



Pekabex integrated report

for the year 2018



**Consolidated statement
of activities**

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Letter from the President of Pekabex S.A.

Ladies and gentlemen,

On behalf of the entire Management Board of the Pekabex Group, I have the pleasure to present to you the separate and consolidated financial results of Poznańska Korporacja Budowlana Pekabex S.A. for the year 2018.

The past year was marked by record profits of the Group. Profit from operating activities amounted to PLN 67 473 thousand, which is an increase of 92.9% in comparison to the profit achieved in 2017. EBITDA amounted to PLN 81 903 thousand and is 71% higher than that achieved in 2017. The Group's net result for 2018 amounted to PLN 51 209 thousand, which is an increase of 98.2% in relation to PLN 25 836 thousand in 2017. The cash balance at the end of the year also reached a record level - PLN 95 234 thousand.

The Group's realised gains for 2018 were achieved as a result of the right investment decisions taken a few years ago. Acquisitions, modernisation and automation of plants combined with favourable economic conditions resulted in the Group's record-breaking result. A considerable impact on the increase in production was also caused by significant demand on the construction market, which, combined with the supply, directly translated into the margins achieved. This, combined with the popularity of prefabricated structures, e.g. in the context of shortages of workers, contributed to an increase in the scale of the Group's activities.

We are also consistently implementing our automation strategy, both by modernising the existing production processes, and by investing in fully automated production lines. In 2018, the Pekabex Management Board made a strategic decision concerning the purchase of a fully automated line for the production of filigran walls and slabs, which will be installed in the plant currently being constructed by the Group within the Pomeranian Special Economic Zone. We predict that production at the new plant will start at the end of 2019. We expect Pekabex to be a cost leader for the products mentioned.

The year 2018 is also quite symbolic in terms of the Group's entry into the Polish housing market. Within 9 months we built the first stage of the JA_SIELSKA pilot housing estate using modular technology. All the apartments built in this stage quickly sold out. We are currently waiting for the building permit for the second stage of the project, which will include the construction of 4 more residential buildings.

In 2018, the Group carried out many unusual and groundbreaking projects such as the design, production and assembly of prefabricated constructions for two buildings of the automotive battery plant for LG with a total area of more than 57 thousand m² where 70-ton columns were installed, or the supply of non-standard elements with chemical proofing for the Bolesław Steelworks.

The hall construction market is another segment in which the Group has strengthened its position. The Pekabex Group has worked for the largest logistics developers operating in Poland, including the Panattoni

Group and Prologis. We have thus proved that we are able to combine high quality workmanship with short execution times and attractive prices.

Unfortunately, at the end of 2018 we observed a significant downturn in the economy that also influenced the year 2019, which in our opinion will mean a continuation of turbulence on the construction market. We do, however, believe that the main assumptions behind our strategy have remained unchanged, in particular the long-term trend related to the decreasing availability of workforce, which forces construction companies and investors to use innovative solutions in the field of modular construction. We believe that Pekabex has the human and financial resources that will enable it to safely go through this period. Product diversification and geographical diversification will be the additional advantages of our projects.

At this point we would like to thank all our Employees and Managers whose hard work and ideas have led to the success and development of the Pekabex Group. We would also like to thank our Customers, Investors and Ordering Parties, who are interested in innovative construction technologies and motivate us to continue our efforts. I invite you to read the report.

My regards

**Robert Jędrzejowski
President of the Management Board**



1.0

About the Group



The Group Parent of the Pekabex Capital Group

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

This consolidated statement of activities - integrated report („Report”) meets the requirements for integrated reporting set forth by the International Integrated Reporting Council (IIRC). The financial data was prepared in accordance with the International Financial Reporting Standards (IFRS) and the non-financial data was prepared based on the Global Reporting Initiative guidelines in the GRI Standards version (core level). Pursuant to Article 55(2a) of the Act on Accounting dated 29 September 1994 (as amended), the report contains a statement of the Group's activities and a report on the Group Parent's activities, prepared as a single document and the corporate governance implementation statement, the non-financial information statement and other information. Apart from the cases where it was clearly indicated that the data presented 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. (Poznań Construction Corporation 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 and Registration Department, under the number 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 the KRS number 000010109717.

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

The Company is the owner or perpetual usufructuary of real estate that it rents or leases (as a whole or in part) mainly to the Capital Group companies for the purposes of their business activities.

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

The composition of the Company's Management Board as at 31 December 2018, was as follows:



Robert Jędrzejowski

Functions performed in the Pekabex Capital Group:

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

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

Responsibility

Strategy and group management



Przemysław Borek

Functions performed in the Pekabex Capital Group:

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

Graduate of the Gdańsk University of Technology, in 1995 he graduated from the Faculty of Civil Engineering with a Master of Science degree in construction and engineering structures. 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 Ergon Poland Sp. z o.o., then in the years 2003-2007 he held the position of Commercial Director, building the structure and market position of a newly opened Polish branch of Ergon from scratch. 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 Pekabex S.A. Management Board since 2015.

Responsibility

Sales and execution



Beata Żaczek

Functions performed in the Pekabex Capital Group:

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

Graduate of the Leon Koźmiński College of Entrepreneurship and Management, she studied marketing and management, specialization: finance and accounting; she also completed post-graduate studies in financial management at the aforementioned university. 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 Hydromontaż S.A. (Bilfinger Berger group). Since 2009, she has been working for the Pekabex Group, first as a Member of the Supervisory Board and then as a 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 members of the Management Board of the Capital Group



Christophe Carion

Functions performed in the Pekabex Capital Group:
President of CNP Sp. z o.o. Management Board.

Graduate of De Nayer Instituut (Belgium). In 2000, he completed his studies with a Master's degree in civil engineering (Master of Science Building Engineering). He started his career as a design engineer at Egon NV with headquarters in Belgium in the years 2000-2008. In Egon Sp. z o.o., in 2002-2005 he provided support for the design department, and in 2005-2007 he held the position of Production Director. In Pekabex Group he is responsible for production and investments.



Tomasz Seremet

Functions performed in the Pekabex Capital Group:
Member of Pekabex Bet S.A. Management Board, Member of Pekabex Pref S.A. Management Board.

Graduate of the Poznań University of Technology, graduated from the Faculty of Civil Engineering, Architecture and Environmental Engineering with a master engineer's degree in construction and engineering structures. In addition, he has a building license to design and manage construction works without restrictions in the construction and building specialisation, as well as the Chartered Engineer of Engineers Ireland CEng MIEI certificate. He started his career as a design assistant at the Pekabex S.A. Design Office in 1999-2000. In 2000-2005 he worked in the Projekta Sp. z o.o. Engineering Office, which belongs to the Dutch group Bartels Engineering BV. He has been working for the Pekabex Group since 2010.

Responsibility

Production and investments

Responsibility

Comprehensive execution of contracts

Composition of PEKABEX S.A. Supervisory Board as at 31 December 2018

The competences and principles of work of the Pekabex S.A. Supervisory Board are defined by:

- (I) The Company's Articles of Association (available on its website),
- (II) Standing Order for the Supervisory Board (as above),
- (III) Commercial Companies Code. In 2018, one more member joined the Supervisory Board; on 20 June, the Ordinary General Meeting of Shareholders of the Company adopted a resolution on appointing Marcin Szpak to the Supervisory Board.

As at 31 December 2018, and as at the date of publication of this report, the Supervisory Board of Pekabex S.A. was composed of the following members:

Piotr Taracha, Chairman of the Supervisory Board

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 Kozminski College of Entrepreneurship and Management, receiving a diploma of recognition for the best consulting project. Since 1994 he has been a lecturer at the Civil Law Department of the Catholic University of Lublin. Since 1997 he has been the Chairman of the Supervisory Board of AUTO-EURO S.A. since 2008 Vice-Chairman of the Supervisory Board in PEPEES S.A., since 2009 Vice-Chairman of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego „Lublin” Sp. z o.o., and since 2011 Vice-Chairman of the Supervisory Board in Przedsiębiorstwo Przemysłu Ziemniaczanego „Bronisław” Sp. z o.o. In 1998-2002, he was the Director of the Post Office District in Lublin in PPUP Poczta Polska. Since 2003 he has been the President of the Management Board of Intrograf Lublin S.A. Member of the Supervisory Board of the Company since 2017.

Piotr Cyburt, Deputy Chairman of the Supervisory Board

Graduate of the Warsaw School of Economics. He graduated in 1980 with

a master's degree in Economics; in 1987 he received a PhD in Economics from the Institute of National Economy. Scholarship holder at, amongst others, Georgetown University and Harvard University,

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 Vice-President of the Management Board of Polski Bank Rozwoju. From 1992 to 1995 he worked in managerial positions in Powszechny Bank Kredytowy S.A., including the positions of a Member of the Management Board and Director from 1994. Member of Supervisory Boards of many commercial companies, including the Warsaw Stock Exchange. President of the Management Board of mBank Hipoteczny, has been the head of the company since 1999, when the first specialist mortgage bank in post-war Poland, RHEINHYP-BRE Bank Hipoteczny (transformed into BRE Bank Hipoteczny, and then into mBank Hipoteczny S.A.) began its operation. Member of the Council of the Polish Bank Association and Vice Chairman of the Programme Board of the Mortgage Credit Foundation. Since 2002 he has also been a Member of the Supervisory Board of Hochtief Polska S.A. He has been a Member of the Supervisory Board of the Company since April 2016.

Ryszard Klimczyk, Member of the Supervisory Board

Graduate of the University of Gdańsk, in 1998 graduated from the Faculty of Law and Administration with a master's degree in law. In 2005 he completed his legal adviser training at the Regional Chamber of Legal Advisers in Gdańsk. He began his career as a political assistant to the Secretary of State in 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 & Głowiński (Żelaznowski & Głowiński Legal Advisers' Office) s.c. in Sopot. Since June 2005 he

has run his own legal practice – Office of Legal Adviser Ryszard Klimczyk. Since 2002, he has also held positions in supervisory and managing bodies of commercial law companies. In the years 2006-2008 he was, among others, a Member of the Supervisory Board of Zarząd Morskiego Portu Gdańskiego S.A. (Port of Gdańsk Authority SA) in 2007-2008 - Międzynarodowa Korporacja Gwarancyjna (International Guarantee Corporation) Sp. z o.o., and in the years 2015-2017 - Polskie Linie Lotnicze LOT (LOT Polish Airlines) S.A. He has been a Member of the Supervisory Board of the Company since August 2010.

Maciej Grabski, Member of the Supervisory Board

Graduate of the Catholic University of Lublin, in 1992 he graduated from the Faculty of Law and the Faculty of Social Sciences (Economics section). He is experienced in investing in companies at early stages of development. In the 90s he invested in the automotive market and in tourism. He was the first investor and co-creator of the Wirtualna Polska website, he negotiated in seeking strategic investors, including Intel and Prokom. One of the founders of Business Angel Seedfund, a seed capital fund investing in innovative start-up projects in the field of ICT and

biotechnology. He has been a Member of the Company Supervisory Board since March 2007. 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. The investment is developing dynamically, securing esteemed Polish and international companies with well-established market position.

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 design engineer. 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 (Industrial Installations Company) in Gdańsk. Until 1980, he worked for Instal in Gdańsk, most recently as the Head of the Constructions Team, 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 AutoEuro Stefan Grabski, renting out his own facilities, providing technical consultancy and

running car washes. In 1998, he was elected to the Gdańsk City Council where he held the position of Vice-Chairman, and, at the same time, the Chairman of the Ad Hoc Committee on Trade, Craft and Services. In the 2006-2010 term he was the Chairman of the Audit Committee. Moreover, since 2002 he has been a member of supervisory and management bodies of commercial companies.

Marcin Szpak, Member of the Supervisory Board

Graduate of the University of Gdańsk, in 1995 he graduated from the Faculty of Management, and in 2003 obtained a PhD in economics; graduate of Advanced Management Program IESE Business School University of Navarra. The founder and long-term president of DS Consulting, a company specialising in strategic, financial and investment consulting. For 5 years Vice President of Gdańsk for Economic Affairs, responsible for strategy, management of the entire investment programme, economic development. For 9 years he was responsible for strategic investment programmes and strategy, development, M&A in the Energa Group. Member of the supervisory boards of many commercial companies. Expert in the financing of the infrastructure of the United Nations Development Programme.



The Group offers comprehensive services in the field of prefabricated concrete constructions, in the design, production, supply and assembly of prefabricated elements and reinforced or prestressed concrete elements. Additionally, the Group offers comprehensive execution of construction contracts, mainly in the area of buildings, including halls. As at the balance sheet date, the Group had four plants in Poland and a branch in Germany, which belongs to Pekabex Pref S.A. After the balance sheet date, on 22 January 2019 Pekabex Bet S.A. also registered a branch in Sweden, where it has been executing contracts since 2011.

The dominant company was established by Notarial Deed of 15 November 1991 (Repertory A.10688/91). It has been entered into the register of entrepreneurs of the National Court Register kept by the District Court for Poznań - Nowe Miasto and Wilda, 8th Commercial Division, under KRS number 0000109717. It was given the REGON statistical number 630007106. The Pekabex S.A. shares were introduced on the main market of the Warsaw Stock Exchange on 8 July 2015. They are listed on the main market in the continuous quotations system under the abbreviated name

“PEKABEX” and the “PBX” designation. The shareholder structure is presented in chapter 4.2 of this report.

Pekabex is a member of the following organisations:

- » Stowarzyszenie Producentów Betonów (the Association of Concrete Producers)
- » Pracodawcy Pomorza (the Employers of Pomerania)
- » Wielkopolski Związek Pracodawców Lewiatan (the Lewiatan Wielkopolska Employers' Union)
- » Fundacja Firmy Rodzinne (the Family Companies Foundation)
- » Güteschutz Beton Organisation (the Güteschutz Concrete Organisation)
- » Wielkopolska Izba Przemysłowo-Handlowa (the Wielkopolska Chamber of Commerce and Industry)

As at 31 December 2018, the Pekabex Capital Group comprised Poznańska Korporacja Budowlana Pekabex S.A. and the subsidiaries subject to consolidation presented below. Due to immateriality, Pekabex Projekt S.A. (hereinafter referred to as “Pekabex Pref”), which entitles it to exercise 100% of votes at the General Meeting of Shareholders.

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 of Shareholders.

The company's core business is the execution of construction contracts in the area 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 objects, and construction work for residential and non-residential buildings and civil engineering works.

After the balance sheet date, 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 of Shareholders.

The company's core business is the provision of production and construction services, 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 main area of activity is 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 100% of votes at the General Meeting of Shareholders.

The main activity of the company was the production of prefabricated reinforced concrete elements used in the construction of industrial, commercial, office, cultural and sports facilities, halls, buildings, bridges and other large objects.

Since November 2016, following the transfer of production activities to Pekabex Bet, the company has been mainly engaged in the rental of machinery and equipment and provision of IT services for the Group companies.

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 of Shareholders.

The company's core business is the lease of real estate, machinery and equipment, mainly to the Group companies. In the year 2018 the company purchased real estate in the Pomeranian Special Economic Zone and commenced the execution of the investment presented in more detail in chapter 3.7 of 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 100% of votes at the General Meeting of Shareholders.

The company's core business is the lease of assets 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 100% of votes at the Shareholders' Meeting.

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

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. kom. As at the day of preparing this report, the Company did not conduct any operating activities.

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

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

TM Pekabex Projekt Sp. z o.o. sp. kom.

Pekabex is a limited partner in TM Pekabex Projekt. As at the day of preparing this report, the Company did not conduct any operating activities.



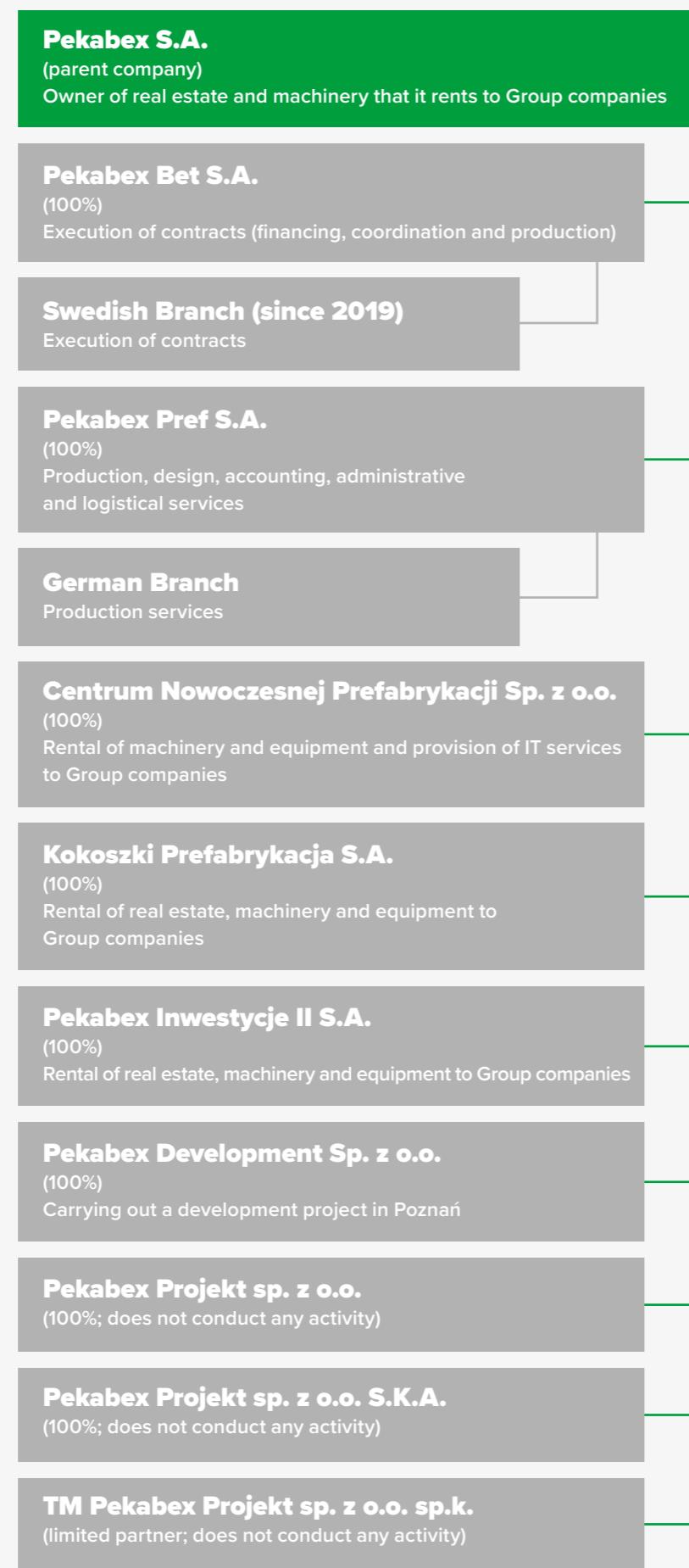
1.1

Business model



Pekabex Capital Group is a leading producer of prefabricated reinforced concrete 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 45 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. In its activity, the Group combines the competences of a manufacturing, engineering and construction company.

