. The accounts with these employees are settled in accordance with the rules applicable to employees temporarily posted to work in another EU Member State, e.g. social security contributions from their salaries are paid to the Polish Social Insurance Institution (ZUS). Therefore, it cannot be ruled out that the factual circumstances in which the employees work may be grounds for the conclusion that their permanent place of work is Germany, and that the rules on posting are not applicable to them. In addition, it cannot be ruled out that the company will be covered by collective labour agreements applicable to workers in the construction industry in Germany. This creates a risk of employees demanding that their working conditions and pay be shaped in accordance with the provisions of these collective labour agreements.					The Group employs qualified staff and cooperates with reputed external advisers. When regulations change, the Group adjusts to the requirements resulting from the new rules and obligations on an ongoing basis.

Risk description	Materiality (1-5, with 5 being the maximum materiality)	Countermeasures
Risk related to operations on markets other than the Polish market		
The Group also operates in Germany, Sweden and Denmark. Statutory law is the foundation of civil law. The laws of these countries are subject to different interpretations and may be applied in a non-uniform manner. The Company cannot guarantee that its interpretation of the laws of the countries in which it operates will not be challenged, which may result in a penalty or fine, or a necessity to change its practice. All this may have a material adverse effect on the Group's financial position, or results.	2	The Group employs qualified staff and cooperates with reputed external advisers.

Risk related to the internal control system in the Company's structures		
It cannot be excluded that the procedures applicable in the Company may not be fully suitable for the Company's and the Group's operations and, consequently, may not be a source of reliable information about the Company and the Group. This may have an adverse effect on the effectiveness of the way the Company is managed and, consequently, on the Group's development prospects and financial performance.	2	The Group reviews and updates the applied procedures in terms of changes in regulations and current internal processes.



5.4.2

Anti-corruption activities

respect.

Any employee or associate who discovers corrupt practices may report them to their supervisor or the Management Board. All reports are considered on a case-by-case basis and constitute the grounds for preventive and corrective action. In 2019, the Management Board of the Company did not record any corrupt practices in the Pekabex Group.

The risks associated with this issue relate to the Group's reputation, the deterioration of relations with contractors, legal liability and other

areas described in the table in this chapter.

In order to minimise risks, the Management Board creates an atmosphere of mutual trust and rejects all manifestations of lack of transparency in activities undertaken within the Group.

5.5

Changes in fundamental management principles

In 2019, there were no significant changes in the fundamental management principles in the Pekabex Group.

The Company monitors changes in law and regulatory requirements and, where necessary, takes appropriate action, in particular with regard to the implementation and updating of internal policies and procedures, including the procedure for anonymous reporting of violations of the law or procedures for combating money laundering and terrorist financing.

6.0

Outlook



6.1

Market position

The Group is the largest manufacturer of prefabricated concrete products in Poland; it offers comprehensive services in the field of prefabricated concrete structures, starting from design through production, delivery and assembly of prefabricated reinforced and prestressed concrete elements. Additionally, the Group offers comprehensive implementation of construction contracts, mainly in the area of enclosed structures, including halls and production and storage facilities. As at the balance sheet date, the Group had five plants in Poland, a branch in Germany owned by Pekabex Pref and a branch in Sweden owned by Pekabex Bet.

Contracts are implemented in Poland, Germany, Sweden and Denmark, while production services are provided in Germany.

The demand for prefabricated construction products and reinforced and prestressed concrete elements is closely correlated with the development of the construction industry, and this is strongly linked to the macroeconomic situation in the country, especially the economic situation.

Prefabricated concrete products are currently used in the construction of almost all types of buildings. They are the answer to many problems faced by construction companies. Their use means:

- » less need for human labour thanks to automation of processes in the factory,
- » high quality thanks to production in a controlled production hall environment,
- » possibility of obtaining very high parameters (e.g. load capacity, span, fire protection),
- » speed of investment implementation and thus lower costs, e.g. construction site maintenance,
- » lower operating costs, e.g. increased load-bearing capacity of roof girders means that there is no need to clear roofs of snow or use additional

reinforcements when installing photovoltaic panels,

- » a smaller carbon footprint, as confirmed by research.

Poland is the main market for the Group. The largest domestic customers for its products include direct investors and general contractors constructing large-size buildings, residential buildings and implementing infrastructure investments.

According to the SPECTIS report, the Pekabex Group is the largest manufacturer on the Polish market of heavy concrete prefabrication, and its share in the production of the 50 analysed companies is 18%. Thanks to the revival in railway construction, the next three places in the ranking are held by the manufacturers of prestressed concrete sleepers: Track Tec, STRUNBET and Wytwórnia Podkładów Strunobetonowych (Prestressed Sleepers Production Plant). Other important manufacturers are Betard, Goldbeck Comfort, Gralbet and CONSOLIS. A total of 10 companies account for 64% of the production of 50 entities.

According to forecasts made before the outbreak of the pandemic, in 2020 the construction market was to be driven by the growing investment expenditure of the largest public investors in the area of infrastructure. Very good contracting in the years 2018-2019 in the market for large road and railway investments allowed us to estimate that in 2020 many of them will enter an advanced stage of implementation, and thus construction and assembly production in the infrastructural segment will increase compared to 2019. Due to the COVID-19 pandemic, the situation on these markets is unstable and it is difficult at this point to estimate how significant negative impact it will have on the construction industry.

Construction market in Poland – prefabrication

Preliminary data for 2019 show that the development of the prefabrication market has also clearly slowed down, mainly as a result of a drop in demand from the non-residential segment. The value of the prefabrication market amounted to nearly PLN 3.2 billion, which translates into an approx. 5% increase in nominal terms and an approx. 3% decrease in real terms. For nearly a decade, the prefabrication sector has been consistently increasing its share in the economy, both in terms of GDP and the value of the construction market. Compared to the Scandinavian countries or the German market, however, its share is still small,

which, according to experts, shows great potential for growth. Forecasts for 2020-2025 indicate a significant likelihood of further growth in the prefabrication market, although not as dynamic as in 2017-2018. In 2022, the value of this market should exceed PLN 4 billion, which will correspond to about 2 million m³ of prefabricated products. The largest market segment (nearly 30%) is a group of structural elements used in enclosed structures, such as, among others, foundation footings and foundations, columns, beams, girders and stairs. The second segment in terms of value is prestressed concrete sleepers (almost a quarter of the

market), and the third is the floor and balcony segment (18% market share). The other segments have only one-digit market share. Important product groups include walls, bathroom modules, pylons, towers and poles and loading docks.

In the years 2017-2018, manufacturers of prefabricated structures experienced a significant increase in the prices of steel (representing 60-70% of material costs), cement (20-25%) and aggregates (15-20%). The cost of labour and foreign services also increased. Rising costs were reflected in product prices. While in the years 2016-2017 the production of 1 m³ of prefabricated products (not including transport and assembly) generated average revenue of about PLN 1.5 thousand for manufacturers, in 2018 it was already PLN 1.8 thousand. This means that in 2018, the average price of prefabricated products increased by 15%.

The development of the prefabrication market largely depends on the consistent implementation of government investment announcements, especially those concerning the improvement of the Mieszkanie Plus scheme, the timely launch of further large railway investments and the implementation of the Central Communication Port.