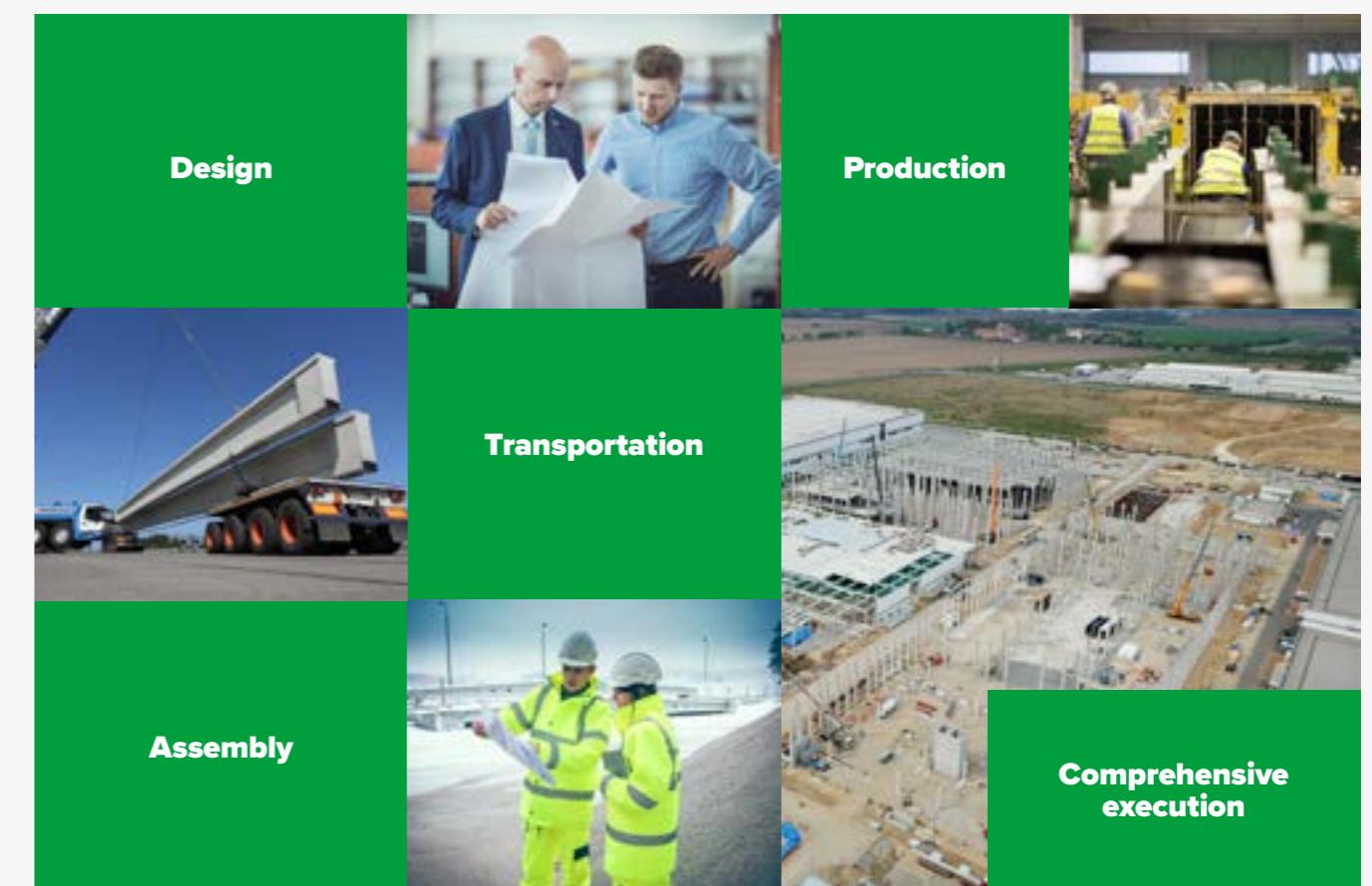
Pekabex has its own design office, specialising in designing buildings and structures made from prefabricated concrete elements. It employs more than 100 quality engineers with international experience, and permanently cooperates with external offices. The projects developed in accordance with the Pekabex 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. In 2017 it established, and in 2018 it continued to develop its own Research and Development Centre, where it develops innovative conceptions and the best construction solutions for its contracting parties.

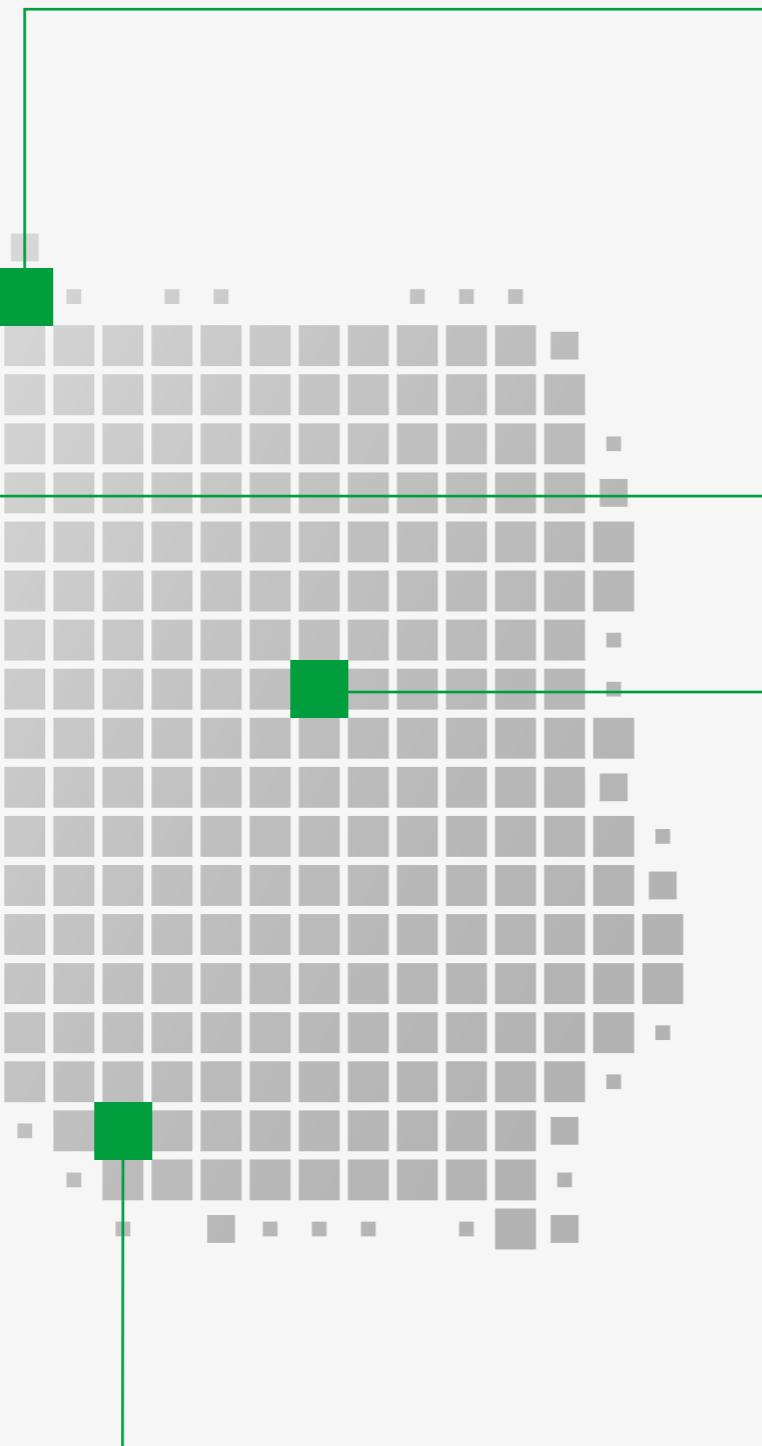
Pekabex ensures country-wide, safe transportation of prefabricated elements to the construction sites by road or rail-road transport. It also organises the transportation of elements abroad, using sea transport. Constant supervision over the continuity of deliveries and safety of transport of prefabricated 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, and the transportation of prefabricated products with a height of up to 4.3 m in a vertical position. The number of shipments increased in 2018 to 22 875 compared to 18 573 in 2017.

Pekabex provides services of prefabricated structure assembly on the construction site regardless of the time of year and atmospheric conditions. With more than 20 assembly teams, it delivers high quality services on time and in accordance with agreed conditions.

The Company's four plants, strategically located in Poland, produce elements used in the construction of large buildings (e.g. production halls, warehouses, offices, commercial buildings, stations, parking lots), engineering construction (e.g. bridges, tunnels), and elements for non-standard projects.

The Group also manufactures elements for residential construction, including ceilings, stairs and balconies, but mainly walls, including solid and triple-layered walls used most frequently as external walls with façades, equipped with electrical installations, fitted with windows and external window sills, and also finished with special textured plasters.

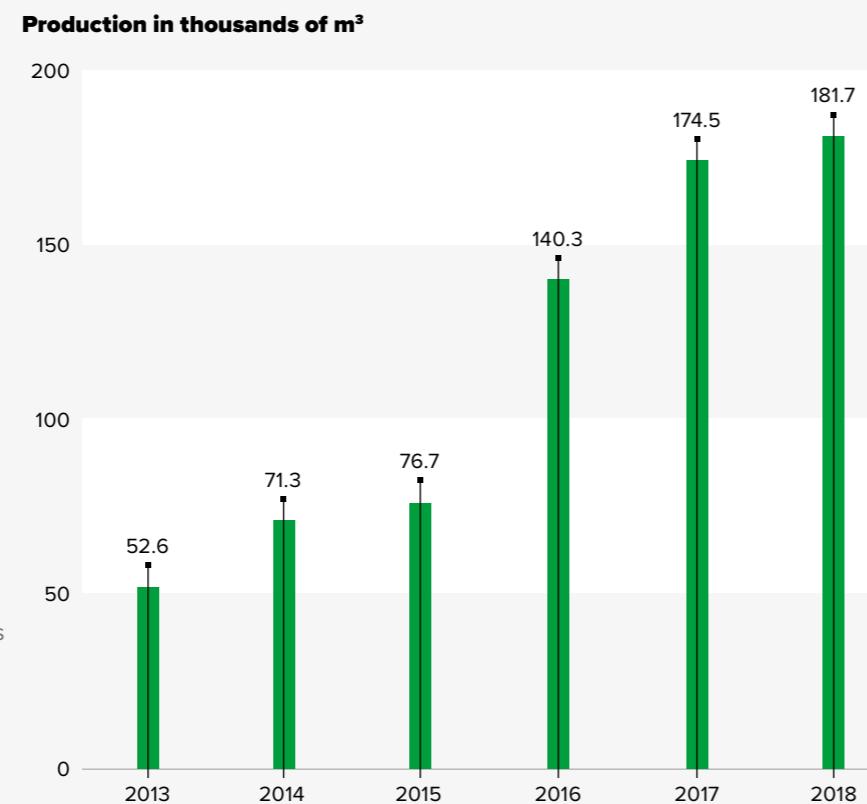




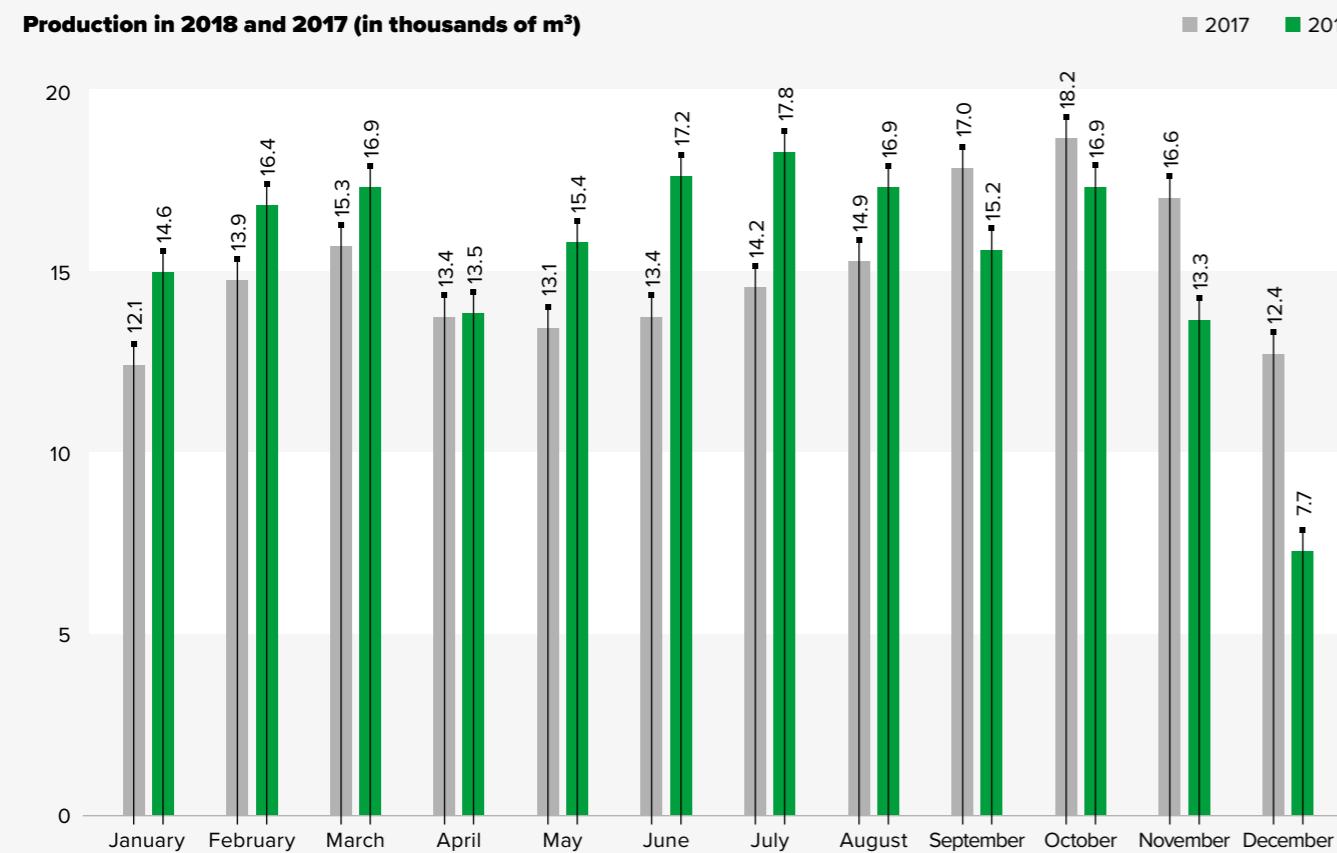
The Group specialises in the production of traditional prefabricated reinforced elements and modern prestressed elements.

Prefabricated elements, due to the production technology and the possibility to exhaust material parameters, are competitive with other materials and technologies used on the Polish and foreign markets. Prestressing concrete reduces cross-sections, which translates into cheaper transport and assembly, and thus attractive selling prices. The production of prefabricated elements within the Group is carried out by Pekabex Bet.

The total production volume in thousands of m³ generated by the 4 plants in 2018 amounted to 181.7 thousand m³ and was higher than that achieved in 2017 by 7.2 thousand m³.



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



The Group's prefabrication plants are equipped to produce elements in 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 extended length (35 m girders) and large masses (40 t). The quality of the prefabricated elements is ensured by the specialist production equipment and the experience and high qualifications of the staff.

The basic product range of the Group is presented in the following diagrams:



The Group also produces elements for housing construction, including ceilings, stairs and balconies, but primarily walls, including solid and triple-layered walls, used most often as external walls with façades, equipped with electrical installation, fitted with windows and external window sills, and finished with special textured plasters. Such elements do not require additional time or expenses related to constructing and finishing façades on the construction site. Finishing the internal side of the wall requires

only painting, fixing window sills and installing sockets and electrical switches.

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

- » traditional reinforced elements such as rectangular columns, circular columns, foot columns (columns with foundation)
- » footing, solid walls, double-layered walls, triple-layered walls, foundations, retaining walls, walls
- » with exposed aggregate, balconies, filigrans, tubing, docks;
- » hollow core slabs.

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 footings with square, rectangular and circular cross-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 type slabs



Walls

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



Stadiums

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

The Group's products are used in the construction and erection of the following structures:

- » industrial facilities
- » commercial facilities
- » residential and office buildings
- » infrastructure facilities
- » energy facilities
- » stadiums
- » parking lots
- » unusual projects (e.g. fountain basins, individually designed and manufactured
- » tanks, prefabricated shells, stair flights)



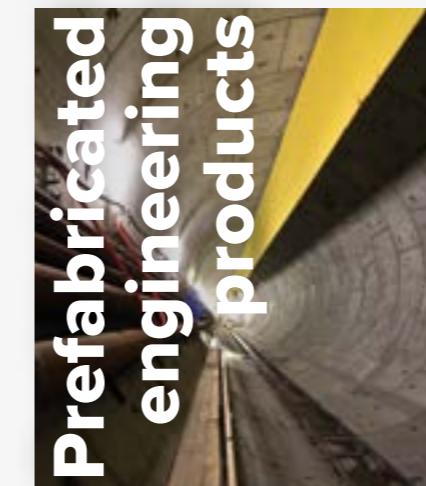
Roof beams

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 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 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 plants include:

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



In 2018, the Group launched its first pilot residential project in modern prefabrication technology. The investment is located in Poznań and it consists of two stages. It is described in more detail in chapter 3.7 of this report.

As part of the project, Pekabex devised a number of innovative solutions for developers, particularly for walls used in modular construction. Those solutions significantly shorten construction time, reduce the demand for employees, reduce the weight of transported elements and costs of assembly, and ensure high resistance to water and other climatic factors.

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 2018 the ongoing quality control of prefabricated elements, at all stages of investment, was exercised by 4 laboratory units, located at the Group's plants in Poznań, Gdańsk, Mszczonów and Bielsko-Biała. The laboratory supports the work of the Group by, for instance, 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 controlled in accordance with Regulation No. 305/2011 of the European Parliament and of the Council (EU) of 9 March 2011.

The Company has implemented the following certified management systems, including quality control and environmental protection:

- » Certificate No. 1111 - Cpd - 0543 of the Kontrollradet Notified Body from Norway
- » Certificate No. Prod-067 of the Kontrollradet Notified Body from Norway
- » Certificate of Conformity with the Requirements of European Standard En 13369- Nordcert No 2155 of the Nordcert Certification Unit from Sweden



- » Certificate of Compliance with the German Standard Din 1045-1:2008-08- Certificate No. 1247.1.1130 -1 of the Güteschutz Beton Nordrhein-Westfalen Beton- Und Fertigteilwerke e.V. Certification Body.
- » ISO 9001:2008 - Certificate No: 1210026371/01 TmsTÜV SÜDEc-Fpc Certification Body Certificate Aoc-Level 2+
- (Plant Production Control
- the right to mark products with the CE mark) Certificate No. 0620-Cpr-49355/03 of the Kiwa N.V. Certification Body.

For each contract, a designer is assigned to coordinate the supervision of the technical documentation. The employees of the Quality Control Department check the compliance of the finished elements with the documentation and enter the results in the records. Each prefabricated element is inspected and, in the case of hollow core floor slabs manufactured in series on the basis of individual documentation, each lot is subject to a thorough inspection once a week. For each slab, particularly important parameters such as prestressing tendon slippage are also tested. The forms and reinforcement are controlled, and special prestressing programs are developed for the production of prestressed bridge beams. The production of concrete mixes in the course of their development is also controlled and the samples taken are tested for compressive strength.

Additional visual checks are carried out as standard before shipment. Pekabex also controls the compliance of sub-suppliers with quality standards and, in some cases, audits the suppliers of input materials for production.



1.2

Markets and sources of supply

The demand for prefabricated construction elements and reinforced and prestressed concrete elements is closely correlated with the development of the construction sector, 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

buyers of its products include direct investors and general contractors constructing large-size buildings, residential buildings and infrastructural investments.