In the experts' opinion, the latter project could be largely based on prefabrication solutions.

The construction market, in particular the prefabrication sector, is adversely affected by:

- » uncertainty about the scale of the negative impact of the COVID-19 pandemic on the national, European and global markets
- » expected slowdown of economic growth in Poland between 2020 and 2022 (forecasts made even before the outbreak of the pandemic)
- » high dependence of the Polish prefabrication industry on the industrial and warehouse building segment recording a slowdown
- » opening up of the German market to workers from Ukraine, which may result in the outflow from Poland not only of construction workers, but also of personnel from domestic prefabrication plants
- » risks associated with the decline in qualifications of production workers and limited availability of experienced staff
- » entering the prefabrication segment by leading industrial and warehouse contractors in 2017-2018, which may reduce the number of orders from this sector to the leading manufacturers of prefabricated products in the coming years
- » the need to compete for orders from the Scandinavian market with Lithuanian and Latvian producers with lower labour costs
- » the significant drop in steel prices observed in 2019 and a further increase in cement and concrete prices, which in the case of selected

6.2

Conditions for further development of the Group

Construction market in Poland

The construction market in Poland, which is still one of the fastest growing in the EU, is mainly influenced by the economic situation in the country and in Europe.

In 2019, there was a decrease in economic growth compared to 2018. According to preliminary estimates of the Central Statistical Office (GUS), the growth of gross domestic product in 2019 in constant prices of the previous year was 4.0%, while in 2018 it was 5.1%. Deterioration of the GDP growth rate was particularly noticeable in the fourth quarter, in which, according to a quick estimate of the Central Statistical Office (GUS), the economic growth fell to 3.1%, while in the third and second quarter it was 3.9% and 4.6%, respectively.

The general economic situation in the construction industry in 2019 was similar to that in 2018. Compared to the previous year, when the percentage of business entities operating in this sector indicating a strong shortage of qualified personnel was growing, the value of this indicator stabilised in 2019. A comparable easing of sentiment took place with respect to the cost of materials, but there remained the limitations that the Group had already pointed out in the previous report. An increasing number of construction industry players mention high labour costs, lack of skilled workers, significant burden in favour of the state budget, imprecise regulations and uncertainty in the overall economic situation (now further exacerbated by the COVID-19 pandemic) as key barriers to their activities.



types of buildings may reduce the competitiveness of prefabricated concrete products

Behind the risks described above for the construction market and the prefabrication sector are also the opportunities that Pekabex takes advantage of. The Pekabex Group with its product is a response to the needs of investors in terms of the speed of project implementation while minimising costs. The projected further increase in labour costs in the construction industry, concerning both qualified engineering staff and blue-collar workers (an important context here is the increase in the minimum wage announced by the government to PLN 4 thousand gross in 2023), will increase the price competitiveness of prefabricated products. The construction time of prefabricated buildings is even half as long as those constructed using traditional technology. In addition, the Group invests in modern processing lines, significantly reducing the involvement of human labour in the production process. Its advantage is also the fact that it has five production plants, optimally located geographically,

Development of housing construction

The level of sales of residential units in 2019 was high, but the forecasts for 2020 are difficult to estimate. Prior to the World Health Organisation's announcement of the pandemic, experts assessed that there are factors that make scenarios for further growth in demand likely. They include:

- » customers withdrawing from low-interest deposits and transferring their funds to the real estate market, in the hope of high rates of return on both rental and so-called flipping (purchase for a relatively low price, renovation or finishing of the apartment and quick resale with high profit)
- » wage growth on the labour market with a simultaneous rapid GDP growth rate, which made it easier to make decisions on purchasing property
- » relatively low cost of mortgage

loans, which allowed for great involvement of investors; thanks to financial leverage, they purchased more property, thus expanding their portfolio of investments for rent

- » government schemes that provide assistance in purchasing one's own apartment
- » unsatisfied housing needs in Poland, which ranks as one of the last in Europe in terms of the number of apartments per 1,000 inhabitants.
- » government announcements indicating the possibility of including real estate development companies in the Mieszkanie Plus scheme

Projects in the form of public-private partnerships (PPP) could also be an opportunity for further development of the housing construction market. In Poland, PPP is still implemented on a limited scale, usually with small projects.

Housing market in Poland – prefabrication

In 2019, 207,479 apartments with a total usable area of 18,376.6 thousand m² were commissioned.

In comparison to the previous year, an increase in the number of new apartments by 22,416 (12.1%) and an increase in the newly commissioned usable area of apartments by 1,667.1 thousand m² (10.0%) were recorded. The number of apartments the construction of which has begun increased by 6.9% in 2019 compared to the previous year. The number of apartments for which construction permits have been issued or which have been notified with a building permit design increased by 4.4% compared to 2018.

In 2019, there was an increase in the number of new apartments for sale or rent; 130.9 thousand were commissioned (16.6% more than in 2018). The good economic situation is confirmed by the number of apartments for sale or rent for the construction of which permits have been issued (167.3 thousand, an increase by 4.6% year on year) and

the number of such apartments the construction of which has begun (142.0 thousand, an increase by 7.9% year on year).

In 2019, 85,719 new residential buildings were commissioned, 8.1% more than in the previous year. The total cubic capacity of the new residential buildings was 89,929.6 thousand m³ (an increase of 12.0%).

In residential construction, as in previous years, traditional construction technology prevailed, which was used in the construction of 98.4% of new residential buildings commissioned. The average time from the start of construction of a new single-family residential building to its commissioning was 38.9 months in 2019. Multi-family buildings commissioned in the analysed period were constructed in a period twice as short as that above, i.e. approx. 20 months.

Unfortunately, taking into account the current market situation, Pekabex estimates that the economic situation in both residential and non-residential construction will deteriorate, especially in the short and medium term.

Residential investments of the Group

In 2019, the Group continued the implementation of the JA_SIELSKA pilot property development project, consisting in the construction, in modular construction technology, of 6 five-storey buildings. The investment consists of 162 two-, three-and four-room apartments with an area of 36 to 86 m².

Stage I of the project (56 apartments in 2 buildings) is already closed, and all 55 units put up for sale have already been sold; the next stage is under construction and sale. By the end of March 2020, the Group signed 43 property development agreements for the second stage of the project (4 buildings, 110 apartments) and entered into several dozen paid reservation agreements.

In 2019, the Group started another pilot project, consisting in the construction of 12 terraced houses in modular technology.

Speaking of the current prefabrication, we mean modern technology, which allows the construction of buildings with parameters that are much higher than those of known so-called large panel system blocks, and very often also than those of new buildings constructed in traditional technology.

Interest in the subject of modular construction is very high among developers, especially due to the pace of work. Shortening the construction time translates into lower costs and lower financing requirements for developers. It is also very attractive

for customers who want to live in their dream apartment as soon as possible.

According to the Central Statistical Office (GUS), the average construction time of a residential building by a developer is currently about 20 months.

Two residential buildings in the JA_SIELSKA housing estate were built in less than a year. If things go well and Poles become convinced of modular construction, the implementation of projects at the Group's own risk may become an important part of their operations.

The Group also carries out residential projects on foreign markets, in particular on the Swedish market.

A significant part of the contracts in Sweden relates to residential construction.

A more detailed description of the implemented projects is provided in section 3.6 of this report.

6.3

Short-, medium- and long-term perspective

The Group's Management Board and independent experts agree that prefabricated products can be used in every segment of the construction market. They significantly shorten the investment process, which can be best seen on the example of industrial and warehousing buildings. Prefabricated construction enables precise construction of complex facilities and their easy expansion, as well as repeated use of processed elements.

Key internal factors relevant to competitiveness and business development

High quality of products

The prefabricated structures

manufactured by the Group, thanks to the use of modern technical and technological solutions, are of very high quality. They achieve very high parameters, e.g. in terms of load capacity, span and fire resistance.

The Group holds certificates confirming that its products comply with the regulations and standards in force in the European Union. In addition, the Company has a certified Quality Management System, based on the requirements of the ISO 9001:2008 standard, as well as an Integrated Quality, Environment and OHS Management System in accordance with the ISO 9001:2008, ISO 14001 and BS OHSAS 18001 standards.

Adequate intellectual resources and production capacity to carry out the most difficult projects

The Group has highly qualified staff, whose knowledge and competences it intends to strengthen through external courses and training, as well as participation in internal processes.

Geographical diversification

The Group is gradually increasing its production capacity through organic

growth and acquisitions (acquisition of the plant in Bielsko-Biała in 2012, the plant in Gdańsk in 2015, finalisation of the purchase of the plant in Mszczonów in 2016), as well as through the construction of a modern production plant in Gdańsk and investments and solutions to increase the efficiency of the existing production facilities. At present, the production capacity is over 230 thousand m³ per year.

Automation and digitisation

is the Group's response to the development of new technologies and related new business models. In 2019, the Group constructed a modern production plant, in which an innovative processing line for the automated production of prefabricated Filigran floor slabs and walls was installed.

Cost competitiveness

Thanks to its competences, the Group is able to further increase its efficiency by using its management know-how, as well as achieve cost synergies, primarily related to the costs of administration, logistics and purchase of raw materials and materials (e.g. by increasing its purchasing power

vis-à-vis suppliers), and increase its bargaining power vis-à-vis principals.

Having plants in different parts of Poland gives the Group greater flexibility in the supply of prefabricated products, which reduces the unit cost

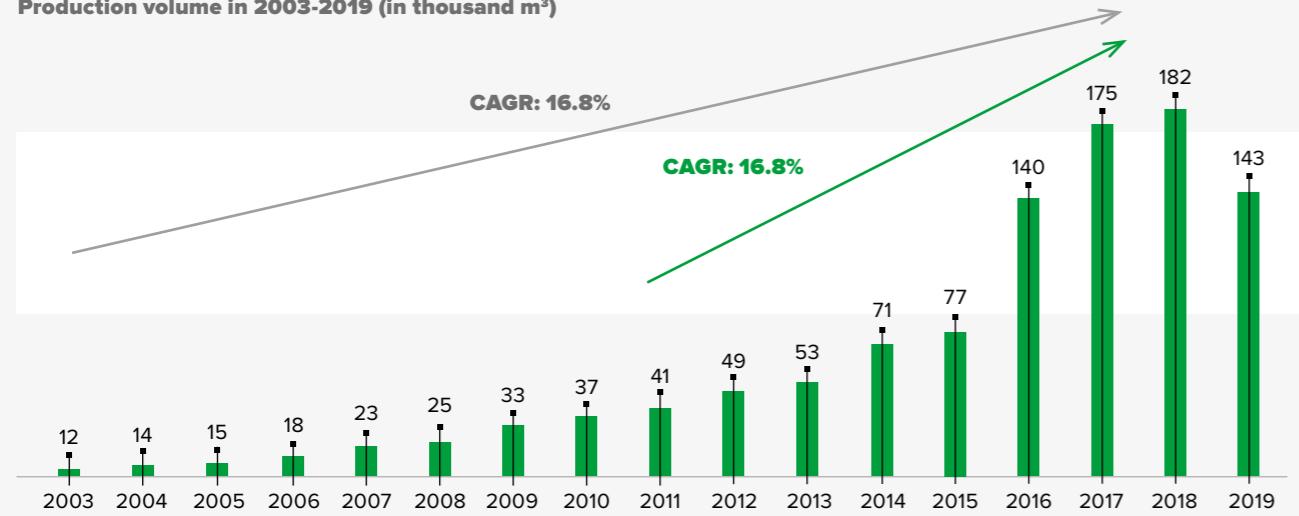
of transportation to the sites where contracts are performed.

The basic selection criterion during the acquisition of production plants was their location. The Group is working on further increasing cost

competitiveness, based on economies of scale, specialisation, standardisation and experience.

Silna pozycja finansowa

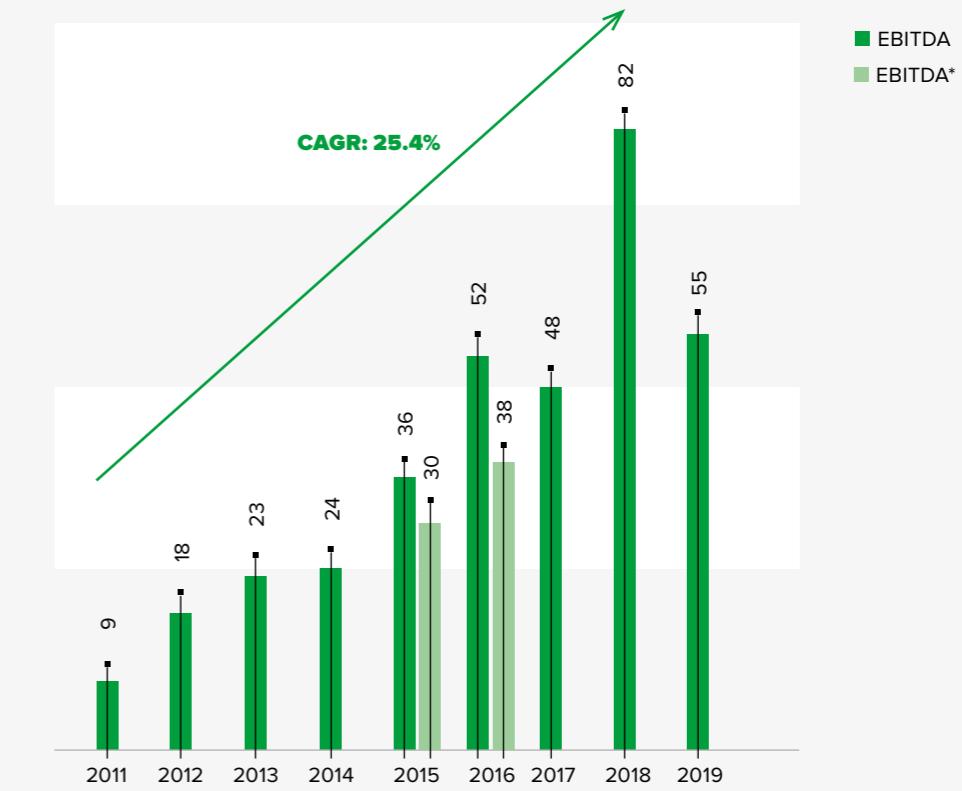
Production volume in 2003-2019 (in thousand m³)