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

The table below shows the revenue generated in particular

In thousands PLN	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017	Change in value	Change %
Poland	694 673	391 303	303 370	77,5%
% share in total sales	78.38%	62.8%		
Scandinavia	159 714	202 092	-42 378	-21.0%
% share in total sales	18.0%	32.4%		
Germany	31 957	29 939	2018	6.7%
% share in total sales	3.6%	4.8%		
Total	886 344	263 010	263 471	42.2%

Revenue from sales in the territory of Poland increased by PLN 303 370 thousand in relation to 2017, i.e. by 77.5%. This increase was reported mainly in the Execution of Contracts segment - Construction Services (an increase by PLN 166 445 thousand) and the Execution of Contracts - prefabrication (increase by PLN 136 938 thousand). Revenue from execution of contracts in Scandinavia decreased by PLN 42 378 thousand, i.e. by 21.0%; this decrease concerned the

entire segment of Contract execution - prefabrication.

Both in 2018 and 2017, one of the main customers of the Group was Skanska Sverige AB. Revenue from sales to this contractor in 2018 did not reach 10% of the Group's revenue, whereas in 2017, their share was about 11%. They belong to the Execution of Contracts - Prefabrication segment.

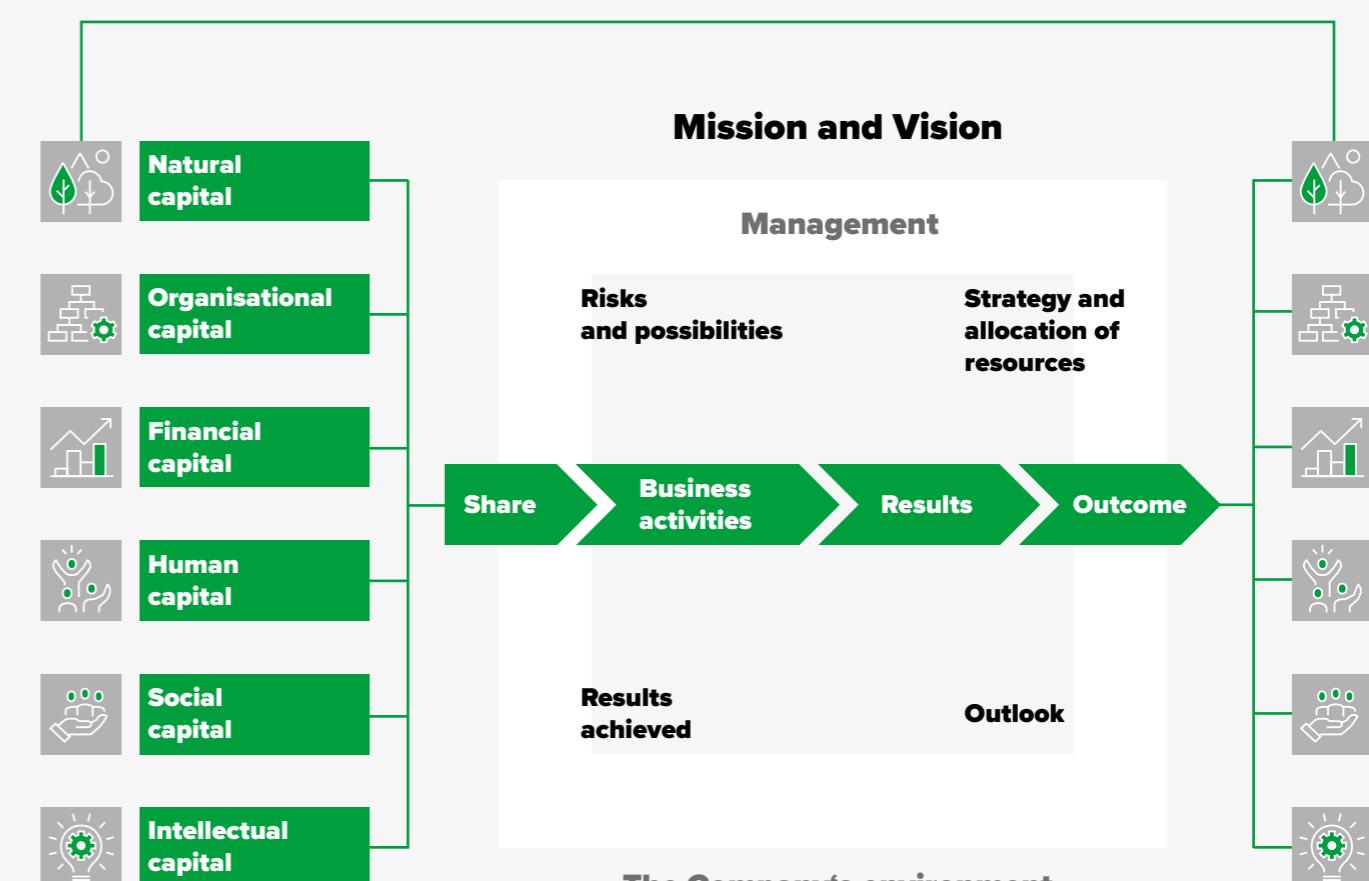
1.3

Value creation model

For the first time, the Pekabex Group reports on the matters connected with sustainable development in an integrated way. The report presents relevant information on the strategy, results, opportunities, risks and management of the Group, presenting them in the context of the environment and the most probable scenarios of its future changes (Outlook).

Presentation of the value creation process in the Pekabex Group alongside the business model also includes capital (financial, organisational, human, intellectual, social and natural) as well as the changes that take place in

those capitals and in their use. This presentation better reflects not only important conditions and financial indicators, but also a whole range of matters which, in a more complex, indirect way, play a role in the creation of value, significantly influencing the economic results achieved. A more in-depth presentation of key financial and non-financial matters allows for a better presentation of the factors 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.



In accordance with 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 capitals.

1.4

Capital

Financial capital

The financial capital of the Pekabex Group consists of the earned own funds, cash flows resulting from the execution of profitable contracts and 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 ensuring the stability and credibility of the Group for investors, employees, suppliers, customers and other stakeholders.

Financial capital allows for flexibility and operational security, which means that

when signing contracts for several large, capital-intensive projects at the same time, the Group may implement them without limiting the use of its potential. Financial capital gives the possibility to maintain and expand production capacity and to build a strong and stable organisation, ready for further development.

Financial capital is obtained from external institutions and developed through proper planning and professional management of production and contract execution.

Key contributions relating to capital

- » Thanks to financial capital the Group can finance the execution of contracts (purchasing materials, production etc.) until it receives remuneration for the performed services and the goods delivered, as well as expand on the market, which contributes to the increase in its value
- » Financial capital and achieving positive results ensure that the Group has the trust of investors, financial institutions and employees
- » Financial capital finances the remaining capital

Capital management

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

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

Results achieved

- » Total assets: PLN 643 081 thousand
- » Receivables: PLN 223 055 thousand
- » Cash and cash equivalents: PLN 95 234 thousand
- » Equity capital: PLN 285 359 thousand
- » Long-term liabilities: PLN 83 155 thousand
- » Short-term liabilities: PLN 274 567 thousand
- » Revenue from sales: PLN 886 344 thousand
- » EBITDA: PLN 81 903 thousand
- » Net profit: PLN 51 209 thousand
- » Net debt: PLN -4263 thousand
- » Guarantee limits available: PLN 274 500 thousand (including used PLN 131 496 thousand)
- » Available credit lines: PLN 55 000 thousand (including used PLN 0)

Human capital

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

Pekabex is an engineering company, so, to a large extent, its success depends on the engineers. Expertise and experience are the Group's other key capital, second only to tangible assets. They are necessary at every stage of the implementation of processes within the organisation, from sales and design, through the procurement of appropriate raw materials and materials, work organisation, production of components, quality control and safe transport, to assembly on the construction site,

and in the case of comprehensive execution - 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 may make decisions on company development based on current data.

Employees of the Group 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 threatened with social exclusion

Capital management

The Pekabex Group carries out a number of activities aimed at capital management. These include:

- » ensuring that employees work in appropriate health and safety conditions
- » enabling employees to develop, e.g. through access to appropriate training
- » providing numerous employee benefits
- » being open to employing and training foreign nationals
- » employing convicted persons and having a positive impact on their rehabilitation

Results achieved

- » Number of jobs (employees and associates) in all Group companies: 1993
- » Number of foreign employees: 287
- » Number of employed convicted persons: 50
- » Training expenditure in 2018: approx. PLN 400 thousand
- » Expenditure on non-salary employee benefits: PLN 3 203 thousand

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

Key contributions relating to capital

- » The Group has implemented procedures for the creation and approval of documentation and execution of contracts
- » The key action is the optimisation of solutions and processes
- » Technical 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 Association of Concrete Producers

Results achieved

- » In 2018, the Group developed the Research and Development Centre, within which teams deal with specific issues
- » In 2018, the Group filed 4 utility models with the Patent Office
- » In 2018, the company expanded its cooperation with universities and vocational schools
- » The Group organises a contest for the best thesis

Organisational capital

The organisational capital of the Pekabex Group is primarily its organisational structure, mission, vision, strategy, operational and strategic goals. It also includes internal (departmental and interdepartmental) procedures, regulations, instructions and processes and the persons

responsible for them. Finally, the organisational capital of the Group is the division of competences between the departments and their interaction, which leads to continuous development - of people, infrastructure, plants.

Key contributions relating to capital

- » The Group continuously analyses the need for improvement or creation of processes and procedures
- » The Group has an effective 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

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

Results achieved

- » In 2018 the Group continued to implement the new ERP-type system (Gardens)
- » The Group develops organisational structures covering new areas of activity (implementation of pilot projects on its own account)
- » In 2018, the Group opened its branch in Sweden
- » The Group implemented a hedge accounting policy
- » The Group is constantly developing and updating procedures
- » The Group ensures timely reporting and timely execution of contracts



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 research establishments, suppliers, media, shareholders and investors, government agencies, banks and other financial institutions.

Key capital contributions

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

Capital management

- » The Group has good relations with the authorities and local organisations and parishes, which translates into human capital.
- » The Group has an online and offline information policy regarding the impact of its activities on communities.
- » The Group cares about its relationships with universities, which then translate into human and intellectual capital.
- » Pekabex maintains regular communication with investors by publishing reports and holding periodic meetings.
- » The Group pays local taxes, which has an impact on the development of regions. Pekabex cooperates with the media on an ongoing basis to communicate a broader perspective on its activities to stakeholders.
- » In 2018, the Group joined new business initiatives.
- » In 2018, the Group expanded its cooperation with the Poznań School of Logistics.
- » Pekabex continuously cooperates with the State Construction Schools in Gdańsk and offers patronage classes in Technical School of Construction No. 1 in Poznań.
- » In 2018, the Group paid PLN 2829 thousand in property tax.
- » In 2018 the Group paid PLN 966 thousand for perpetual usufruct of land.

Results achieved

Natural capital

Natural capital is the reduction of direct and indirect environmental impact, the reduction of resource consumption and the increased ability to control the emission of pollution resulting from production

Key contributions relating to capital

Basic principles of the Group's environmental policy

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

- » The Group optimises the use of resources, materials and energy carriers
- » The Group modernises its machinery park 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 and controls natural capital matters
- » The Group logistics is based exclusively on companies that comply with at least the Euro 6 exhaust emissions standard

- » The Pekabex Group has improved its emission control and prevention of environmental accidents in all processes
- » The Group has introduced better waste control at the assembly stage - up to 100% of the materials used can be reused
- » Pekabex recovers recyclable materials - scrap steel is used for further production
- » The Group extracts aggregate 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 2018, 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 was significantly reduced in the Group's plant and headquarters in Poznań

1.5

Significant agreements

In 2018, Pekabex Bet concluded significant agreements for the supply of goods and construction works. The text opposite provides information on the agreements that meet the materiality criterion adopted by the Group

February 2, 2018

Pekabex Bet concluded an agreement with Accolade PL VII Sp. z o.o. for the construction of halls BU01, BU02 (Phase 1) and BU03 (Phase 2) and the access road and auxiliary facilities (extension and reconstruction of ul. Aksamitna), other buildings and the performance of accompanying works, related to land use as part of an investment called Panattoni Park Białystok in Białystok.

The lump sum remuneration due to Pekabex Bet for the execution of the contract amounts to EUR 15 718 763 net. The works were completed in October 2018.



13 February 2018

Pekabex Bet concluded two agreements with Skanska Sverige AB based in Sweden: (I) an agreement for the supply of prefabricated elements for the Epic investment in Malmö, Sweden and (II) an agreement on the supply of prefabricated elements for the Fennboda Tradgardar investment project in Nacka, Sweden. Remuneration due to Pekabex Bet for the execution of the first agreement was set at PLN 7 600 thousand. Deliveries began in the 8th week of 2018.

The remuneration due to Pekabex Bet for the execution of the second agreement was set at PLN 16 265 thousand net. Its completion is planned for the second quarter of 2020.

14 February 2018



Pekabex Bet concluded a construction works agreement with Skanska Sverige AB, the subject of which is the delivery and assembly of a prefabricated structure for the Kaj 306 investment in Malmö, Sweden. The remuneration due to Pekabex Bet for the execution of the agreement was set at PLN 16 341 693 net. The assembly began in June 2018 and is planned to be completed in June 2019.

12 April 2018

Pekabex Bet signed an agreement with NCC Sverige AB, based in Sweden, the subject of which is the delivery of prefabricated structures for the Tollare Terrass investment in Stockholm, Sweden. The remuneration due to Pekabex Bet was set at PLN 20 089 131 net. The agreement will be executed in stages, in accordance with the schedule agreed by the parties, with the deliveries planned to terminate for May 2019.

23 April 2018

Pekabex Bet concluded a conditional agreement for construction works with Skanska Sverige AB, the subject of which is the delivery and assembly of a prefabricated structure for the Limhams Sjostad-Cementen kv A investment in Malmö, Sweden. The condition for the execution of the agreement was that the investor obtains the necessary permits by 30 May 2018. The condition was fulfilled on 2 May 2018. The remuneration due to Pekabex Bet for the performance of the agreement was set at PLN 16 900 thousand net. The Company began the assembly of elements in the 45th week of 2018, and the assembly works are planned for a period of 39 weeks.

April 27, 2018

Pekabex Bet concluded a conditional agreement for construction works with Skanska Sverige AB, the subject of which is design, production, delivery and assembly of a prefabricated structure for the Kvibergs Angar investment - Residential Buildings in Gothenburg, Sweden. Total remuneration due to Pekabex Bet for the execution of the agreement was set

at PLN 31 335 693. The subject matter of the contract consists of three stages. The first stage is worth PLN 9 842 349, the second PLN 11 094 802, and the third PLN 10 398 542 net. The condition for work on each stage to begin is the receipt of the order by Pekabex Bet. The company received the order for the first stage, in accordance with the timetable agreed by the parties.

On July 3, 2018 Pekabex Bet became aware of the lack of an order for the second stage of the contract, about which it informed in the current report dated April 27, 2018. Pekabex Bet received the order on October 9, 2018. The subject of the contract are two of the originally planned three buildings, hence the value of the contract for the second stage was reduced to PLN 7 628 621.



23 May 2018

Pekabex Bet concluded an agreement with Prologis Poland XLIII Sp. z o.o. for the construction of a warehouse building for the storage and distribution of goods, a system of roads and squares, as well as the provision of technical infrastructure as part of the DC1 Distribution Center at Prologis Park Poznań III investment. The agreement was completed in 2018. The lump-sum remuneration due to Pekabex Bet for the execution of the subject matter of the agreement was set at EUR 7 138 360 net.

08 June 2018

Pekabex Bet signed an agreement with Accolade PL XI Sp. z o.o. for the construction of a warehouse hall AB (stage I) and a three-storey office

building and the necessary external infrastructure and machine rooms as part of Panattoni Park Kielce investment project in Kielce. The lump-sum remuneration due to Pekabex Bet for the execution of the contract was set at EUR 12 150 thousand net. In accordance with the signed annex, the basic scope of work was completed in December 2018, while the extension was completed in February 2019.

5 September 2018

Pekabex Bet signed an agreement with PDC Industrial Center for the construction of warehouse and logistics buildings with machine rooms and offices including infrastructure, roads, parking lots, etc., located in Sękocin Stary in the Raszyn commune. The lump-sum remuneration due to the company for the execution of the agreement amounts to EUR 15 530 thousand net. The completion of the agreement is planned for the first half of 2019.

10 July 2018

Pekabex Bet concluded a general contractor agreement with Metrix Metal Sp. z o.o. for the construction of a production-warehouse hall, a social and office facility and warehouse with an internal road system, parking lot and necessary technical infrastructure in Tczew. The implementation of the investment will take place in two stages, whereby the contracting authority is entitled to withdraw from Stage II, unless it makes a declaration of investment continuation. Stage I of the investment was completed in the first quarter of 2019, and the completion of the investment, i.e. obtaining a permit for its use, is scheduled for 31 July 2019. The lump-sum remuneration due

to Pekabex Bet for the execution of the subject of the agreement amounts to PLN 20 605 687.14 net, including PLN 12 332 173.01 net for stage I and PLN 8 273 514.13 net for stage II. On 30 November 2018 the company received a statement from the Ordering Party on the decision to execute stage II of the investment.

24 September 2018

Pekabex Bet signed a letter of intent with Panattoni Development Europe Sp. z o.o. based in Warsaw for the general contracting for the Panattoni Europe Production, Logistics and Warehousing Centre investment project with social and office facilities, technical infrastructure and internal road system at ul. Szklana in Bielsko-Biala. The investment will be carried out in two stages. The agreed lump sum remuneration for the investment is EUR 10 110 thousand net. The stage 1 completion date is 30 April 2019, whereas the stage 2 completion date is June 6, 2019. The date of earlier availability for Stage 1 has been set at 31 March 2019. On 17 January 2019, the parties concluded an agreement confirming the conditions set forth in the letter of intent, in particular the date of completion and the net value of the agreement.

6 December 2018

Pekabex Bet signed an agreement with Panattoni Development Europe for the general contracting for two halls located in Kielce with offices and necessary technical infrastructure. The value of the subject of investment is EUR 6 521 883 net. In the first quarter of 2019, the parties signed an annex to the agreement, increasing the scope of works and increasing the remuneration for execution of the investment to 7 EUR 884 883 net. The Parties agreed that the date of completion of additional works shall be July 2019.

Other significant agreements signed during the reporting period

21 November 2018

Kokoszki Prefabrykacja entered into an agreement with EBAWE Anlagentechnik GmbH with its registered office in Eilenburg, Germany, the subject of which is the delivery and assembly an innovative production line for the production of prefabricated concrete elements. It will be installed in the Group's new plant, which will be built in the Pomeranian Special Economic Zone. The value of the technological line together with the delivery amounts to EUR 7 150 900.