CAGR: 16.8%

CAGR: 16.8%

EBITDA (PLN million)

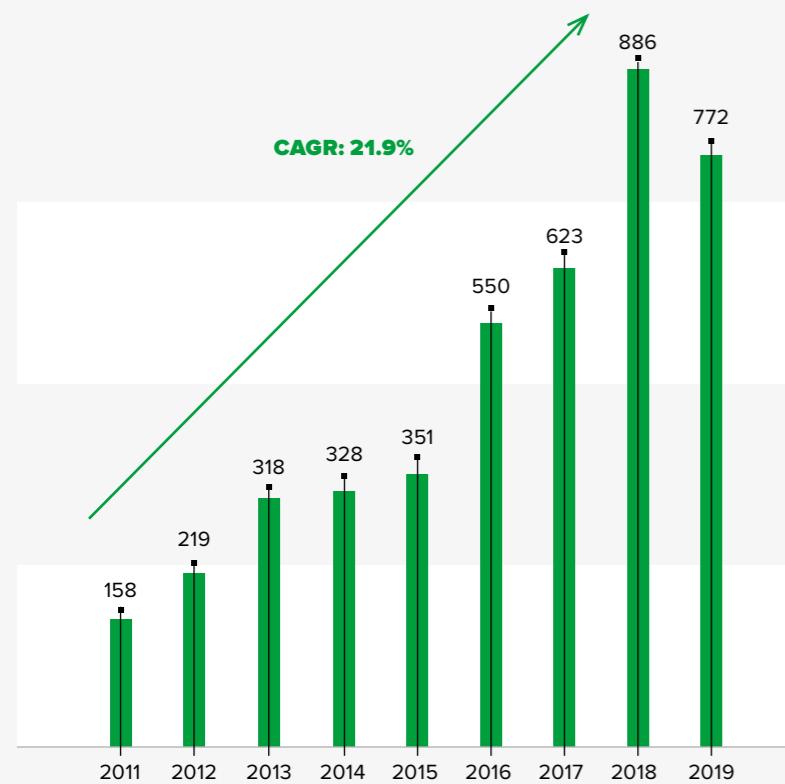


CAGR: 25.4%

EBITDA
EBITDA*

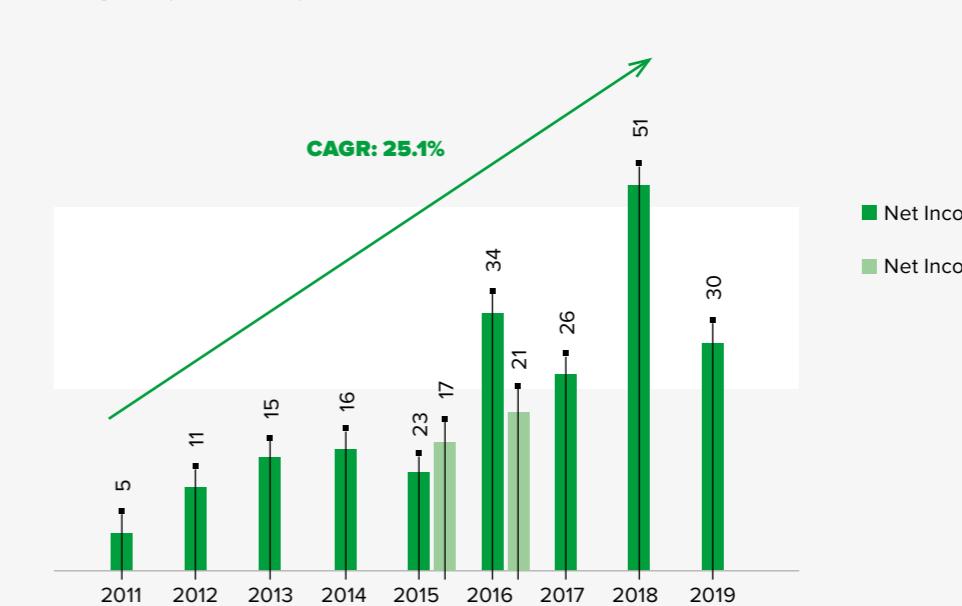
*Adjusted for the gain from a bargain purchase.

Sales revenues (PLN million)



CAGR: 21.9%

Net profit (PLN million)



CAGR: 25.1%

Net Income
Net Income*

*Adjusted for the gain from a bargain purchase.



General contracting costs

After a longer period of growth in general contracting costs, the Group, as well as the whole sector, recorded a stabilisation of subcontractors' prices, which translates into the level of margins achieved by it in this segment.

Potential risks include, among others, a possible further increase in the prices of certain construction materials, salaries and prices of subcontracting services, limited availability of labour and subcontractors, the long time elapsing between the submission of a tender and the signing of a general contractor agreement for the project, outdated investor's cost estimates, and in particular the uncertain economic situation.

Most of the Group's contracts are short-term (5-8 months), which

significantly reduces the risk of a significant increase in costs when they are performed.

The Group is able to react fairly quickly to changes in the prices of materials and services, taking them into account in the calculations for customers.

The increase in payroll costs also affected the Pekabex Group, but in the long run this trend is beneficial for it, as prefabricated structures are much less labour intensive than their traditional counterparts.

By analogy, the growth of steel prices also increases the competitiveness of the Group's structures, especially in relation to steel structures.

Product diversification and comprehensive services

In the opinion of the Management Board, customers in Poland are

increasingly appreciative of innovative and comprehensive solutions, including both consultancy in the field of prefabricated technology,

as well as design, production, transport and assembly of prefabricated components, and comprehensive construction of facilities. In the case of Pekabex, coordinating the entire construction process increases the flexibility of production processes by being able to plan demand for prefabricated products more accurately over a certain period of time. The Group intends to continue to develop its product range, including more technologically complex products with higher margins.

Technological and product innovation

According to specialist evaluations, the innovations that give the construction industry a chance for long-term

development include augmented reality and software for the sector and data management systems.

Building Information Modelling (BIM) will have a significant impact on the increase in the efficiency and productivity of construction companies as the basis for further digitisation of the implemented projects. Digitisation in the industry should not be limited to BIM, but should also include the digitisation of all process chains. Digitalisation is most profitable in the areas where most mistakes are made. The experts jointly distinguished the key directions of implementation of innovations in the construction industry, including the use of artificial intelligence, drone systems and robotisation.

At the turn of 2019 and 2020, the Group established a modern design services centre (Shared Services

Centre, SSC) in Gdańsk, where it will develop its activities in the area of design services concerning prefabricated concrete elements and modular structures used in industrial construction, office buildings and residential buildings.

The Group supplements its offer of prefabricated products with complementary services in the form of consulting on this technology, thanks to which it will strengthen its competitive advantage in terms of more technologically complex construction products and solutions.

In the opinion of the Management Board, the aforementioned factors and market trends significantly affected the Group's performance in 2019. The Management Board also expects that they will have a significant impact on the future performance.

The COVID-19 pandemic may have a significant impact on the performance of the whole sector in the short and medium term, but at the date of publication of this report it is difficult to assess the scale of this impact. The Group's performance depends on the number of orders on the construction market; the accumulation of investments in the economy generates high dynamics of the prefabrication market and improved profitability, while the period of investment slowdown in the construction industry has the opposite effect.

Order portfolio

The Group started 2020 with a strong and diversified order portfolio (backlog). It includes the aggregate value of contracts signed by the Group until 31 December 2019 in the segments: (i) Implementation of contracts – prefabrication, (ii) Implementation of contracts – construction services, (iii) Implementation of pilot projects on own account, and (iv) Production services which are/will be performed and recognised in sales revenues after the balance sheet date.

The values of the order portfolio for particular periods/years result from the schedules specified in the contracts and assume their timely performance.

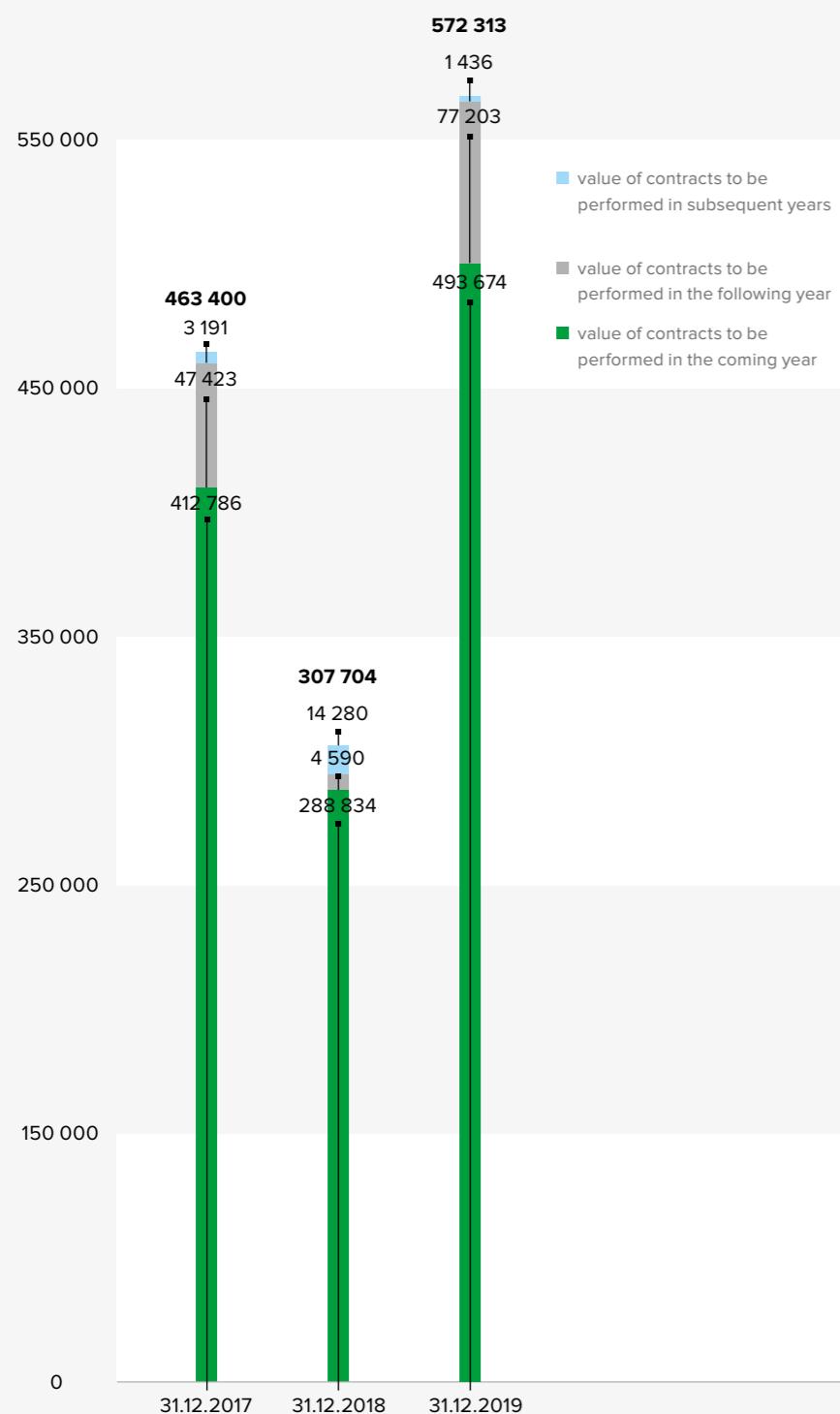
In 2019, as at the balance sheet date, the backlog also included for the first time the value of estimated revenues from the segment Implementation of pilot projects on own account.

In 2019, the Group recognised the first revenues generated in the aforementioned segment by Pekabex Development. Revenue recognition, according to the accounting policy of the Group and the International Financial Reporting Standards, takes place on the day of signing the notarial deed transferring the ownership of real property.

In the first stage of the pilot project, 2 buildings were constructed and by the date of publication of this report nearly 100% of the planned revenues have already been recognised in the consolidated financial statements. Other planned* revenues from sales of apartments as part the first stage, as well as estimated** revenues from sales of apartments (including parking spaces and storage areas) as part of the second stage under construction (4 buildings), were included in the backlog in the amount of PLN 38,685 thousand.

* Planned revenues – based on signed property development agreements.

** Estimated revenue – based on the Group's budget assumptions.



The value of signed agreements as of 31 December 2019 was PLN 572,313 thousand, including PLN 493,674 thousand to be performed in 2020,

while at the end of 2018 the value of signed contracts was PLN 307,704 thousand, including PLN 288,834 thousand to be performed in 2019.



7.0

Additional information



7.1

Feasibility of investment plans and information on the Company's relations with other entities

In the first quarter 2020, the Group was finalising the start-up of a new production plant in Gdańsk and continued to implement other investments commenced in 2019. For the rest of 2020, Pekabex intends to continue its investments, including the modernisation of the remaining four factories. The scope of investments will depend on the development of the economic situation in the country and its impact on the financial situation of the Group.

The structure of the Company's Group is described in chapter 1 of this report.

7.2

Extraordinary events affecting the operating profit (loss)

In the year ended 31 December 2019, no extraordinary events occurred.

7.3

Agreements which may result in changes in the shareholder structure

As at the date of publication of this report, the Company is not aware of any agreements which may result in future changes in the shareholder structure. The changes that occurred in 2019 concern a conditional increase in the share capital, pursuant to Resolution No. 3 of the Extraordinary General Meeting of the Company on 11 October 2016, and are related to the warrants issue programme.

Information on the Company's organisational or capital relations is described in chapter 1 of the supplementary information to the Group's consolidated report.