In 2018

Pekabex concluded insurance agreements, including annexes extending the duration of insurance agreements with AVIVA TUO S.A., TUiR Warta, Chubb, STU Ergo Hestia, PZU and Collonade. These included the following:

- » property insurance against contingent events
- » civil liability insurance
- » insurance of cargo in transport
- » building risk insurance guarantees 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

After the balance sheet date, Pekabex concluded insurance agreements with Chubb, PZU and TUiR Warta, which included, among others:

- » cyber-risk insurance
- » insurance of construction and assembly risks in domestic and foreign investments
- » civil liability insurance
- » insurance of machinery and equipment against all risks
- » insurance of property against all risks
- » and loss of profit
- » cargo insurance in transport
- » personal accident insurance of employees

Agreements for guarantee lines (applies to contract guarantees), held by the Group as at the end of 2018 were as follows:

Guarantor's name	Limit amount in PLN	Duration	Changes in 2018:
TUiR Allianz S.A.	15 000 000	31.12.2019	Signed annexes to the agreement concerning: » extension of its period of validity until 31 December 2019 » increasing the value of the limit to the amount of PLN 15 million
TU Europa S.A.	6 000 000	indefinite duration	
Gothaer TU S.A.	6 000 000	06.12.2019	On 19 December 2018, an annex to the agreement was signed concerning: » the extension of its period of validity until 6 December 2019 » increasing the value of the limit to the amount of PLN 6 million
TU Euler Hermes S.A.	12 000 000	indefinite duration	
STU Ergo Hestia S.A.	15 000 000	indefinite duration	
TU Interrisk S.A.	7 500 000	18.12.2019	On 19 December 2018, an annex to the agreement was signed concerning: » the extension of its period of validity until 18 December 2019 » increasing the value of the limit to the amount of PLN 7.5 million
TUiR Warta S.A.	2 000 000	17.10.2019	On 19 December 2018, an annex to the agreement was signed concerning: » the extension of its period of validity until 17 October 2019 » the reduction of the limit value to the amount of PLN 2 million
KUKE	3 000 000	indefinite duration	Concluding a general agreement on granting contractual insurance guarantees on 17 January 2018
Generali TU S.A.	10 000 000	01.10.2019	Concluding a framework agreement for the provision of assembly within the revolving limit on 2 October 2018
AXA Ubezpieczenia TUiR S.A.	10 000 000	31.12.2019	Conclusion of a guarantee commission agreement within the limit as of 27 November 2018
Total	86 500 000	–	

On 19 June 2018, the Supervisory Board of Poznańska Korporacja Budowlana Pekabex S.A. adopted a resolution on the selection of Grant Thornton Polska Sp. z o.o. sp. kom., entered on the list of entities eligible to audit financial statements conducted by the National Chamber of Statutory Auditors under number 4055, to conduct an audit of separate and consolidated annual financial statements of Pekabex S.A. and the Pekabex Group for 2018.

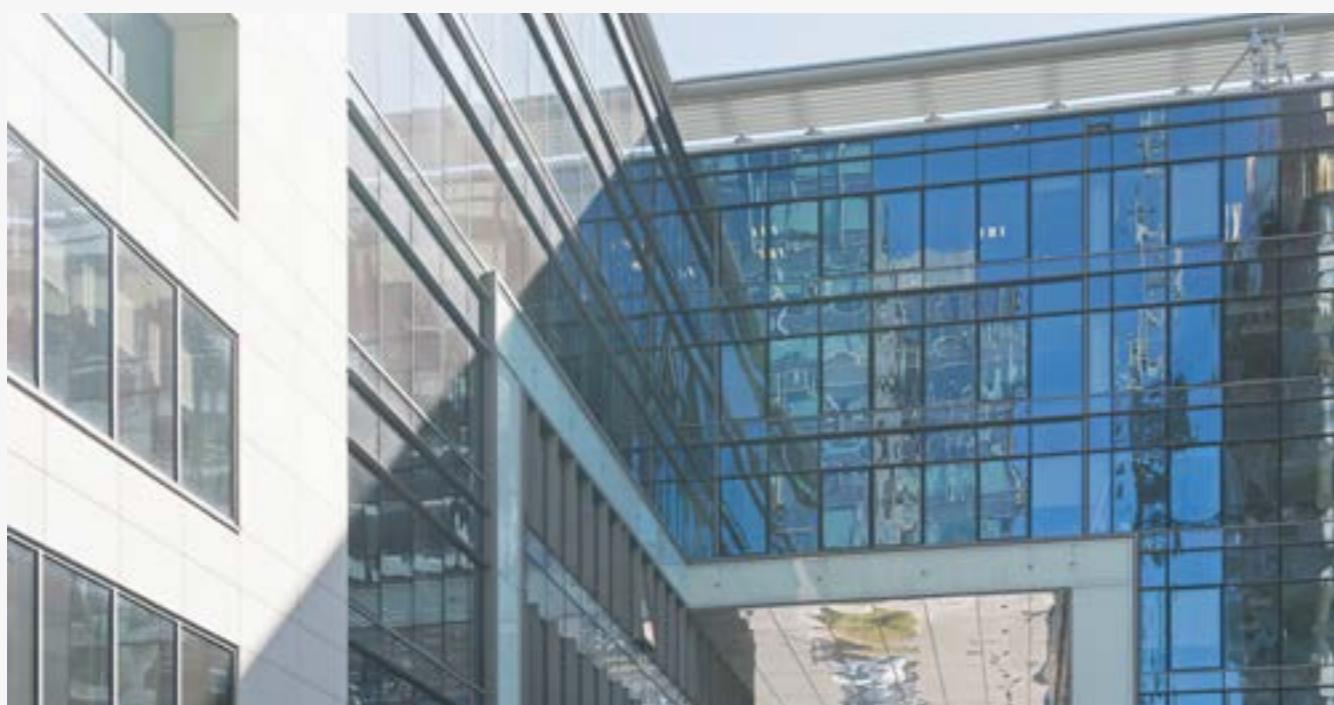
The resolution of the Supervisory Board was preceded by the adoption of a resolution by the Audit Committee of the Company, pursuant to which it approved the report of the Management Board on the selection of an audit firm and recommended the selection of Grant Thornton Polska.

The agreement between Pekabex S.A. and the audit firm was concluded on 27 June 2018 and concerns the period indicated above. Pekabex used the

research and review services of the selected audit firm in the previous years, since the Company's IPO in 2015, including the prospectus survey service.

Information on the auditor's remuneration is presented in note no. 31.5 of the consolidated financial statements.

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



2.0

Strategy and development of the Pekabex Group



The strategic goal of the Group is to build its value and strengthen its leading position on the market of prefabricated reinforced concrete and prestressed elements through organic development, acquisitions, development of foreign sales, and further improvement of the product offer and accompanying services:

- » being a partner for the customer mainly by offering solutions tailored to their vision and expectations,
- » providing modern technology and comprehensive structural solutions for non-standard objects.

This is achieved by:**Comprehensive offer and innovative products**

» Development of comprehensive services and solutions in the „design and build” formula, including the combination of different technologies. In the opinion of the Management Board, customers in Poland have an increasing appreciation of innovative and comprehensive solutions including both consultancy in the area of prefabricated technology, as well as design, manufacturing, transport and assembly of prefabricated elements, and comprehensive development of facilities. In order to meet the expectations of its clients, the Group intends to continue offering and promoting such solutions in a wide range of ways, including the „design and build” formula. As regards

comprehensive services, the Group is responsible for the execution of the entire investment project (or its indicated complete parts) within which it subcontracts all or part of the activities (e.g. construction works). Comprehensive contract execution enables the Group to influence the choice of technology used, thus creating a market for prefabricated technology, as well as to influence the selection of suppliers of prefabricated elements. Coordinating the entire construction process increases the flexibility of production processes thanks to the ability to more accurately plan the level of demand for prefabricated products within a given period of time.

» Creating design and production solutions as Group products.
» Continuing the development of the design department, thanks to

which the Group will strengthen its competitive edge in more technologically complex products and design solutions.
» Actively promoting prefabrication. Pekabex directly reaches designers, investors and general contractors with solutions and information in the form of lectures, speeches, newsletters, publications and brochures. Introducing products that require more work (e.g. walls with fitted windows), more technically complex products (e.g. tubings) and innovative products.

» Entering the residential construction market in Poland and developing an offer for it.

Continuous improvement of operational efficiency

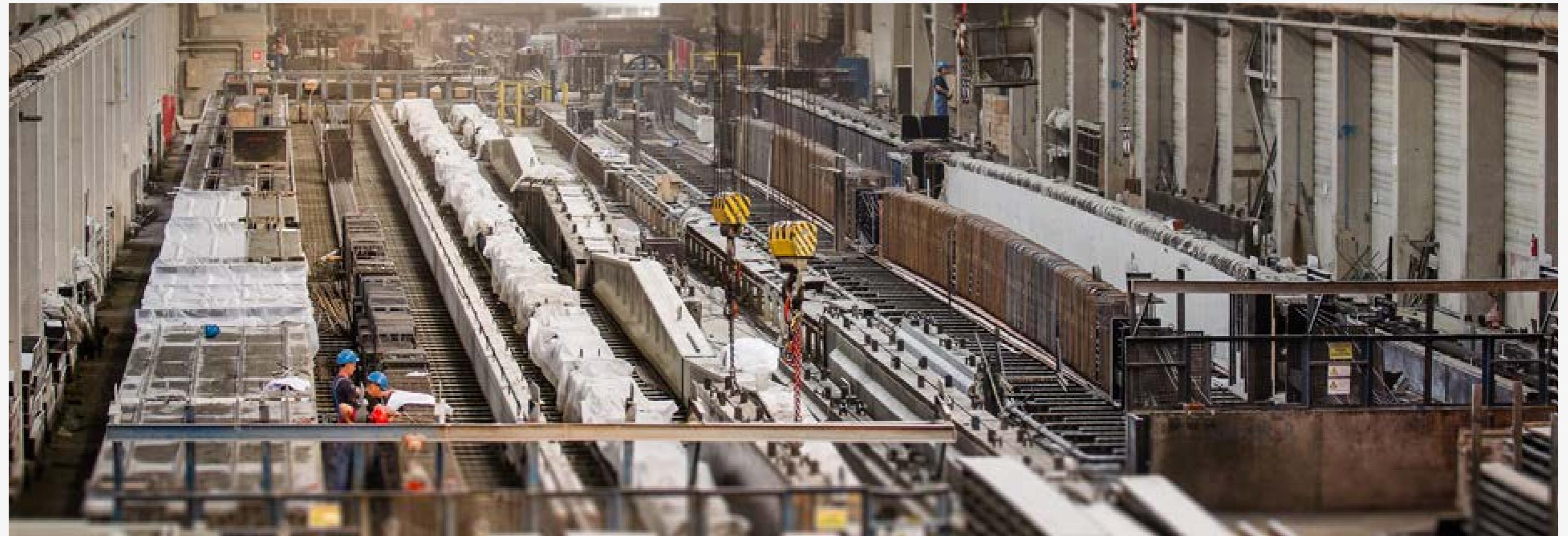
» Expanding the KPI-based process monitoring system (e.g. labour costs per m³ of production), including design, production and contract execution processes, using tools such as reporting and controlling systems.
» Implementing comprehensive IT solutions facilitating the flow of information and increasing productivity (e.g. in manufacturing), as well as the possibility to use the available information to better match products and services to market needs.
» Adapting practices that have been tried and tested, e.g. in Germany.
» Developing structures on the basis of reproducible elements that can be reused in order to standardise production. Investing in standard and modular formwork, thanks to

which all elements can be produced in accordance with the applicable standards, can have positive effects. Thanks to these activities, the Group can shorten the time needed to prepare the production, but also reduce the costs of formwork construction. As a result, the Group's offer becomes more and more flexible and cheaper than that of its competitors.
» The aim of automation and mechanisation of processes is to improve the efficiency and quality of products and services offered, as well as to reduce the need for human labour, in particular in production positions, which addresses the shortage of qualified lower-level workers. Expansion of production capacity in the existing plants.

Expansion on foreign markets

» Increasing sales on the Scandinavian and German markets, in particular by offering more and more advanced and comprehensive solutions in prefabrication and engineering solutions.
» Continuing the production service business in Germany and possibly offering prefabricated products manufactured in the company's own plants in this country in the future.

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



2.1

Research and development

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

The Group has been working on technology development and innovative solutions in the field of prefabrication for many years. In order to effectively compete on the market, Pekabex has developed a number of its own innovative solutions, which it has applied for as utility models and inventions. These include, among others, connectors for prefabricated elements that accelerate the processes, modern and high quality prefabricated elements and innovative technological processes.

The research and development activity supports its systematisation, including the separation of the dedicated unit and the definition of its work agenda.

In 2017, Pekabex Bet received funding from the Intelligent Development Operational Programme 2014-2020 under Measure 2.1 Support for investments in companies' R&D infrastructure. 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 research and development works in Poland. The Centre cooperates with technical universities in the whole of 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 the German and Scandinavian markets). The undertaken development projects are aimed at increasing the number of commercialised innovative products/technologies, which will

have a direct positive impact on the Group's position on the market and on its financial results.

The Group has filed innovative solutions in many areas of prefabricated construction to the relevant institutions the main aim of which is to improve the production process by standardising the elements and their systems and accelerating the assembly process on construction sites. Furthermore, the Group is convinced that achieving the highest 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 11 utility models with the Patent Office (4 in 2015, 3 in 2017, 4 in 2018), 6 of which have been granted protection rights, and is waiting for the remaining applications to be examined. Moreover, it is still awaiting patents for 2 inventions filed for registration (2017).

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

- » implementation of R&D plans in cooperation with external entities
- » increasing the use of modern concrete prefabrication in the construction industry, especially housing construction, which will allow the Group to participate in the execution of government and local government housing development programmes and will better meet the market demand for modern, affordable housing
- » reducing construction investment costs through the use of the Group's own innovative solutions
- » shortening the time necessary for the implementation of construction processes by using innovative connectors which significantly speed up 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, by, for instance, automating processes and the accompanying improvements in performance and quality parameters and the elimination of errors
- » implementing actions related to sustainable development, i.e. increasing the share of more environmentally friendly solutions (e.g. research into the use of green concrete in prefabrication)
- » integration of R&D personnel, who have thus far been carrying out research and development work within the dispersed Project Department
- » enriching the existing equipment with advanced research and development equipment which means that R&D 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 the

installation of equipment and preparation of work stations for the specialist R&D personnel

Pekabex actively supports scientific conferences and seminars as a sponsor and contributor. The company participates in the largest national and international industry events, independently or together with partners, including the Association of Concrete Producers. In 2018, the Company's representatives participated in the following events:

- » the scientific conference of the Committee for Civil Engineering of the Polish Academy of Sciences, and the Scientific Committee of the Polish Association of Civil Engineers and Technicians in Krynica
- » the scientific and technical conference „Structural Failures“ in Miedzyzdroje
- » Case Week at the Poznań University of Technology and Warsaw University of Technology

- » the BalCon Conference of Students and PhD Students
- » prof. Włodzimierz Starosolski's conferences on reinforced concrete structures
- » the Concrete Producers Association conference in Serock
- » the final of the Gdańsk University of Technology „wyKOMBinuj mOst“ contest
- » other conferences on modern production and warehouse halls, parking lots and garages

Specialists working in 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.





2.2

Supply chain

The Group has a reliable set of suppliers of key raw materials for the production of prefabricates, in particular steel, cement and aggregate. The structure of the Group's suppliers is dispersed, which means that it is not dependent on one or a few entities. In 2018, the value of purchased materials or services from any one supplier did not exceed 10% of the total value of purchased materials and services.

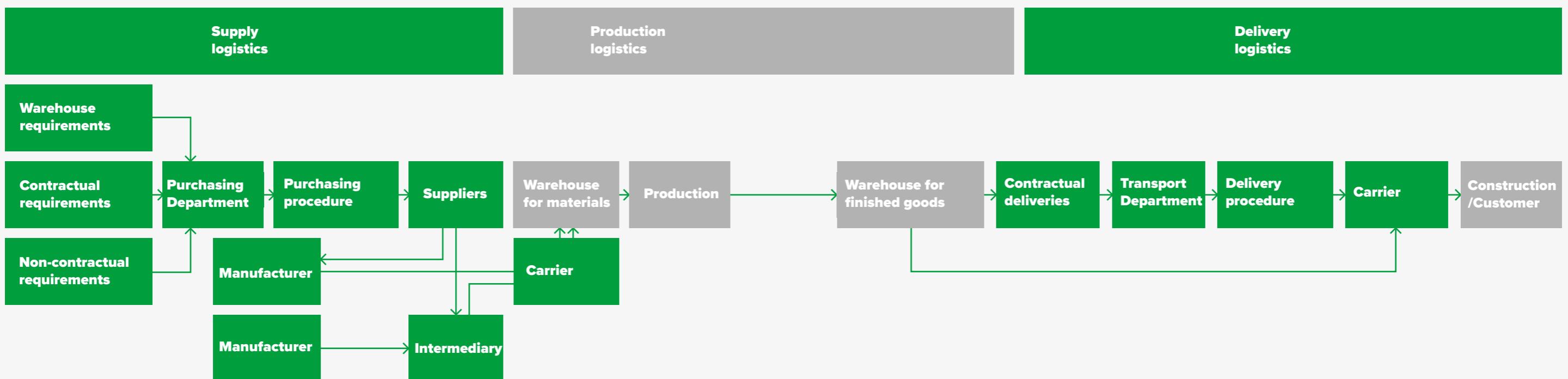
The Group's purchases are made on the basis of cooperation agreements with regular suppliers in the scope of key products and services (cement, steel, aggregate, plywood, accessories, chemicals, transport services). Framework agreements include payment terms, discount terms, trade credits, but do not constitute an obligation. A product/service is delivered on the basis of current orders.

Pekabex has a centralised Procurement Department with an office in the company's headquarters in Poznań. Demand-driven purchases are made using modern tools, such as the Login Trade purchasing platform, which speeds up and improves communication with suppliers.

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

The Pekabex supply/value chain is as follows:



In the Purchasing Department, individual buyers are responsible for given purchasing categories, e.g. steel, aggregate, thermal insulation, tools, etc. In 2018, Pekabex had in its base 481 active suppliers with whom it completed over 6800 orders/ deliveries.

Execution of deliveries to contractors is a very important element of the supply chain. Transport to construction sites 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, for instance, standard trailers, commonly known as tautliners, designed for elements whose dimensions fall within: 13.6 m in length, 2.45 m in width, 2.60 m in height. Equally often, the Group uses platforms with similar load capacity in terms of dimensions and weight; a visible difference here is the absence of a tarpaulin, which allows for loading 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 transport 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 nachlaufer-type trailers.

Oversized transport, which accounts for approximately 50% of all deliveries, requires special planning. Such transport takes place between 22:00 and 6:00 and requires appropriate permits. Delivery of oversized elements often involves changes in the infrastructure, e.g. removing road signs or extending specific sections of the road.

Apart from materials and energy, Pekabex purchases many services on the market, including subcontracting services related to the contracts it is executing. In particular, the segment of

activity in which Pekabex is the general contractor (Execution of contracts - construction services) is based on a network of subcontractors.

In 2018, Pekabex concluded 920 agreements with 537 subcontractors in the aforementioned segment. As its subcontractors, the Group selects companies from the area of a given investment, 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 and occupational health and safety regulations. Subcontractors are verified for compliance with the Group's standards, particularly with regard to the quality and safety of work, as well as compliance with the law regarding the employment of foreigners.

In 2018, the Pekabex Purchasing Department worked on the diversification of aggregate and cement supplies. As a result, during the period in question, part of the deliveries had already reached the plants by mixed, rail and road transport.

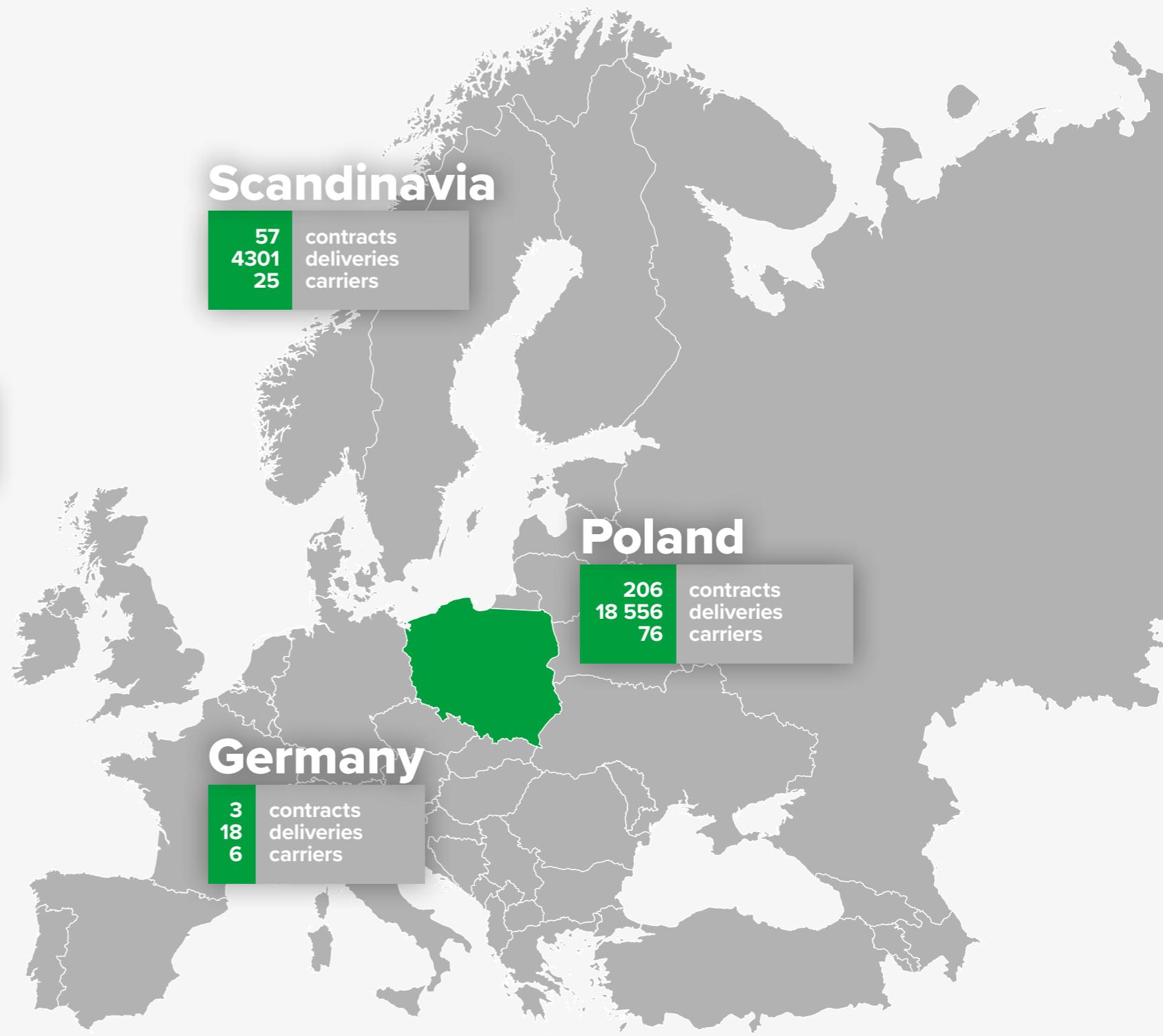
Major changes in the suppliers of main materials and energy in 2018:

- » natural gas, Poznań plant - change from Hadex-Gaz to Enea
- » propane-butane, Poznań plant - change from Hadex-Gaz to Gaspol
- » technical gases, Poznań plant - change from Air Products to Air Liquid
- » electricity - change from Energia i Gaz Sp. z o.o. to Orange Polska S.A.



Iceland

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1
contract
deliveries
carrier



3.0

Activity of the Pekabex Capital Group in 2018

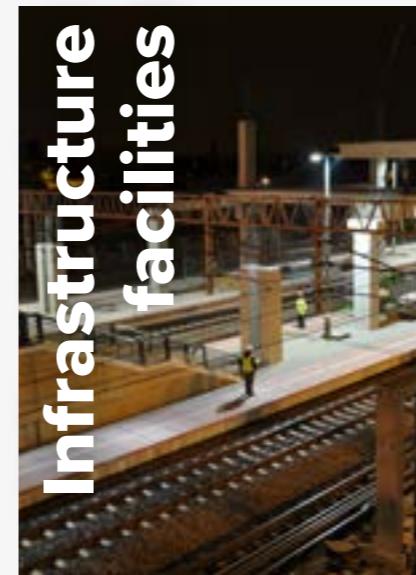
3.1

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

In 2018, the Pekabex Group executed nearly 400 construction contracts. They concerned many investments and had different scopes, described in the section dedicated to activity segments.

The current macroeconomic situation and growing life aspirations of the society mean that the demand is there not only for production, logistics and warehouse halls, but also for offices and flats. This is facilitated by exceptionally low interest rates, low unemployment and rising salaries. On the other hand, the entire industry is adversely affected by inaccessible construction procedures, protracted administrative proceedings and rising investment costs, including the increasing prices of construction workmanship and building materials.

This is why new solutions have been sought in recent years, especially for the housing market, but also for production and warehouse halls, as well as office space.

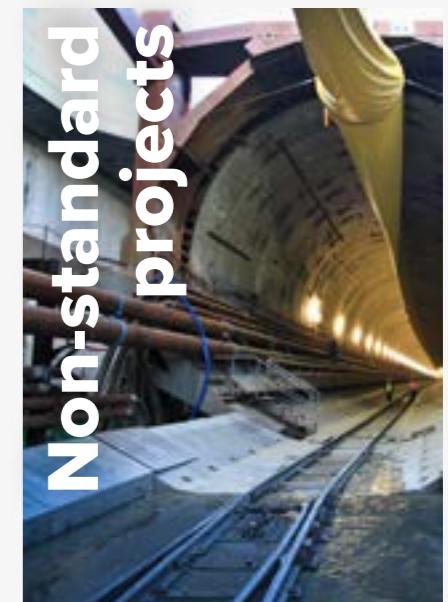


3.2

Significant contracts

The investments completed by the Pekabex Group in 2018 were characterised by great diversity in terms of design, production and logistics. The Group has carried out projects for the most demanding clients from the whole of Poland. Its experience in the field of large volume projects allows it to be even more effective in contract execution, while at the same time taking care of its own welfare and relations with clients and investors.

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



The Group also constructs public utility buildings, such as schools and kindergartens. Projects implemented quickly and efficiently thanks to the modular elements included the development of Primary School No. 46 in Poznań. Prefabrication technology made a huge impression on the pupils, who could observe the progress of the work from the existing school building. Examples of the effects of the Group's activity in 2018 include a number of commercial investments. Selected important contracts are presented below.

Office buildings

The list of office buildings constructed by the Group begins with the Olivia Business Centre in Gdańsk. It is the largest office building constructed by the Group to date. Its height including masts is 180 m, and without masts 156 m. It has 35 overground storeys and 3 underground storeys with a total area of 40 thousand m². It was constructed on Soicrete columns with a diameter of 1.8 m. 4400 m³ of concrete and 800 tons of steel were used for the construction of the slab foundation. Every third storey up to the level of the 31st storey has prefabricated elements with fire resistance R240, the rest has R120. An RCS rail climbing system with partial self-climbing was used for the construction of the core of the building, whereas for the construction of the storeys, the RCS rail climbing system (wind chests) was used. On average, it took only 8 working days to complete one storey of the building in raw state. The building was constructed in the vicinity of existing buildings, i.e. with very limited space on the construction site, in 21 months. Approximately 4 thousand prefabricated elements were produced for this purpose. A formliner was used in the production of rectangular columns in the underground part, in order to print Kashubian patterns on their surface.



Other office buildings completed by the Group include Business Garden - a few investments located in various cities in Poland, including Poznań and Wrocław.

The construction completed by Pekabex in Poznań consisted of five six-storey office buildings and a prefabricated six-storey parking lot. In total, the Group delivered about 15 thousand m³ of prefabricated elements to the construction site. As a result, approx. 37.5 thousand m² of modern office space and nearly 720 parking spaces were created. The assembly lasted 11 months. The general contractor of the investment was PORR Polska S.A.

As part of the Business Garden project in Wrocław, Pekabex carried out the assembly on 5 6-storey buildings and 1 14-storey building, providing approximately 14 thousand prefabricated elements.

Retail facilities



As part of a contract executed in 2018, consisting in the construction of Galeria Handlowa Stara Ujezdalnia (Stara Ujezdalnia Shopping Centre in Jarosław, Pekabex installed a total

of 2925 prefabricated elements with a volume of 11 854.4 m³, including columns, beams, girders, purlins, HC slabs, TT slabs, walls and stair flights. A total of 22 034.38 m² of HC slabs, 8 137.8 m² of TT slabs and 680 m² of floors on T-beams were produced. The usable floor area of the building is about 60 thousand m².

The contract „Construction of a complex of retail buildings including the construction and reconstruction of auxiliary technical facilities and underground infrastructure Bronisze” in the area of the Warsaw Agricultural Wholesale Market S.A.

was implemented as a comprehensive construction and consisted of a) construction of a retail and wholesale hall (hall A) with a constructed area of 8117 m² and a cubic capacity of 91 893 m³, which was located under a 220 kV high voltage line; under 2/3 of the hall surface a ground heat exchanger was constructed; b) construction of a semi-wholesale trade hall (hall B) with a constructed surface of 4,746 m² and cubic capacity of 54 237 m³ along with the auxiliary overground and underground facilities.

Warehouse and logistics facilities (industrial)



In 2018, Pekabex completed Panattoni Park in Białystok, Kielce and Sękocin as a comprehensive construction. As part of the investment in Białystok, three warehouse and logistics halls were built, along with technical infrastructure and auxiliary facilities with a total area of approx. 40 000 m². The biggest constructed hall includes three office spaces. The smallest of



the buildings was a two-storey office building with a total area of 600 m².

The Group carried out two investments in Kielce. The constructed area for the first one is 38 667 m². The construction was completed in September 2018. The building was certified in the TAPA system (related to the logistics industry), and the picking area in the hall with an area of 3000 m² was lit by daylight with a factor of up to 12.5%.

The constructed area including auxiliary facilities for the second investment in Kielce is approx. 9800 m², of which: hall C1 area - 5350 m², hall C2 area - 3387 m², 2-storey office building area - 556 m², 1-storey office building area - 348 m². The hall was made using the prefabrication technology (girders, columns, three-layer walls). External walls and part of the internal walls of the office buildings were made as single-layer prefabricated walls. The entrance portal for one of the office buildings was also made of Pekabex prefabricated elements. The office building was designed in accordance with the principles of feng shui.

The work in Sękocin included the construction of two warehouse and logistics buildings with a total area of approx. 38 000 thousand m² with auxiliary facilities.

Hala Ponzio Płock is another warehouse and logistics facility. As part of this project, the Pekabex Group manufactured, delivered and assembled the longest single-sloped girders to date. They are 41.056 m long and make a huge impression both during transport and once they are assembled. The elements are arranged in two directions inside the hall and are based on exchanges produced by Pekabex. The cross-section of the hall is over 80 m wide, which gives great adaptability possibilities.



In the third quarter of 2018, Pekabex also completed a logistics hall in a comprehensive construction system. The hall is a part of the new logistics complex Prologis Park Poznań III next to the A2 motorway and the DK5 road junction. The building is a small business unit (SBU) with a warehouse space of almost 13 000 thousand m² and office space of 295 m². This is the first building for which as-built documentation was created as a three-dimensional BIM model.

Pekabex performed a comprehensive service for the company PW Hale Paulina Wiśniewska: workshop design, production, delivery and assembly of a warehouse hall structure with a social and technical facility in Suwałki. The building made for the Bjanex company occupies an area of 8557.88 m². Pekabex delivered various types of prefabricated elements to the construction site: columns, beams, roof girders, roof purlins, floor slabs, foundations, layered walls. One of the challenges the assemblers faced, was assembling 15.27 m long columns and 27.7 m long girders. It is one of the first halls in north-eastern Poland with the structure made using the prefabricated prestressed concrete technology.

The production and warehouse building for KALMAR S.C. in Stary Sącz was completed in the last quarter of 2018. In October and November, Pekabex delivered prefabricated elements for the construction of a production and warehouse hall with a backroom. The ordering party (furniture manufacturer) thus gained about 14 000 m² of additional space, where a sewing room, carpentry room, upholstery room, logistics room and a design office will be located. The work consisted in the design, production and delivery of prefabricated elements. 148 columns, 80 girders, 58 beams and 218 hollow core floor slabs were delivered for the construction of the reinforced concrete load-bearing structure.

Another facility in this segment is the extension of the hall in Legnica for one of the largest automotive equipment manufacturers in the world - the Faurecia company. The contract was executed on a very small construction site where a production hall and a storage area for the investor were operating, and all-day deliveries to the plant were made 7 days a week. The work included production (in Poznań and Bielsko-Biała), delivery and assembly of elements and steel bracing for the hall. Pekabex delivered 6 31-metre girders and 30 over 20-metre long girders and purlins. The assembly itself took less than 3 weeks, including the assembly of steel bracing. The work was carried out at the end of September and beginning of October 2018.

Residential buildings

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

Lineberg 19 is a housing estate consisting of 19 buildings (370 flats), located in Stockholm. In the first stage, 12 buildings were assembled and a two-storey garage with an area of approx. 7200 m². The scope of Pekabex's work included the design, production, delivery and assembly of

prefabricated elements. Elements such as columns, beams, solid walls, Filigran slabs, balconies, stairs and double- and triple-layered walls with Reckli formliner patterns and fitted windows were made in the prefabrication plant in Gdańsk. This was the largest project executed by the Group for the Swedish housing sector to date. In total, 8500 elements were designed.



A 6-storey office building called Epic was constructed in the centre of Malmö, by the picturesque canal banks. For this investment, the Pekabex Group delivered 3-layered walls with two types of brick and fitted windows.



KAJ 306 is a project located next to the Epic office building. As part of the investment, approximately 100 flats and 5 commercial premises were built, and the construction consisted of 14 overground storeys and one underground storey. Pekabex supplied solid and double-layered internal and external walls with fitted electrical accessories and windows for this construction. In addition, the company supplied columns, Filigran slabs, HC prestressed slabs, reinforced concrete beams, balconies and complementary steel structures.

The value of the Trollhattan contract in the construction sector amounts to PLN 8200 thousand. Deliveries lasted 5 months and included, among others, more than 400 walls.



3.3

Structure of Pekabex S.A. revenue - operating segments

The structure of the Company's revenue in 2018 and 2017 is presented below:

Data in thousands of PLN	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017
Lease revenue	9,965	10,743
Trade mark fee	4,669	3,294
Sales revenue	14,634	14,037

Revenue from lease in 2018 constituted 68.1% of total revenue, and in 2017 - 76.5%. Pekabex S.A. conducts all sales in Poland.

Main customers by year:

Data in thousands of PLN	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017
Pekabex Bet S.A.	13,797	13,127
Pekabex Pref S.A.	692	583
Total	14,489	13,710

The subsidiary, Pekabex Bet had a 94.3% share in the revenue of Pekabex S.A. achieved in 2018, and in 2017 this percentage was 93.5%.

In 2018 the largest supplier of Pekabex S.A. was KPMG Tax M. Michna Sp. kom., whereas the year before it was the Enea Group and Centrum Nowoczesnej Prefabrykacji Sp. z o.o. The turnover with each of these entities exceeded 10% of the Company's costs.

3.4

Structure of the Pekabex Group Sales revenue - operating segments

Revenue generated in particular segments of the Group's activity in the year ended 31 December 2018 and in the comparable period of 2017 is presented in the table below:

(values in thousands of PLN)	Execution of contracts - prefabrication	Execution of contracts - construction services	Production services	Other	Total
for the period from 01.01 to 31.12.2018					
Revenue from external customers	546,873	303,002	31,583	4885	886,344
Percentage share of particular segments in revenue	61.7%	34.2%	3.6%	0.6%	100.0%
Segment operating result	96,560	4315	5567	1349	107,791
Percentage share of particular segments in the result	89.5%	4.0%	5.2%	1.3%	100.0%
for the period from 01.01 to 31.12.2017					
Revenue from external customers	453,598	136,557	28,280	4899	623,334
Percentage share of particular segments in revenue	72.8%	21.9%	4.5%	0.8%	100.0%
Segment operating result	52,844	4206	2615	1698	61,363
Percentage share of particular segments in the result	86.1%	6.9%	4.3%	2.8%	100.0%

The Group identifies five operating areas (segments). They are:

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

The segments were identified taking into account their specific nature, which consists primarily in the involvement of assets (including personal assets) and working capital, as well as characteristic risks. The adopted division is reflected in the Group's management accounting.

From the point of view of the Group's operations, the most important segment is Execution of contracts - prefabrication. Revenue from this segment includes mainly sales revenue related to the design, production, delivery and assembly of prefabricated structures, achieved both in the country and abroad.

Revenue generated in this segment in 2018 amounted to:

PLN 166,445 thous.

i.e., by **121.9%**, in comparison to 2017

This increase results from an increase in the scale of execution of contracts in the comprehensive execution formula, which was made possible by, among other things, the commencement of cooperation with a leading European developer of warehouse space in 2018.

Revenue generated in this segment in 2018 amounted to:

PLN 546,873 thous.

and was higher by **PLN 93 275 thousand** in relation to the previous year, which is an increase of **20.6%**.

The segment presents revenue from contracts where the Group is a supplier of prefabricated elements and construction and assembly services, as well as the part of revenue and costs related to the sale of prefabricated constructions, which is carried out as part of a comprehensive contract

stage of the project, two buildings were constructed and by the date of this report, development agreements were signed for all residential units intended for sale in these buildings. Transfer of real estate ownership through contracts in the form of a notarial deed and thus the recognition of revenue from sales is planned for the second and third quarters of 2019. As at 31 December 2018 the Group disclosed PLN 16 134 thousand in inventories on account of the implemented development project, and PLN 4888 thousand on account of payments made to trust accounts established by the company.

Revenue from the Production Services segment is related to the provision of production services by the German Branch. It consists in manufacturing prefabricated elements from entrusted materials, using the machinery and equipment made available by the purchaser, in their plant. The Group provides qualified staff, including managers, as well as the know-how and expertise needed to execute contracts.

Areas of activity whose revenue did not exceed the materiality threshold are presented in the Other segment and include:

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



3.5

Basic economic and financial data for the Pekabex Group

Net revenue from sales in 2018 amounted to PLN 886 344 thousand and was higher by 42.2% in comparison to the year 2017 (PLN 623 334 thousand). This change was mainly related to further increase of revenue in the Contract execution - prefabrication and Contract execution - construction services segments.

PLN thousand	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017	change %	change in thousands of PLN
Result report				
Revenue from sales	886,344	623,334	42.2%	263,010
Prime cost of the sale	722,145	507,641	42.3%	214,504
Operating profit	67,473	34,972	92.9%	32,501
Profit before tax	64,072	32,310	98.3%	31,762
Net profit	51,209	25,836	98.2%	25,373

At the same time, the prime cost of sales in 2018 increased by PLN 214 504 thousand. In percentage terms this is 42.3% - almost identical growth was recorded in the sales revenue position. As a result, the gross profit on sales in 2018 amounted to PLN 164 199 thousand and compared to the profit achieved in 2017 (PLN 115 694 thousand) was higher by 41.9%.