7.4

Disputes and litigation

As at 31 December 2019, the Group was not a party to any significant (i.e. where the value of the subject-matter of the dispute exceeds 10% of the value of the consolidated equity) legal proceedings for which it would be reasonable to create a provision. The Group considers as significant the following disputes in 2019:

Pekabex Bet – litigation with the Ministry of Sport and Tourism

Pekabex Bet entered the receivable in the amount of PLN 955 thousand in the list of receivables of Hydromonta Polska S.A., withheld as a guarantee deposit for the works performed and elements delivered under the contract for the construction of the National Stadium in Warsaw. The Pekabex Bet's receivable was included in the list of receivables. It is covered by a full allowance for bad debts. At the same time, the company brought an action against the State Treasury – the Ministry of Sport and Tourism, on behalf of which and for the benefit of which Narodowe Centrum Sportu Rozliczeniasp. z o.o. operates. In the statement of claim of 5 February 2016, the plaintiff requested the payment of PLN 1056 thousand on account of joint and several liability of the investor towards the liabilities resulting from the construction of the National Stadium. The company's action was dismissed by the court of first instance. The company appealed against the judgement. In January 2019, a judgement of the court of second instance was delivered, which allowed the claim asserted by Pekabex Bet virtually in full. The judgement is final. In the third quarter of 2019, the company received PLN 1450 thousand from

the State Treasury as payment of the adjudged principal amount of PLN 1,056 thousand and statutory interest in the amount of PLN 266 thousand, as well as reimbursement of legal costs and costs of appeal proceedings in the amount of PLN 128 thousand. The State Treasury filed a cassation appeal; therefore, in 2019 the company reduced the allowance for bad debts and at the same time created a provision for litigation in the amount equal to the amount received as a result of the judgement.

Pekabex Pref – an employee claim from 2016

In 2016, Pekabex Pref received an employee claim for compensation and redress in the amount of approx. PLN 2,500 thousand in connection with an accident at the production plant in Poznań on 22 March 2016. The claims have been transferred to the insurer who conducts liquidation proceedings.

The Company has coverage under its policies. The competent authorities are now clarifying the causes of the accident and the possible liability of particular actors, and especially any possible contribution of the claimant to the accident. The claimant filed a lawsuit against the insurance company, and in December 2018 Pekabex Pref was summoned to participate in the proceedings. The value of the employee claim is over PLN 1,900 thousand.

Pekabex Bet – a decision of the Mayor of the City of Poznań

On 29 September 2014, the Mayor of the City of Poznań issued a decision setting the maximum permissible level of noise emitted to the environment by the Pekabex Bet plant in Poznań. It was established as for areas with single-family residential buildings. The decision was issued on the basis of measurements carried out, among others, at night. The Company appealed against it in an administrative procedure. The Company referred, among other things, to the fact that it operates on an industrial area, which was not taken into account in the assessment of the facts, as well as to the fact that the residential buildings were constructed on the area in question after it had been mostly developed for industrial purposes. In addition, Pekabex Bet indicated in its appeal that the site inspection, the findings of which were the basis for the decision, was carried out in violation of administrative procedural law, and the noise emission measurements were made in breach of the guidelines adopted in this respect.



As a result of the company's action before the Supreme Administrative Court, all previous decisions were overturned by it and the case was referred back for reconsideration. Consequently, the Supreme Administrative Court accepted the arguments of the plaintiff, i.e. Pekabex Bet. Subsequently, another decision determining the permissible noise level

for the plant was issued, which was challenged by the company.

The decision was made immediately enforceable, which was also challenged by Pekabex Bet, and annulled by the decision of the Local Government Appeal Court. In July 2019, the Local Government Appeal Court issued a decision in which it repealed the

decision of the Mayor of the City of Poznań on the maximum permissible noise level in its entirety, while at the same time discontinuing the proceedings at first instance in their entirety.

Pekabex Bet – litigation with Marathon International

On 31 May 2016, Pekabex Bet signed

a contract with Marathon International sp. z o.o. sp.k. for the execution of construction works with a total net value of PLN 18,157 thousand.

On 25 May 2017, due to the failure of the contracting entity to provide a payment guarantee, the company withdrew from the contract pursuant to Article 6494 of the Civil Code. The contractor did not pay a part of its receivables on time, justifying this, among others, by the fact that Pekabex Bet did not present final clearance certificates from subcontractors, and the presence of faults. The Management Board of the Company is of the opinion that the suspension of payments is not justified. As at the balance sheet date, receivables invoiced for the settlement of performed works amounted to PLN 22,333 thousand gross.

Moreover, on 30 May 2017, the contractor drew a bank guarantee in the amount of PLN 1,640 thousand, justifying this with the need to cover the penalties imposed on Pekabex Bet. The Management Boards of Pekabex Bet and Pekabex S.A. analysed the grounds for imposing penalties by the contractor and considered that they were not justified. Pekabex Bet brought actions against Marathon International, with the total value of the object of litigation exceeding PLN 5,281 thousand. The actions relate to receivables resulting from the construction works performed by Pekabex Bet on the site of the project carried out for Marathon International and the return of the unduly drawn and paid bank performance bond. Despite the fact that Pekabex Bet performed the investment task and provided the contracting entity with the permit to use the facilities under construction, the latter incorrectly charged contractual penalties and failed to pay the remaining part of the remuneration due under the construction works contract.

The maximum possible level of penalties under the contract is 12%

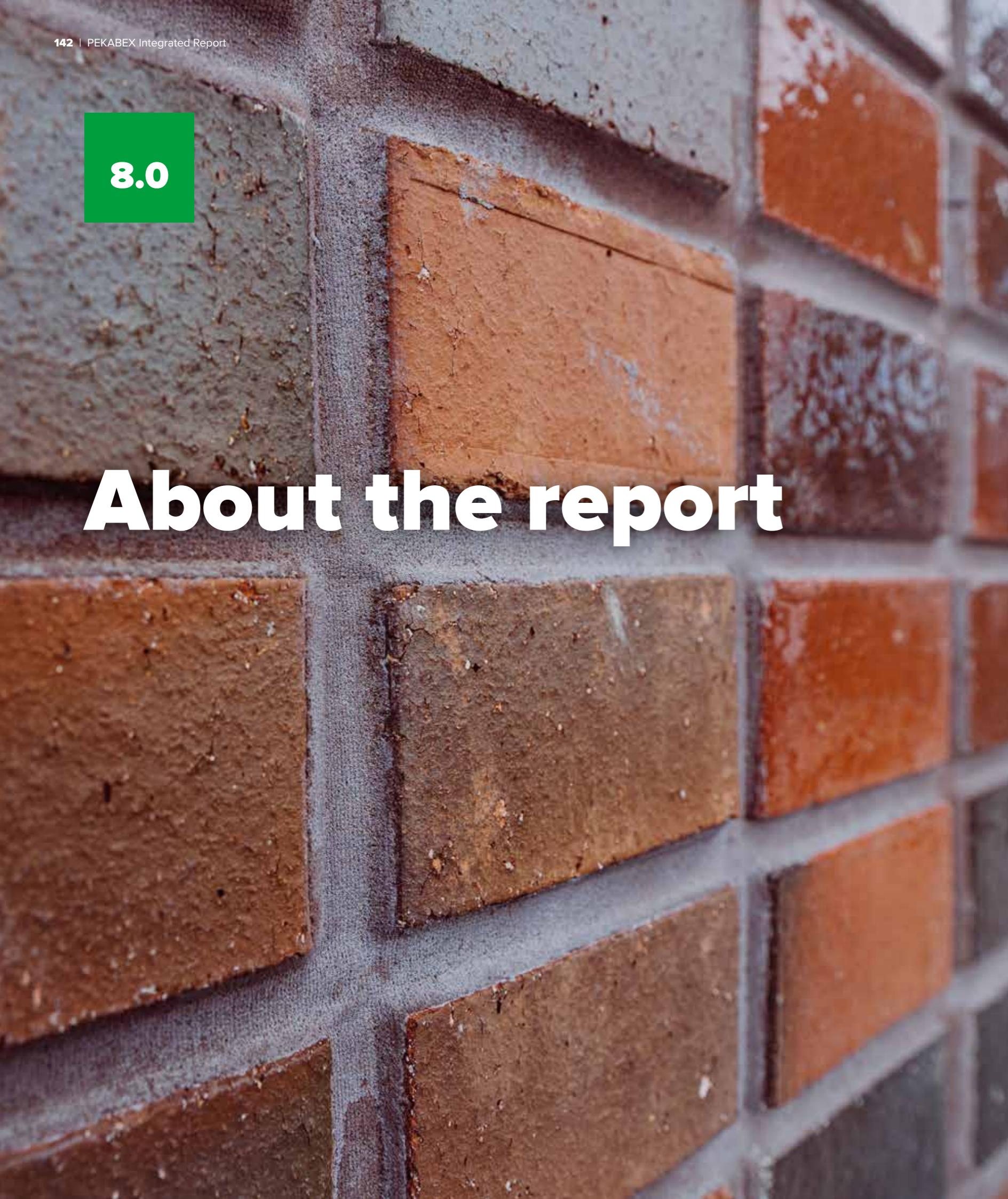
of the net remuneration. Although the calculation of the penalties was unjustified, as part of a prudent valuation of the Management Board, an allowance for bad debts was created in the amount of the maximum level of penalties that a contractor may impose on the company, i.e. PLN 2179 thousand. Additionally, in 2018, the Group increased the amount of the allowance for bad debts under the contract with Marathon International by PLN 2,000 thousand.