General administration costs at the end of 2018 amounted to PLN 32 537 thousand and were higher by PLN 6042 thousand, i.e. by 22.8%, than those costs in the previous year. This change results from a significant increase in sales and the scale of the Group's operations, in particular in the Execution of contracts – construction services segment, as well as entry into a new business segment – Implementation of pilot projects on own account.

Operating profit in 2018 amounted to PLN 67 473 thousand which in comparison to the profit achieved in 2017 (PLN 34 972 thousand) represents an increase by 92.9%.

The gross result in 2018 amounted to PLN 64 072 thousand which is an increase by 98.3% in comparison to the result from the previous year, which amounted to PLN 32 310 thousand.

The Group's net result for 2018 amounted to PLN 51 209 thousand and in comparison to the PLN 25 836 thousand in 2017 it increased by PLN 25 373 thousand, i.e. by 98.2%.

The EBITDA result for 2018 amounted to PLN 81 903 thousand and it is higher than that achieved in 2017 (PLN 47 908 thousand) by 71%. Net profit margin on sales amounted to 5.78% and it increased in comparison to 2017, when it reached 4.14%, i.e. 1.63 percentage points less.

The Group's realised profit for 2018 was achieved thanks to appropriate investment decisions made several years ago. Acquisitions of 4 plants as well as the modernisation and automation of plants, the attractive offer and its diversification in connection with a favourable economic situation resulted in a record-breaking result for the Group. A substantial impact on the increase in production

was caused by a significant demand on the construction market, which, combined with the supply, translated directly into the margins achieved.

Combined with the lack of staff and the attractiveness of prefabricated constructions, this contributed to the increase in the scale of the Group's activity, mainly in the Contract execution - construction services segment.

PLN thousand	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017	change %	change in thousands of PLN
Financial situation report				
Assets	643,081	479,720	34.1%	163,361
Current assets	383,491	235,539	62.8%	147,952
Fixed assets	259,590	244,181	6.3%	15,409
Long-term liabilities	83,155	77,753	6.9%	5402
Short-term liabilities	274,567	164,397	67.0%	110,170
Equity capital	285,359	237,570	20.1%	47,789

As at 31 December 2018, the Group's assets amounted to PLN 643 081 thousand and were higher by PLN 163 361 thousand in relation to the balance as at 31 December 2017. Fixed assets as at 31 December 2018 were higher by PLN 15 409 thousand in relation to the balance as at 31 December 2017. Fixed assets constitute 40% of the Group's total assets.

Current assets as at 31 December 2018 were higher by PLN 147 952 thousand than as at 31 December 2017 and amounted to PLN 383 491 thousand.

The increase is mainly due to:

» an increase in inventories - inventories as at 31 December 2018 were higher by PLN 19 097 thousand in relation to the state as at 31 December 2017 and amounted to PLN 63 622 thousand, where only the inventories related to supply contracts and purchased materials are disclosed in the balance sheet, whereas inventories related to

construction and assembly contracts are disclosed in the costs of construction contract advancement. The increase in inventories as at the end of 2018 as compared to the end of 2017 was mainly due to the fact that the implementation costs of the pilot housing project carried out by Pekabex Development (the JA_SIELSKA investment) were

recognised in inventories. Value recognised in the books on this account as at 31 December 2018 amounted to PLN 16 134 thousand; » an increase in receivables - trade receivables, construction contracts receivables and other receivables, including current income tax receivables, as at 31 December 2018 were higher by PLN 50 242 thousand in relation to the balance as at 31 December 2017 and amounted to PLN 223 055 thousand. The increase in receivables was mainly due to the increased sales revenue.

Cash and cash equivalents as at 31 December 2018 were higher by PLN 79 515 thousand in comparison to 31 December 2017 and amounted to PLN 95 234 thousand, which constituted 14.8% of total assets. The increase in cash and cash equivalents was directly influenced by the level of profit generated.

Net cash flows from operating activities were positive and amounted to PLN 98 845 thousand. In 2018, net cash flows from investment activities closed with a negative balance in the amount of PLN 32 640 thousand which is related to, among others, expenses incurred due to the construction of a new plant in Gdańsk, while cash flows from financial activities were positive and amounted

to PLN 13 311 thousand. Positive cash flows in this part of business were mainly attributable to the issue of bonds (PLN 20 000 thousand) and funds from a non-revolving loan taken out by Pekabex Development for the construction of stage I of the JA_SIELSKA housing estate in Poznań.

The Group's equity capital accounted for 44.4% of the balance sheet total and amounted to PLN 285 359 thousand, which constituted a nominal increase by PLN 47 789 thousand in comparison to the end of 2017. In June 2018, the General Meeting of Shareholders of Pekabex S.A. adopted a resolution on the payment of the dividend and in July 2018, PLN 3899 thousand was paid to shareholders from the net profit earned in 2017.

Long-term liabilities as at 31 December 2018 were higher by PLN 5402 thousand in comparison to the balance as at 31 December 2018 and amounted to PLN 83 155 thousand. The change is due to an increase in liabilities in connection with the issue of bonds carried out by Pekabex S.A., less current repayment of credit liabilities by companies belonging to the Group.

Short-term liabilities as at 31 December 2018 were higher by PLN 110 170 thousand in relation to the balance as at 31 December 2017 and amounted to PLN 274 567 thousand, which constituted 67% of total liabilities. The increase in the level of short-term liabilities is mainly related to the increase in trade liabilities resulting from increased turnover (increase of PLN 76 071 thousand), and the increase in the level of loans (increase of PLN 12 500 thousand on account of a non-revolving loan taken out for the construction of stage I of the JA_SIELSKA housing estate).

Net debt at the end of 2018 was negative and amounted to PLN -4263 thousand in comparison to PLN 46 531 thousand at the end of 2017, which is a consequence of the high level of cash as at 31 December 2018.

The Pekabex Group consistently pursues sales growth while maintaining or improving the basic indicators determining the effectiveness of its activity.

The basic financial indicators for the Pekabex Capital Group are as follows:

	2018	2017	change %	change in thousands of PLN
EBIT [PLN thousand] (operating profit/loss)	67,473	34,972	92.9%	32,501
EBIDA [PLN thousand] (operating profit/loss plus depreciation)	81,903	47,908	71.0%	33,993
Profitability ratios				
Return on assets (net financial result / total assets)	7.96%	5.39%		
Return on equity capital (net financial result / equity at the end of the period)	17.95%	10.88%		
Net margin on sales (net financial result / revenue from sales of products and goods)	5.78%	4.14%		
Liquidity ratios				
Liquidity ratio I (total current assets / current liabilities)	1.40	1.43		
Long-term liquidity (total assets / short and long-term liabilities)	1.80	1.98		
Other important:				
Net debt (total financial liabilities - cash and cash equivalents)	-4263	46,531		
EBIDTA LTM (EBITDA for the last 12 months)	81,903	47,908		
Net Debt to EBIDTA LTM ratio (net debt / EBIDTA LTM)	-0.05	0.97		
Financial coefficient (equity capital at the end of the period / total assets)	0.44	0.50		



3.6

Basic economic and financial data for Pekabex S.A.

Data in thousands of PLN	from 01.01 to 31.12.2018	from 01.01 to 31.12.2017	change %	change in thousands of PLN
Result report				
Revenue from sales	14,635	14,037	4.3%	598
Gross profit on sales	10,329	9001	14.8%	1328
General administration costs	2,979	2722	9.4%	257
Other operating income	922	1343	-31.3%	-421
Other operating costs	123	527	-76.7%	-404
Operating profit	8148	7095	14.8%	1053
Financial revenue	5943	1877	216.6%	4066
Financial costs	508	51	896.1%	457
Profit before tax	13,584	8920	52.3%	4664
Net profit	11,660	7221	61.5%	4439
Financial situation report				
Assets	185,940	154,968	20.0%	30,972
Current assets	22,771	12,920	76.2%	9851
Fixed assets	163,169	142,048	14.9%	21,121
Long-term liabilities	30,980	9721	218.7%	21,259
Short-term liabilities	4422	5236	-15.5%	-814
Equity capital	150,538	140,011	7.5%	10,527

In 2018, the net sales revenue amounted to PLN 14 635 thousand which is a level comparable with the previous year (PLN 14 037 thousand). The gross profit on sales amounted to PLN 10 329 thousand and compared to the profit achieved in 2017 (PLN 9001 thousand) there were no significant changes as well.

General administration costs amounted to PLN 2979 thousand and were higher by PLN 257 thousand, i.e. by 9% when compared to the previous year.

Operating profit in 2018 amounted to PLN 8148 thousand and in comparison to the profit achieved in 2017 (PLN 7095 thousand) it increased by 14.8%. Financial revenue increased to PLN 5943 thousand (2017 - PLN 1877 thousand) i.e. by 1216.6%, and the increase was caused mainly by the revenue from the dividend due, the payment of which in the amount of PLN 3487 thousand was approved by the General Meeting of Shareholders of Pekabex Pref S.A.

As at 31 December 2018, the Company's assets amounted to PLN 185 940 thousand and were higher by 20.0% in relation to the balance as at 31 December 2017. Fixed assets as at 31 December 2018 were higher by PLN 21 121 thousand in relation to the balance as at 31 December 2017 as a result of an increase in the level of long-term loans granted to the Group companies.

Current assets as at 31 December 2018 were higher by PLN 9851 thousand in relation to the balance as at 31 December 2017, when they amounted to PLN 12 920 thousand. The increase was mainly due to an increase in cash and cash equivalents: as at 31 December 2018 it reached PLN 8856 thousand, while the balance of cash at the end of 2017 amounted to PLN 540 thousand.

Equity capital accounted for 81% of the balance sheet total and amounted to PLN 150 538 thousand, which meant a nominal increase by PLN 10 527 thousand.

Long-term liabilities as at 31 December 2018 increased by PLN 21 259 thousand in relation to the balance as at 31 December 2017 and amounted to PLN 30 980 thousand. The increase in long-term liabilities is related to the issue of bonds by the Company, as described in this report. Short-term liabilities decreased by PLN 814 thousand and amounted to PLN 4422 thousand.

Net cash flows for 2018 were positive and amounted to PLN 8316 thousand. Net cash from operating activities was positive, as compared to 2017 it increased by PLN 4749 thousand to the amount of PLN 10 433 thousand. Net cash from investment activity closed with a negative balance of PLN 17 610 thousand.

The Company consistently realises sales growth, while maintaining or improving the level of basic indicators determining the effectiveness of its operations.

Basic financial indicators for Pekabex S.A.:

	2018	2017	change %	change in thousands of PLN
EBIT [PLN thousand] (operating profit/loss)	8148	7095	15%	1053
EBITDA [PLN thousand] (profit/loss plus depreciation)	11,248	10,100	11%	1148
Financial revenue				
Return on assets (net financial result / total assets)	6.27%	4.66%		
Return on equity capital (net financial result / equity capital)	7.75%	5.16%		
Net margin on sales (net financial result / revenue from sales of products and goods)	79.67%	51.44%		
Liquidity ratios:				
Liquidity ratio (total current assets / short-term liabilities)	5.15	2.47		
Long-term liquidity (total assets / short and long term liabilities)	5.25	10.36		

The following projects will affect the Group's operations, both in 2018 and in the perspective of the following year:

Pilot development project

- JA_SIELSKA

In the 4th quarter of 2017, Pekabex Development purchased a land property at ul. Jasieńska 9 in Poznań for the net price of PLN 3 500 thousand. On 16 March 2018, the Mayor of Poznań issued a decision approving the construction project on the basis of which the company started the construction of 6 buildings in prefabricated technology.

The execution of this stage was financed by BNP Paribas Bank with which the Company signed a non-revolving credit facility agreement in the amount of PLN 13 200 thousand in 2018. In accordance with the agreement, the credit will be repaid by 30 April 2021.

In the first stage, the company constructed two buildings. 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 installation and reinforce and fill the joints between the elements. In mid-October 2018, the assembly of the structures of both buildings was completed.

The finishing works are scheduled to be completed in the first half of 2019. As at the date of this report, Pekabex Development completed the sale of all 56 flats in the buildings mentioned above. Revenue from the whole stage and the related costs are to be recognised by the company after the transfer of ownership of the apartments by notarial deeds in 2019.

On 18 January 2019, the company submitted an application to the Poznań City Hall for a building permit for the second stage of the investment. As part of this investment



four residential buildings with 108 flats will be constructed. In March 2019, the company started to reserve and sell flats from this stage.

The Group has experience in the production and construction of prefabricated residential buildings, mainly in Sweden. Pekabex constructs 1-1.2 thousand modular flats a year in that country. Construction with the use of this technology reduces the implementation time by about 30-40% compared to the use of traditional technology, and in addition is largely independent of weather conditions. This shortens the time it takes to deliver ready-made apartments to customers and ensures a very high quality of workmanship. The solutions proposed as part of the investment assume high technical parameters in terms of acoustics and thermal insulation and attention paid to the external appearance of buildings and to the surroundings. The company will also use intelligent systems to increase the comfort of living. The success of the project will greatly facilitate the promotion of prefabricated technology in residential construction. This applies both to potential 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. In this way, the Group intends to take advantage of its experience gained in the Scandinavian market and increase the scale of its operations by offering technology that is rarely used in Poland but very promising, especially in the context of rising labour costs. Short construction times are particularly important for customers.

Construction of a new plant in Gdańsk

In January 2018, Kokoszki Prefabrykacja obtained a permit to conduct business activity in the Pomeranian Special Economic Zone. It obliges the company to make investment expenditures exceeding the amount of PLN 29 800 thousand in the Zone by 31 December 2019, and to employ at least 15 new employees and maintain employment at this level at least until 31 December 2024. Because it makes an investment in the area of the Zone, the company will be entitled to tax exemption. The maximum amount of investment costs eligible for state aid in the form of tax exemption may not exceed PLN 38 700 thousand.

On 28 September 2018, the company concluded an agreement with Gdańsk Agencja Rozwoju Gospodarczego Sp. z o.o. for the transfer of ownership of land property with an area of 24,549 m², located in the Pomeranian Special Economic Zone. The Company purchased the property for the offer price, i.e. PLN 5 891 760 net.

The next step in the implementation of the investment, coterminous with obtaining the documents required to commence construction, was purchasing a modern production line for the new plant.

On 21 November 2018 Kokoszki Prefabrykacja S.A. concluded an agreement concerning the supply and installation of an innovative production line for the production of prefabricated concrete elements with EBAWE Anlagentechnik GmbH with registered office in Eilenburg, Germany. The value of the contract including delivery is EUR 7 150 900. In accordance with the agreement, first production on the new production line shall be possible within 12 months from the date of the signing of the agreement.

The purchased line will be used for fully automated production of filigran ceilings and double filigran walls, which is a pioneering undertaking

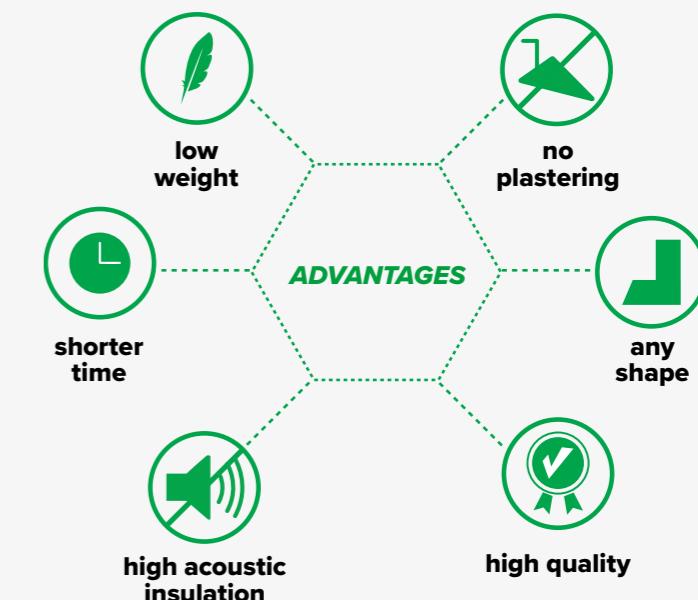
on the Polish market. The target production capacity is about 500 thousand m² per year. The elements produced in the new plant will be used for the purposes of housing construction in Poland, but may also be exported, especially to Scandinavian countries. The purchase of the production line is Pekabex's response to the decreasing availability of workforce in the construction and manufacturing sector and the continuous increase in employment costs. The construction of the plant will allow the Group to supplement its offer with an additional product, i.e. a Filigran slab, and to become independent of suppliers, in particular with regard to contracts executed in Scandinavia.

The investment will be financed mainly with an investment loan. For this purpose, on 14 March 2019, Kokoszki Prefabrykacja signed (I) a credit line agreement, (II) a non-revolving credit agreement, (III) a multi-purpose credit line agreement and (IV) a framework agreement for foreign exchange and derivative transactions with BNP Paribas Bank. The credit line agreement specifies the maximum

credit limit amount as EUR 4700 thousand and the payment deadline as September 2020 and it will be used to secure payments to technology providers. The non-renewable credit agreement provides for a credit amount of PLN 45 300 thousand and a loan term of 120 months. The funds from the multi-purpose credit line in the amount of PLN 7000 thousand will largely be allocated to working capital, necessary to start production in the new plant. The framework agreement for foreign exchange and derivative transactions was concluded for an indefinite period of time. The transaction limit for interest rate transactions is PLN 2333 thousand.

On 3 April 2019, the company received a decision from the President of the City of Gdańsk approving the submitted construction project and granting a building permit for the new Pekabex Group plant. The decision became final and binding on 15 April 2019.

Advantages of filigran floors





3.7

Management of financial resources

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

- » securing short- and medium-term cashflows
- » stabilising fluctuations in the financial result
- » executing financial projections by meeting budgetary targets
- » achieving the assumed rate of return on long-term investments and obtaining optimal sources of financing
- » for investment measures

In order to ensure an appropriate 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 cash surplus is invested in deposits in banks with 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) and on the financial liquidity of suppliers.

The Group monitors financial risks on an ongoing basis and undertakes actions aimed at minimising their influence on its situation. Understanding threats originating from exposure to financial risks, an appropriate organisational structure and procedures allow for better execution 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, Pekabex implemented hedge accounting that will ensure symmetrical recognition of changes in the hedging instrument's and hedged item's value in the accounting books and financial statements. In this way, these amounts will offset each other, thus eliminating the impact of the hedged risk on the financial result.

In relation to currency risk management, the following objectives are of the utmost importance:

- » hedging short- and medium-term currency cash flows
- » stabilising fluctuations in the financial result of the Group and its subsidiaries
- » executing financial projections by meeting budgetary targets

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

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

- » regularly analysing its current and expected volume and dates of its occurrence (in particular: monitoring the modification of invoice 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 through the use of appropriate hedging financial instruments (forward foreign exchange contracts)
- » regularly analysing current levels of market parameters (in particular, the level and volatility of relevant exchange rates)

With respect to interest rate risk management, the following objectives are of the utmost importance:

- » stabilising the level of debt service
- » executing financial projections by meeting budgetary targets

The Group does not conclude any speculative interest rate transactions on financial markets. The Group uses financial instruments available on the market in order to hedge against interest rate risk.

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

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

Risks and hazards associated with financial resources are liquidity, foreign exchange rate, interest rate and credit risks. The first three of them were described in point 5.4 of this report.