As at the balance sheet date of 31 December 2019, the total amount of the allowance for bad debts under the aforementioned contract was PLN 4,179 thousand. At present, proceedings to take evidence in both cases are pending; according to the Management Board, there has been no change in risk affecting the amount of the allowance for bad debts.

After the balance sheet date, on 27 March 2020, in the case for drawing a bank guarantee, in which Pekabex Bet claimed the amount of over PLN 1,640 thousand, the District Court in Poznań awarded it PLN 1,313 thousand including interest. The judgement is not final.

As of the date of publication of this report, companies belonging to the Group are not parties to any proceedings concerning receivables or liabilities which, on their own or jointly, would exceed 10% of the Group's equity. In the reporting period there were no other significant settlements due to legal cases not described in the report.



A close-up photograph of a brick wall. The bricks are reddish-brown and appear to be made of a textured material. The mortar between the bricks is grey. In the top left corner of the image, there is a solid green rectangular overlay. Inside this overlay, the text '8.0' is written in a white, sans-serif font.

8.0

About the report

CONTACT

Should you have any questions about the report, please contact Ms Beata Żaczek:
beata.zaczek@pekabex.pl

8.1

Methods and scope of the report

The publication covers the Pekabex Group, where Pekabex S.A. is the Parent Company. It was prepared in the form of an integrated report that meets the integrated reporting requirements set by the International Integrated Reporting Council (IIRC). The financial data were prepared in accordance with the International Financial Reporting Standards (IFRS).

Non-financial data were prepared in accordance with the guidelines of the

Global Reporting Initiative in the GRI Standards version (core). The report is published on an annual basis, i.e. it covers the period from 1 January to 31 December 2019. The financial part has been externally audited, the non-financial part has not been subject to external verification.

The content of the report (relevant topics) was defined on the basis of the results of the meeting with the management staff held in March 2018 in Poznań, and taking into account the stakeholders' context – based on the PN-ISO 26000 standard and competitor analysis. The most important topics for Pekabex and its stakeholders include occupational health and safety, diversity and equal opportunities, employees, reducing energy consumption,

indirect economic impact, consumption of materials, raw materials and water,

8.2

Approval for publication

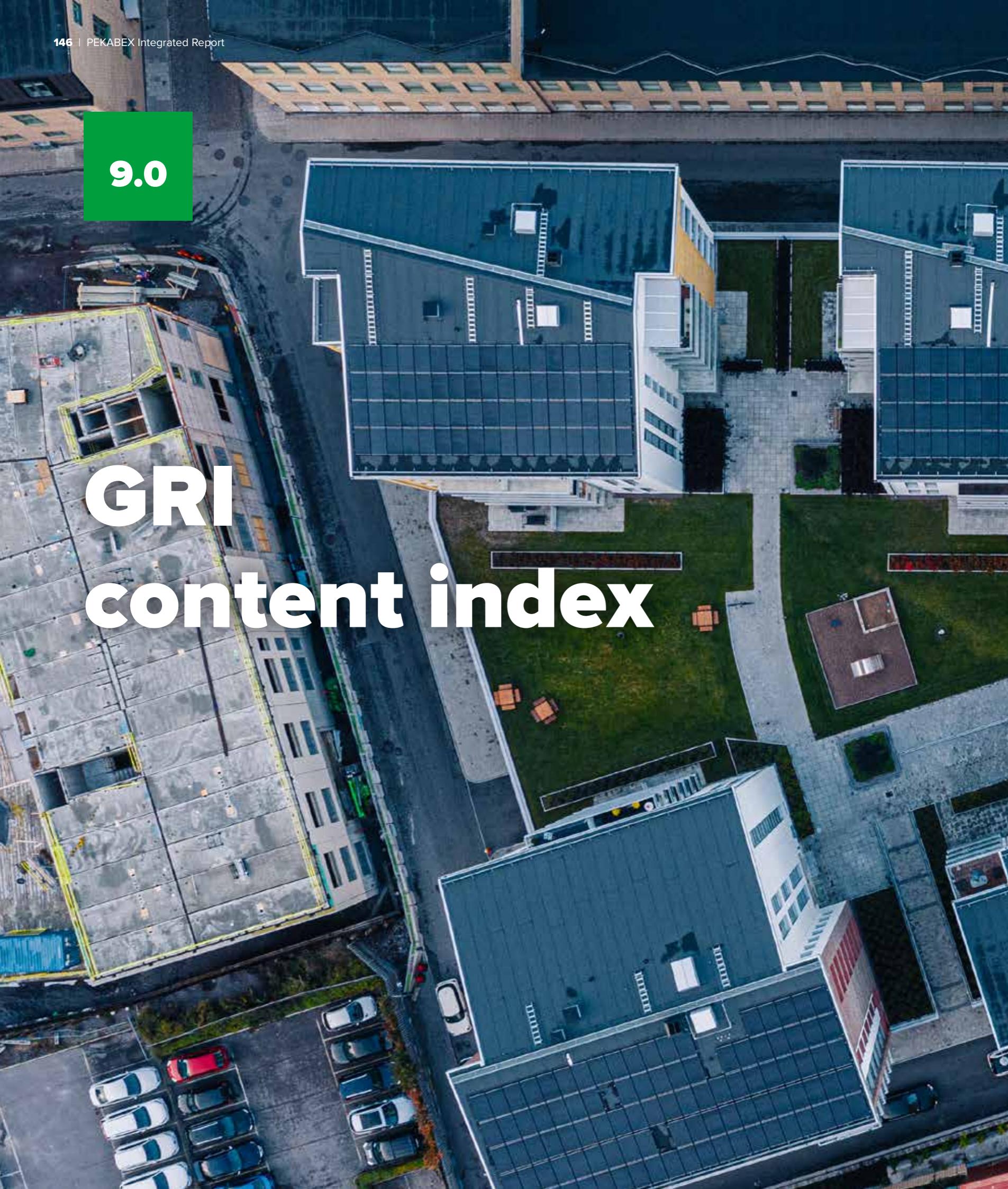
This report of the Pekabex S.A. Group drawn up as at and for the period ended 31 December 2019 was approved for publication by the Management Board of the Parent Company on 15 April 2020.

Date	Full name	Position	Signature
15/04/2020	Robert Jędrzejowski	President of the Management Board	
15/04/2020	Beata Żaczek	Vice-President of the Management Board	
15/04/2020	Przemysław Borek	Vice-President of the Management Board	



9.0

GRI content index



GRI content index

Employment:

As of 31 December 2019, Pekabex provided employment to a total of almost two thousand people, both on the basis of an employment contract and in other forms of close cooperation.

The data below apply only to employees employed as at the end of December 2019 under an employment contract.

Persons employed under civil law contracts, self-employed persons and convicts sent to work by the State Treasury, as well as personnel of subcontractors are not included.

Total number of employees by contract type and gender

Employment contract type:	women	men	total
specified period	751	140	611
unspecified period	705	120	585
total	1,456	260	1,196
total women	260		
total men		1,196	
total	1,456		

Total number of employees by place of employment

	women	men	total
Poznań	655	158	497
Mszczonów	220	37	183
Łódź	11	2	9
Gdańsk	193	43	150
Bielsko-Biała	151	19	132
Germany	190	1	189
Denmark	6	-	6
Sweden	30	-	30
total	1,456	260	1,196
			1,456

Total number of employees by type of employment and gender

Employment contract type:	women	men	total
full-time	1,431	254	1,177
part-time	25	6	19
total	1,456	260	1,196
total women	260		
total men		1,196	
total	1,456		

Organisation supervisory bodies

Breakdown by structure and age:	total	women	men
Management Board of Pekabex and its subsidiaries			
under 30	-	-	-
age 30 to 50	8	1	7
above the age of 50	1	-	1
total	9	1	8

Supervisory Board

under 30	-	-	-
age 30 to 50	2	-	2
above the age of 50	5	-	5
total	7	-	7

Organisation supervisory bodies

Breakdown by structure and age:	total	women	men
senior management*			
under 30	-	-	-
age 30 to 50	19	7	12
above the age of 50	5	-	5
total	24	7	17
middle management**			
under 30	38	17	21
age 30 to 50	95	24	71
above the age of 50	24	3	21
total	157	44	113
blue-collar positions***			
under 30	213	-	213
age 30 to 50	432	8	424
above the age of 50	139	6	133
total	784	14	770
other employees****			
under 30	212	102	110
age 30 to 50	242	86	156
above the age of 50	37	7	30
total	491	195	296

* Directors and deputy directors

* Managers and deputy managers

*** Concrete placers, steel fixers, construction workers, etc.

**** Specialists, junior managers, coordinators, foremen, master workmen, assistants, accountants, etc.

Total number of new (employed in 2019) employees:

	women	men	total
senior management	-	1	1
middle management	1	28	29
blue-collar positions	2	388	390
other employees	73	42	115
total	76	459	535
employment rate	0.29	0.38	0,7
total number of employees	260	1,196	1,456

Total number of employee departures in 2019:

	women	men	total
senior management	-	-	-
middle management	-	13	13
blue-collar positions	1	355	356
other employees	42	48	90
total	43	416	459
turnover rate	0.17	0.35	0.32
total number of employees	260	1,196	1,456

10.0

GRI content Index



Core indicators

Indicator number	Indicator name	Reporting scope	Page No./comment	Indicator number	Indicator name	Reporting scope	Page No./comment
102-1	Name of organisation	full	7		Stakeholder involvement		
102-2	Main brands, products or services	full	7, 14, 17, 21–23	102-40	List of organisation's stakeholder groups	full	141
102-3	Location of the organisation's headquarters	full	7	102-41	Percentage of employees covered by collective bargaining agreements	full	97
102-4	Number of countries in which the organisation operates and names of these countries	full	14, 26	102-42	Identification and selection of stakeholders engaged by the organisation	partial	141
102-5	Ownership and legal form of the organisation	full	14	102-43	Approach to stakeholder engagement	none	
102-6	Markets served	full	14, 26, 57	102-44	Key stakeholder issues and concerns	none	
102-7	Scale of operations	partial	20, 26, 56		Report information		
102-8	Information on employees	partial		102-45	List of entities covered by the consolidated financial statements	full	141
102-9	Value chain	full	44–45	102-46	Process of defining the report content	full	141
102-10	Significant changes in the organisation and its supply chain	partial	17, 46	102-47	Important aspects identified in the process of defining the report content	full	141
102-11	Precautionary principle	none		102-48	Adjustments compared to the previous report and reasons for the adjustments	full	This report is the first to be prepared according to GRI Standards
102-12	External initiatives adopted by the organisation	none		102-49	Significant changes in relation to the previous report	full	This report is the first to be prepared according to GRI Standards
102-13	Membership in associations	full	14	102-50	Reporting period	full	141
Strategy							
102-14	Oświadczenie kierownictwa najwyższego szczebla	none		102-51	Date of publication of the last report	full	This report is the first to be prepared according to GRI Standards
Ethics and integrity							
102-16	Values, principles, standards and norms of behaviour in the organisation	partial	98	102-52	Reporting cycle	full	141
Zarządzanie							
102-18	Management structure	partial	7	102-53	Contact on the report	full	141
				102-54	Statement on reporting according to GRI Standards	full	141
				102-55	GRI content index	full	152–154
				102-56	External verification	full	141

Thematic indicators

Indicator number	Indicator name	Reporting scope	Page No./comment
Economic indicators			
203-1	Development and impact of investments on infrastructure and services	partial	114-116
Environmental indicators			
301-2	Percentage of materials used that are processed starting materials	partial	108
302-1	Energy consumption (electricity, heat, cooling, steam) within the organisation – from renewable and non-renewable sources	partial	108
303-1	Total water intake by source	none	
307-1	Amount of significant fines and total number of non-financial sanctions for non-compliance with environmental laws and regulations	full	106
Social indicators			
401-1	Recruitment of new staff and turnover	full	144-149
403-1	Occupational health and safety management system	full	99-100
403-2	Hazard identification, risk assessment and investigation of accidents at work	full	99-100
404-3	Percentage of employees receiving regular performance and career development reviews	full	104
403-4	Employee participation, consultation and communication on occupational health and safety	full	99-100
403-5	Occupational health and safety training for employees	full	99-100
403-7	Prevention and mitigation of impacts on health and safety in the workplace	full	99-100
403-8	Employees covered by the occupational health and safety management system	full	99-100
405-1	Staff and management body diversity	full	144-149

The logo for Pekabex, featuring a stylized green 'E' icon followed by the word 'Pekabex' in a bold, green, sans-serif font.

Pekabex