Credit risk

The Group's maximum exposure to credit risk is determined mainly by the carrying amount of financial assets such as loans, trade and other receivables, financial receivables and derivative financial instruments. The Group limits its exposure to credit risk related to trade receivables by assessing the credibility of contractors and monitoring their financial standing, the application of debt securities and through 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 given asset classes determined on the basis of that risk (e.g. by industry, region or customer structure).

Trade credit is granted mainly to proven contractors, and sales 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, the majority of 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 art. 647(5) of the Civil Code. Pursuant to the article, the party entering into an agreement with a subcontractor, the investor and the contractor are jointly liable for the payment of remuneration for the construction work performed by the subcontractor. In addition, the Group tries to conclude agreements with reliable contractors.

In the opinion of the Management Board of the Company, financial assets that are not overdue and covered by impairment write-off as at the respective balance-sheet dates, can be recognised as assets of good credit quality.

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. Past 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 are no concerns 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 include mainly banks and entities known by the Company.

3.8

Forecasts were not published.

Differences between financial results and financial forecasts

3.9

Structure of main deposits and equity investments

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

In 2018, Pekabex S.A. and its subsidiaries did not make any equity investments in entities outside the Capital Group. A significant transaction that took place within the Pekabex Group, related to own shares of Kokoszki Prefabrykacja.

On 20 November 2018, Pekabex S.A. concluded an agreement with Kokoszki Prefabrykacja for the purchase of own shares in this company, resulting from its reverse merger with Pekabex Inwestycje Sp. z o.o. On the basis of the agreement, Pekabex S.A. acquired: (I) 395 250 series A ordinary registered shares at PLN 8.02 each and (II) 54 500 series B registered preference shares (one share entitles to 2 votes at the General Meeting of Shareholders) for the price of PLN 8.02 each. The above shares constitute jointly 15.49% of the share capital of Kokoszki Prefabrykacja and have a nominal value of PLN 3 606 995. The above transaction did not affect the Group's structure.



3.10

Assessment of the feasibility of investment projects

Pekabex implements investment plans using both funds earned in the course of operating activities and external financing.

External financing in 2018

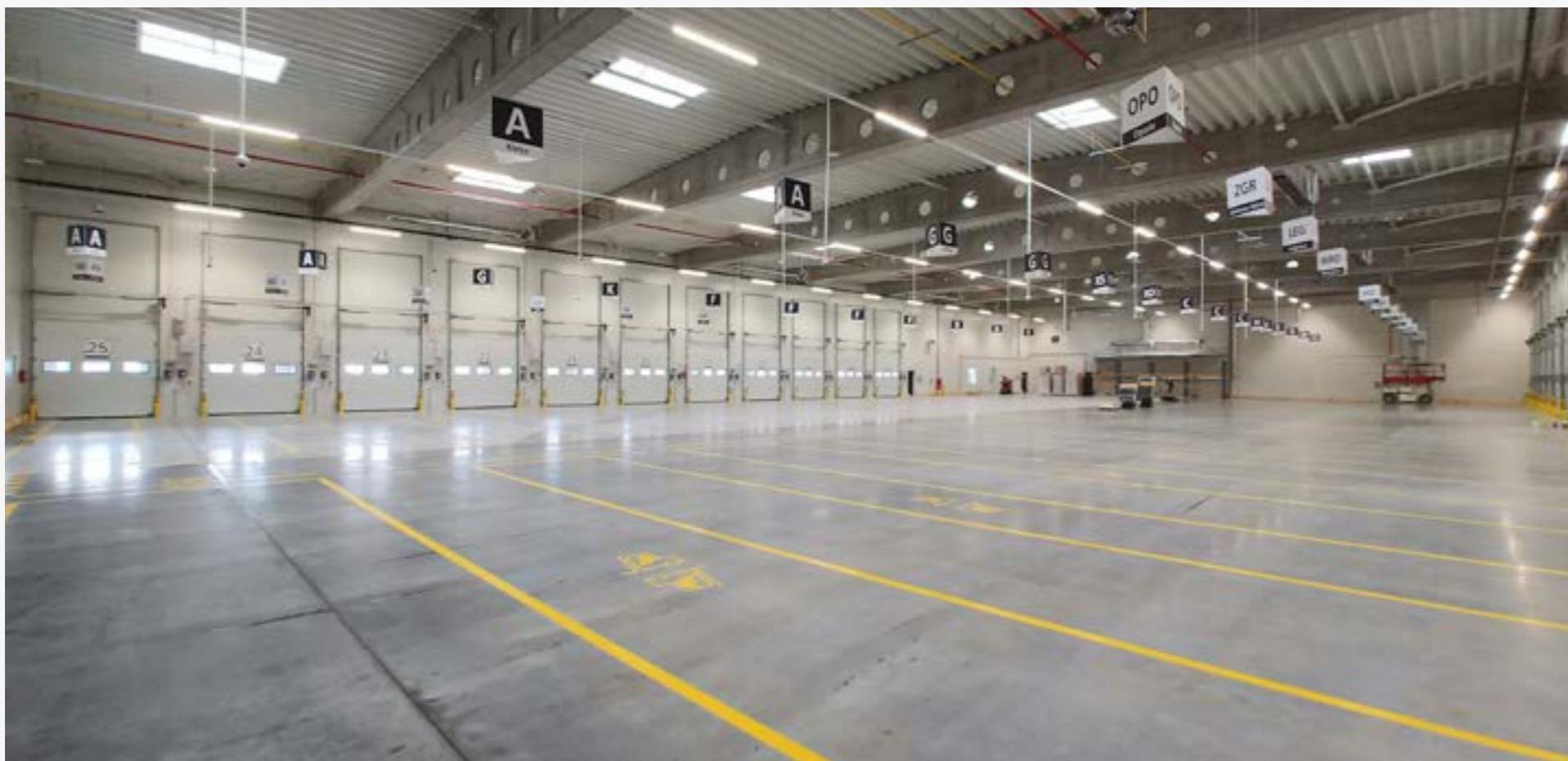
On 22 June 2018, under resolution no. 390/2018 of the Zarząd Krajowego Depozytu Papierów Wartościowych (Management of the Central Securities Depository of Poland) S.A. of 20 June 2018, Pekabex S.A. issued 20 000 series A bonds of total nominal value of PLN 20 000 thousand.

Under the terms and conditions of the issue, series A bonds bear interest at the 6-month WIBOR rate for deposits increased by a margin of 2.50%. Their redemption date falls on

22 June 2022. Series A Bonds were introduced to the Alternative Trading System (Catalyst), operated by Giełda Papierów Wartościowych w Warszawie (Warsaw Stock Exchange) S.A. and BondSpot S.A. The first day of their trading in the WSE ATS and the BondSpot ATS was set as 3 October 2018.

More information about the above issue can be found in Note 9.5 in the additional information and explanations to the consolidated financial statements.

Credits taken in 2018 and after the balance sheet date allowing for consistent implementation of the Pekabex Group's investment plans are described below.



3.11

Loans and credits taken out and terminated

On 19 April 2018, Pekabex Development signed a non-revolving loan agreement with BNP Paribas under which it obtained an investment credit of PLN 13 200 thousand. Its purpose was to finance the construction project consisting of constructing 2 blocks of flats on the real estate in Poznań in ul. Jasielska 9. The credit use period finishes on 30 June 2019. As agreed, it will be repaid by 30 April 2021. The credit is made available in tranches as work progresses. Repayment securities are as follows: (I) a blank bill of exchange with a blank bill of exchange agreement, (II) a civil law surety granted by Pekabex, Pekabex Bet, Pekabex Pref, Centrum Nowoczesnej Prefabrykacji and Pekabex Inwestycje II up to PLN 15 000 thousand, (III) a contractual mortgage up to PLN 19 800 thousand on the real estate, on which the investment is carried out, (IV) assigning to the bank the rights from the insurance policy concerning the real estate (begun construction) up to the amount of the sum insured, where the sum insured may not be less than the amount of the disbursed credit, (V) assigning to the bank the rights under the insurance policy for real estate (finished buildings) up to the amount of the sum insured, where the sum insured may not be less than the amount of the disbursed loan.

On 10 May 2018 Pekabex Bet signed an annex to the multi-purpose credit limit agreement with PKO BP S.A. It increases the credit limit to the amount of PLN 40 000 thousand for the purpose of credit in the current account up to the amount of PLN 10 000 000, revolving solution up to PLN 15 000 thousand and bank guarantees in domestic and foreign trade, issued as security for liabilities of Pekabex Bet or Kokoszki Prefabrykacja up to the amount of PLN 40 000 thousand where the amount of guarantees issued as collateral for liabilities of Kokoszki Prefabrykacja may not exceed 2.5% of the limit value.

As a result, the following collateral for liabilities of Pekabex Bet resulting from the agreement and the annex concluded were increased: (I) a joint contractual mortgage on the ownership of real estate belonging to Kokoszki Prefabrykacja S.A. located in Gdańsk and the right of perpetual usufruct to the properties located in Gdańsk have been increased to the amount of PLN 101 480 thousand, (III) the highest amount of hedge for a registered pledge on chattels owned by Kokoszki Prefabrication, which includes fixed assets, intangible assets and current assets, as well as those fixed assets, intangible assets and current assets which will be purchased by Kokoszki Prefabrykacja after the date of concluding the intermediate unregistered pledge were increased to the amount of PLN 101 480 thousand, (III) the highest amount of collateral for a registered on chattels owned by Pekabex Bet, which includes warehouse stocks located on the real estate referred to above, was increased to PLN 101 480 thousand, (IV) in connection with the increase in the credit limit amount, Pekabex Bet, as the issuer of the bill of exchange, and Pekabex, as the guarantor of the bill of exchange, submitted relevant new declarations.

After the balance sheet date, annexes to the existing credit agreements and new credit agreements were signed.

On 29 January 2019, Pekabex Bet signed annex 31 to the credit limit agreement dated 29 September 2008 („Credit Line“) with DNB Bank Polska S.A. for documentary letters of credit, bank guarantees and credit in the current account. The annex increased the credit limit to the maximum amount of PLN 120 000 thousand and extended the period of use of the Line of Credit until 30 November 2020 and the final repayment date until 29 November 2030. Due to the signing of the annex, the collateral documents of the Line of Credit were changed.



More details on the annex can be found in the additional information and notes to the consolidated financial statements.

Due to the signing of the annex, the collateral documents of the Line of Credit were changed, including: (I) Pekabex Bet undertook to submit itself to rigour of voluntary enforcement against the bank under a notarial deed, pursuant to Article 777(1)(5) of the Code of Civil Procedure as regards the obligation to pay the bank's receivables under the Line of Credit up to the amount of PLN 180 000 thousand, and the bank shall be able to apply for the notarial deed to be made enforceable by 30 November 2033, (II) the joint contractual mortgage on the property of Pekabex Bet described in the Land and Mortgage Register no. PO1P/00187976/0 and the property of Pekabex described in the Land and Mortgage Register under no. PO1P/00053923/6, PO1P/00111461/4 will be increased to the maximum amount of PLN 180 000 thousand. At the same time, Pekabex undertook to submit itself to rigour of voluntary execution against the bank under a notarial deed pursuant to Article 777(1)(6) of the Code of Civil Procedure up to the amount of PLN 180 000 thousand,

and the bank shall be able to apply for the notarial deed to be made enforceable by 29 November 2033, (III) Pekabex, Pekabex Pref and Centrum Nowoczesnej Prefabrykacji concluded annexes to the surety agreements with the bank under which the term of the surety of the aforementioned companies for Pekabex Bet's liabilities under the Line of Credit was determined for the period until 29 November 2031, and the limitation of the amount of the surety was increased to PLN 180 000 thousand. At the same time, the companies referred to above undertook to subject themselves to rigour of voluntary enforcement against the bank under a notarial deed pursuant to Art. 777(1)(5) of the Code of Civil Procedure up to the amount of PLN 180 000 thousand, and the bank shall be able to apply for the notarial deed to be made enforceable by 30 November 2033, (IV) Pekabex and Centrum Nowoczesnej Prefabrykacji, and Pekabex Bet concluded annexes to registered pledge agreements with the bank, under which the highest amount of collateral was increased to PLN 180 000 thousand. At the same time, Pekabex and Centrum Nowoczesnej Prefabrykacji undertook to subject themselves to rigour of voluntary enforcement against the

bank under a notarial deed pursuant to Article 777 (1)(6) of the Code of Civil Procedure up to the amount of PLN 180 000 thousand, and the bank shall be able to apply for the notarial deed to be made enforceable by 29 November 2033. At the same time, other collaterals under the Line of Credit were changed, in accordance with which the bank's receivables were increased to PLN 120 000 thousand.

On 14 March 2019, Kokoszki Prefabrykacja signed, with BNP Paribas S.A.: (I) a Letter of Credit agreement („L/C Line Agreement”), (II) a non-revolving credit agreement („Non-revolving Credit Agreement”), (III) a multi-purpose line of credit agreement („Multi-purpose Line of Credit Agreement”) and (IV) a framework agreement for foreign exchange and derivative transactions („Framework Agreement”). The L/C Line Agreement defines the maximum credit limit as EUR 4700 thousand and the credit term lasts until September 2020. The Non-renewable Credit Agreement defines the credit amount as PLN 45 300 thousand and the credit term as 120 months. The Multi-purpose Line of Credit Agreement defines the limit amount

as PLN 7000 thousand and the credit term as 120 months. The Framework Agreement was concluded for an indefinite period of time and the transaction limit for interest rate transactions for the agreement is PLN 2333 thousand.

The purpose of concluding the Non-Renewable Credit Agreement and the L/C Line Agreement is to finance and refinance the construction costs of a new prefabrication plant in the Pomeranian Special Economic Zone in Gdańsk („Investment Financed with Credit”), which Pekabex informed about in current and periodic reports. The purpose of concluding the Multi-purpose Line of Credit Agreement is to finance the operating activities carried out in the aforementioned investment project.

In connection with the signing of the aforementioned agreements, common collaterals were established, including: (I) contractual mortgage up to the amount of PLN 118 000 thousand, established on the real estate owned by Kokoszki Prefabrykacja, located in Gdańsk, for which the District Court Gdańsk-Północ in Gdańsk, 3rd Department of The Land and Mortgage Register maintains

the land and mortgage register no. GD1G/00306824/0, (II) assignment of rights under the insurance policy relating to the real estate in question to the bank.

Joint collaterals were established for the L/C Line Agreement, the Multi-option Line of Credit Agreement and the Non-revolving Credit Agreement, including: (I) registered pledge up to the maximum collateral amount of PLN 130 000 thousand on an organised collection (or separate pledges on fixed assets and inventory) constituting the equipment of the Investment Financed by Credit owned by Kokoszki Prefabrykacja, (II) general silent assignment of future receivables due to Kokoszki Prefabrykacja from entities from outside the Pekabex Group (including those due to Pekabex Bet) under construction contracts executed as part of the Investment Financed with Credit at the minimum amount of PLN 2000 thousand of the receivables (III) assignment to the bank of rights under an insurance policy concerning the subject of the pledge, (IV) a blank bill of exchange issued by Kokoszki Prefabrykacja with a blank bill of exchange agreement issued for each of the aforementioned agreements.

In addition, in connection with the signing of the agreements, separate collaterals were established, including: – on account of the L/C Line Agreement: a civil law surety granted by Pekabex Bet (valid until Kokoszki Prefabrykacja meets the conditions specified in the Agreement) and by Pekabex up to the amount of EUR 5170 thousand each; – under the Non-revolving Credit Agreement: (I) a civil law surety granted by Pekabex Bet (which shall remain in force until Kokoszki Prefabrykacja meets the conditions set out in the Agreement) and by Pekabex up to the amount of PLN 49 830 thousand each (II) general silent assignment of receivables due to Pekabex Bet from all of its contractors (domestic unrelated entities) with whom it concluded contracts with no provision of non-assignability of receivables for the total amount not lower than PLN 32 000 thousand (temporary collateral in force up to the moment of obtaining a building permit for the Investment Financed with Credit); - under the Multi-Purpose Line of Credit Agreement: (I) a civil-law surety granted by Pekabex Bet (in force until Kokoszki Prefabrykacja meets the conditions specified in the Agreement) and Pekabex up to the amount of PLN 770 thousand each.

On 5 April 2019, Pekabex Inwestycje II concluded a non-revolving credit agreement with BNP Paribas. Its purpose is to finance and refinance an investment consisting in the extension of the Pekabex Inwestycje plant in Mszczonów (construction of a new production hall, purchase and modernisation of the hall equipment).

The amount of the credit granted is PLN 10 000 thousand and the credit period was defined as 84 months from the date of signing the agreement.

The collaterals for repayment of the bank's receivables are: (I) a bill of exchange and a blank bill of exchange agreement issued by Pekabex Inwestycje, (II) a civil law surety granted by Pekabex, Pekabex Bet, Pekabex Pref and Centrum Nowoczesnej prefabrykacji up to the amount of PLN 11 000 thousand, (III) contractual mortgage up to the amount of PLN 15 000 thousand established on the real estate located in Badowo-Mściska, Mszczonów commune, owned by Pekabex Inwestycje, for which the District Court in Żyrardów, 5th Department of the Land and Mortgage Registers maintains the land and mortgage register no. PL1Z/00036998/5 („Real Estate 1“), (IV) assignment of rights under the insurance policy concerning Real Estate 1 to the bank, (V) registered pledge up to the maximum collateral amount of PLN 48 385 thousand on a set of movables or rights constituting an economic unit, although its composition was variable, belonging to Pekabex Inwestycje („Pledge 1“), (VI) assignment of rights under an insurance policy concerning Pledge 1 to the bank.

On 5 April 2019, Pekabex Bet signed no. 16 to the Multi-Purpose Line of Credit Agreement and annex no. 1 to the Framework Agreement with BNP Paribas annex.

The first of the above-mentioned annexes assumes that the limit amount will be increased to PLN 78 000 thousand and extends the credit term

to 120 months from the date of its signing, as well as the current credit term to 30 November 2020.

The collaterals for repayment of the bank's receivables are: (I) a bill of exchange and a blank bill of exchange agreement issued by Pekabex Bet, (II) surety under civil law granted by Pekabex, Pekabex Pref, Centrum Nowoczesnej Prefabrykacji and Pekabex Inwestycje up to the amount of PLN 85 800 thousand, (III) contractual mortgage up to the amount of PLN 117 000 thousand established on the real estate located in Bielsko-Biała at ul. ks. Józefa Londzina 29, of a total value not lower than PLN 2500 thousand („Pledge 3“), (IX) assignment of rights under the insurance policy concerning Pledge 3 to the bank, where the sum insured may not be less than PLN 2500 thousand, (X) general silent assignment of receivables due to Pekabex Bet from all of its business partners (domestic unrelated entities) with which it concluded contracts with no provision of non-assignability of receivables for a total amount not lower than PLN 32 000 thousand in force until the date of delivery by Pekabex Bet of the construction permit granted to Kokoszki Prefabrykacja concerning an investment financed with credit under a Non-Revolving Credit Agreement concluded with Kokoszki Prefabrykacja and an environmental decision - no later than 30 June 2019, (XI) acquisition of EUR 43 thousand as collateral from funds accumulated on the Pekabex Bet account maintained by the bank, subject to the terms and conditions of the agreement in question.

In 2018, no loans were taken out and no credit agreements were terminated.

Pledge 2 to the bank and registered pledge up to the maximum collateral amount of PLN 117 000 thousand on inventories, i.e. finished products, work in progress and raw materials belonging to Pekabex Bet, located in Bielsko-Biała at ul. ks. Józefa Londzina 29, of a total value not lower than PLN 2500 thousand („Pledge 3“), (IX) assignment of rights under the insurance policy concerning Pledge 3 to the bank, where the sum insured may not be less than PLN 2500 thousand, (X) general silent assignment of receivables due to Pekabex Bet from all of its business partners (domestic unrelated entities) with which it concluded contracts with no provision of non-assignability of receivables for a total amount not lower than PLN 32 000 thousand in force until the date of delivery by Pekabex Bet of the construction permit granted to Kokoszki Prefabrykacja concerning an investment financed with credit under a Non-Revolving Credit Agreement concluded with Kokoszki Prefabrykacja and an environmental decision - no later than 30 June 2019, (XI) acquisition of EUR 43 thousand as collateral from funds accumulated on the Pekabex Bet account maintained by the bank, subject to the terms and conditions of the agreement in question.

3.12

Granted loans

In 2018 and 2017, Pekabex Group companies did not grant any loans to related parties outside of the Group. Loans granted within the Group are described in the separate financial statements.

3.13

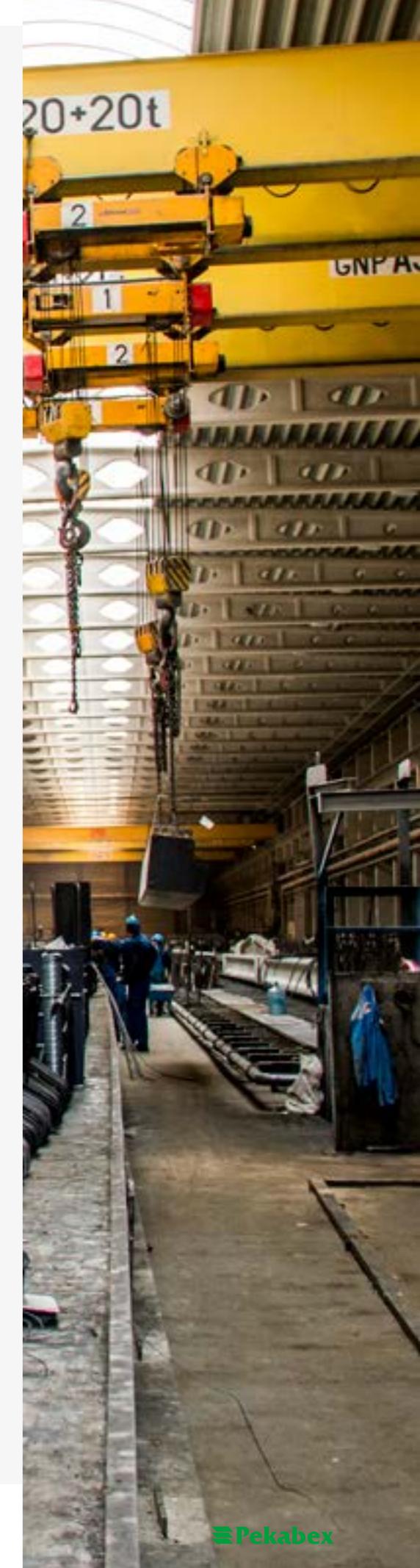
Significant transactions concluded with related entities on terms other than market terms

In 2018, neither Pekabex nor its subsidiaries concluded any significant transactions with related parties on terms other than market terms. Revenue and costs incurred by the Company and the Group in transactions with related parties in 2018 and the balance of liabilities and receivables to related parties as at 31 December 2018 were presented in additional information to the separate and consolidated financial statements.

3.14

No such agreements were in force in 2018.

Agreements providing for compensation for Management Board members in the event of their resignation or dismissal



3.15

Granted and received sureties

Value of sureties and guarantees (in thousands of PLN) as at 31 December 2018 was as follows:

	31.12.2018	31.12.2017
To other entities:		
Surety for payment of liabilities	971	1291
Guarantees granted	-	-
Guarantees granted to construction contracts	131,496	97,755
Disputes and litigation	-	-
Disputes and litigation with the Tax Office	-	-
Other contingent liabilities	-	30
Total contingent liabilities	132,467	99,076

The total value of sureties for trade liabilities granted by the Group companies amounted to PLN 971 thousand at the end of 2018.

The value of bank and insurance guarantees on construction contracts awarded by the Group as at 31 December 2018 amounted to PLN 131 496 thousand in total.

The value of the bank and insurance guarantees on agreements with subcontractors received by the Group, as at 31 December 2018 amounted in total to PLN 6843 thousand. As at 31 December 2017, it amounted to PLN 5039 thousand.

None of the guarantees granted exceeds the internal materiality threshold set at 10% of the Group's equity. In addition, the Group companies issued bills of exchange as collateral for lease liabilities, whose 2018 roku wyniosła 14 327 tys. zł. balance sheet value as at 31

December 2018 amounted to PLN 14 327 thousand. Other contingent liabilities in the amount of PLN 30 thousand at the end of 2017 resulted from the statement on submission to enforcement in connection with the contract concluded with the Employment Office of the Capital City of Warsaw for co-financing of equipment and retrofitting of a workplace for an unemployed person.

The credit sureties granted, effective as at 31 December 2018, are presented below.

Entity, for which a guarantee was granted	Total amount of credit that was guaranteed (in thousands of PLN)	Subject of the contract	Value of liabilities as at 31.12.2018	Date of agreement validity	Date of effect of the collateral	Entity for which the guarantee was granted	Guarantors	Guarantee value (in thousands of PLN)
DNB Bank Polska S.A.	90,000	Multi-purpose line of credit to be used on: » guarantees up to the amount of PLN 90 000 thousand » revolving credit up to the amount of PLN 10 000 thousand » overdraft up to the amount of PLN 30 000 thousand	Sublimit on guarantees PLN - 48 786 thousand Overdraft – PLN 0 Revolving credits – PLN 0	31.01.2019	30.10.2031	Pekabex Bet	Pekabex Pref Centrum Nowoczesnej Prefabrykacji	135,000
BNP Paribas S.A.	68,000	Multi-purpose line of credit to be used on: » guarantees up to PLN 68 000 thousand » overdraft up to the amount of PLN 11 000 thousand » a revolving credit up to PLN 4 000 thousand » line for letters of credit up to PLN 5 000 thousand	Sublimit on guarantees PLN - 40 301 thousand Overdraft – PLN 0 Revolving credits – PLN 0	31.10.2019	16.03.2029	Pekabex Bet	Pekabex Pref Centrum Nowoczesnej Prefabrykacji	74,800
BNP Paribas S.A.	30,000	Investment credit	PLN 18 462 thousand	16.12.2022	18.12.2025	Pekabex Inwestycje II	Pekabex Bet Prefabrykacji	45,000
BNP Paribas S.A.	13,200	Non-renewable credit	PLN 12 500 thousand	30.04.2024	30.04.2024	Pekabex Development	Pekabex Bet Prefabrykacji	15,000
PKO BP S.A.	30,000	Investment credit	PLN 25 043 thousand	31.12.2026	31.12.2028	Kokoszki Prefabrykacja	Pekabex Bet	30,000
PKO BP S.A.	40,000	Multi-purpose line of credit to be used on: » guarantees up to PLN 40 000 thousand » overdraft up to PLN 10 000 thousand » revolving credit up to PLN 15 000 thousand	Sublimit on guarantees PLN 20 489 thousand	06.03.2020	06.03.2024	Pekabex Bet	Pekabex	40,000

After the balance sheet date, the Group companies signed annexes increasing the value of sureties and new credit agreements (described in this report and in additional information and explanations to the consolidated financial statements) establishing new sureties.

On 29 January 2019 Pekabex Bet signed annex 31 to the credit limit agreement of 29 September 2008 („Line of Credit“) with DNB Bank Polska S.A. for documentary letters of credit, bank guarantees and overdraft. The annex increased the credit limit to the maximum amount of PLN 120 000 thousand and extended the period of use of the Line of Credit to 30 November 2020, as well as the date of final repayment until 29 November 2030. Due to the signing of the annex, the collateral documents for the line of credit were changed in the scope of sureties. Pekabex, Pekabex Pref i Centrum Nowoczesnej Prefabrykacji concluded annexes to the surety agreements with the bank, under which the term of the surety of the abovementioned companies for the

liabilities of Pekabex Bet under the Line of Credit was set for the period until 29 November 2031, and the limitation of the amount of the surety was increased to the amount of PLN 180 000 thousand.

More details on the annex can be found in the additional information and notes to the consolidated financial statements.

On 5 April 2019, Pekabex Bet signed annex no. 16 to the multi-option line of credit agreement with BNP Paribas. It establishes an increase of the limit amount to PLN 78 000 thousand and extends the credit term to 120 months from the date of its signature, and the current credit availability period until 30 November 2020.

Due to the signing of the annex, the collateral documents of the multi-purpose line of credit in the scope of sureties were changed. The value of sureties granted by Pekabex S.A., Pekabex Pref, Centrum Nowoczesnej Prefabrykacji and Pekabex Inwestycje was increased to PLN 85 800 thousand

and their term of validity extended to 31 March 2032.

In 2018, the Pekabex Group did not take out any loans and no credit agreement of the Group was terminated. Changes in intra-group loans were presented in additional information and explanations to the separate financial statements of Pekabex S.A. prepared for 2018.

On the adjacent page, new credit guarantees issued after the balance sheet date and in force as at the date of publication of this report are presented.



Entity for which the surety was issued	Total amount of credit guaranteed (in PLN thousand)	Subject of the contract	Date of agreement validity	Date of effect of the collateral	Entity for which the guaranteee was granted	Guarantors	Surety value (in thousands of PLN)
BNP Paribas S.A.	45,300	Investment credit	14.03.2029	The Pekabex Bet surety is valid until the conditions specified in the agreement are fulfilled by Kokoszki Prefabrykacja	Kokoszki Prefabrykacja	Pekabex Bet Pekabex	49,830
BNP Paribas S.A.	4700*	Line of letters of credit	28.09.2020	The Pekabex surety is valid until 14.03.2032	Kokoszki Prefabrykacja	Pekabex Bet Pekabex	5170*
BNP Paribas S.A.	7000	Multi-purpose line of credit to be used interchangeably for: » guarantees of up to PLN 7 000 thousand » overdraft up to PLN 7 000 thousand	30.06.2021	The Pekabex surety is valid until 14.03.2032	Kokoszki Prefabrykacja	Pekabex Bet Pekabex	7700
BNP Paribas S.A.	10,000	Non-renewable credit	05.04.2026	31.03.2029	Pekabex Inwestycje	Pekabex Pekabex Bet Pekabex Pref Centrum Nowoczesnej Prefabrykacji	11,000

* In thousands of EUR.

4.0

Statement on the implementation of corporate governance principles



4.1

The set of principles to which Pekabex S.A. is subject

The Management Board of Poznańska Korporacja Budowlana Pekabex S.A. hereby declares that the Company and its bodies applied in 2018 corporate governance principles set forth in the document Good Practices of Companies Listed on WSE 2016, adopted by Resolution No. 27/1414/2015 of the Supervisory Board of the Warsaw Stock Exchange S.A. of 13 October 2015, with the exception of the following:

Recommendation I.Z.1.3. - diagram presenting the division of tasks and responsibilities between members of the Management Board, drawn up in accordance with principle II.Z.1.

The principle is not applied. No internal division of responsibility for particular areas of the Company's activity has been developed. The entire Management Board of the Company is responsible for all areas of its activity. This principle will be applied if a policy of accountability is developed.

Recommendation I.Z.1.11. - information about the content of the company's principle concerning changing the entity authorised to audit financial statements, or about the lack of such a principle.

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

Recommendation I.Z.1.15. - information containing a description of the company's diversity policy in relation to the company management and its key managers; the description should include such elements of diversity policy as gender, educational background, age, professional experience, and indicate the objectives of the diversity policy and how it was implemented during the reporting period; if the company has not developed and is not implementing a diversity policy, it shall explain this decision on its website.

The principle is not applied. The Company has no diversity policy in place. The Company employs persons with appropriate qualifications and professional experience, regardless of age or sex.

Recommendation I.Z.1.16. - information on the planned broadcast of the General Meeting of Shareholders - no later than 7 days before the date of the General Meeting.

The principle is not applied. The Company's non-compliance with the above rule is motivated by the high cost of providing appropriate equipment and technical conditions, disproportionate to the potential benefits to shareholders. For this reason, in the nearest future, recordings of the General Meeting in audio or video form will not be published on the Company's corporate website. The Company observes the provisions of the Articles of Association and provisions of law in this respect and implements an appropriate information policy.

Recommendation I.Z.1.19. - shareholders' questions addressed to the management board pursuant to art. 428(1) or (6) of the Commercial Companies Code, and the answers of the management board to the questions asked, or detailed information on the reasons for a lack of answer, in accordance with principle IV.Z.13.

The principle is not applied. The Company observes the above principle within the scope of the relevant acts, i.e. the Commercial Companies Code and the Ordinance of the Minister of Finance of 19 February 2009 regarding current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state. 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. - a record of the General Meeting, in audio or video form.

This principle is not applied. The reasons for the non-compliance were given in the explanation of non-compliance for rule I.Z.1.16.

Recommendation II.Z.1. - internal division of responsibilities for individual areas of the company's activity between members of the management board should be formulated in an unambiguous and transparent manner, and the division should be made available on the company's website.

The principle is not applied. The Management Board shall be responsible for all of the Company's activities. If a liability policy is developed, the Company shall proceed to apply the above principle.

Recommendation II.Z.2. - members of the company's management board need the consent of the supervisory board to sit in the management or supervisory boards of companies outside the company's capital group.

The principle is not applied. The Articles of Association and the Company's internal documents in force do not impose any information obligations on the members of the Management Board in this respect.

Recommendation II.Z.7. - within the scope of the tasks and functioning of committees operating within the supervisory board the provisions of Annex I to the Recommendation of the European Commission referred to in principle II.Z.4 shall be applied. If the function of the audit committee is performed by the supervisory board, the above rules shall apply accordingly.

The principle is partially applied. Within the Supervisory Board of the Company, a separate Audit Committee has been established, whose principles of operation are specified in the Articles of Association, Supervisory Board Regulations and legal regulations. The principles of the Audit Committee's operation are generally in accordance with the "common characteristics of the Commission" set out in Annex I. The Supervisory Board has not appointed an Appointment Committee, a Remuneration Committee or a Review Committee.

Recommendation IV.Z.3. - media representatives shall be given the opportunity to attend general meetings.

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

Recommendation VI.R.1. - remuneration of members of the company's governing bodies and key managers should be based on the adopted remuneration policy.

The Company does not apply this recommendation. Remuneration of members of the Management Board is determined by the Supervisory Board pursuant to the provisions of the Company's Articles of Association and corresponds to the qualifications and scope of duties of the Management Board members. Pursuant to the Commercial Companies Code, the remuneration of the Supervisory Board members is determined by the General Meeting. The amount of remuneration of individual members of the Supervisory Board, as well as senior managers, depends on their scope of duties and responsibilities.

Recommendation VI.R.2. - the remuneration policy should be closely linked to the company's strategy, its short- and long-term objectives and long-term interests and results, and should include measures preventing discrimination on any 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 available on the website of the Warsaw Stock Exchange S.A.: https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf.

4.2

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

The shareholding structure of Pekabex S.A. as at 31 December 2018 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 General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Share in the share capital	Nominal value of shares (in PLN)
Opoka II FIZ*	9,784,585	9,784,585	40.15%	40.15%	9,784,585
Cantorelle Limited	2,838,658	2,836,658	11.65%	11.65%	2,838,658
Fernik Holdings Limited	2,030,578	2,030,578	8.33%	8.33%	2,030,578
Others in total	9,715,003	9,715,003	39.87%	39.87%	9,715,003
Total	24,368,824	24,368,824	100.00%	100.00%	24,368,824

* According to the information available as at the date of publication of this report, Maciej Grabski also holds investment certificates of the Opoka II FIZ fund, which holds 40.15% of the Company's shares

On 11 July 2018, as part of the conditional increase of the share capital adopted by virtue of Resolution No. 3 of the Extraordinary General Meeting of Shareholders held on 11 October 2016, 155 000 shares with a nominal value of PLN 1 each, carrying 155 800 votes at the Company's General Meeting were issued. A detailed description of the programme is presented in Note 15.1 to the additional information and explanations to the consolidated financial statements prepared as at 31 December 2018.

The Company has received a confirmation of the registration of the share capital increase by the registry court on 26 September 2018.

After the issue and registration of shares, the share capital of Pekabex S.A. as at the balance sheet date and as at the day of publication of this report was PLN 24 368 824, consisting of 24 368 824 shares with a nominal value of PLN 1 each, carrying a total of 24 368 824 votes at the General Meeting. The shares are non-preference shares and are divided into:

(I) 21 213 024 series A shares, (II) 3 000 000 series B shares, (III) 155 800 series C shares. The total of shares registered in the third quarter of 2018 were taken over by the remaining shareholders, thus the share of particular shareholders in the number of votes and share capital changed: Opoka II FIZ decrease from 40.41% to 40.15%, Cantorelle Limited - decrease from 11.72% to 11.65%, Fernik Holdings Limited - decrease from 8.39% to 8.33%, other shareholders - increase from 39.48% to 39.87%.

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 organised trading and on public companies. Nationale Nederlanden thereby informed about the increase of the number of the Company's shares held to above 5% of votes at the General Meeting of Shareholders.

By increasing the share capital on account of the issue of series C shares, the number of shares held by the Vice-President of the Management Board Przemysław Borek increased (increase by 13 721 shares), as did the number of shares held by the Vice-President of the Management Board Beata Źaczek (increase by 12 107 shares). The table below presents the share of managing and supervising persons in the total number of votes and shares at the end of each year:

Managers and supervisors	Number of votes at the General Meeting of Shareholders as at 31.12.2017	Number of votes at the General Meeting of Shareholders as at 31.12.2018
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Robert Jędrzejowski (indirectly through Fernik Holdings Ltd) - President of the Management Board of Pekabex S.A.	8.39%	8.33%
Maciej Grabski (indirectly through Pekabex Wykup Managerski S.A.) - Member of the Supervisory Board of Pekabex S.A *	1.35%	1.34%
Przemysław Borek (directly) - Vice-President of the Management Board of Pekabex S.A.	0.53%	0.56%
Beata Źaczek (directly) - Vice-President of the Management Board of Pekabex S.A.	0.22%	0.27%

All shares of the Company are ordinary shares, each of which entitles to exercise one vote at the General Meeting of Shareholders. Major shareholders do not have any other voting rights than those attached to the shares held. The shares are ordinary bearer shares and no special rights or obligations other than those arising from the provisions of the Code of Commercial Companies are attached

to them. Opoka II is an entity that has a significant impact on the Company. It directly holds 40.15% of the share capital and votes at the Company's General Meeting.

There are no limitations 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 Management Board members and their powers

The Management Board has between one and 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 of Shareholders. 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. were defined in the following documents: (I) Articles of Association of Pekabex S.A. (available

4.4

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

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



4.5

General Meeting of Shareholders and Shareholders' Rights

The principles of operation, competences and organisation of the General Meeting are regulated by: (I) The Articles of Association of Pekabex S.A., (II) Regulations of the General Meeting, (III) Commercial Companies Code.

Convening the General Meeting of Shareholders

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

Powers of the General Meeting

- » Examination and approval of the Company's financial statement for the previous financial year and of 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
- » Distribution of profit or coverage of loss
- » Postponement of the dividend day or division of 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 outlease of the company or its organised part and establishing a limited property right on them
- » Adopting resolutions on increasing or decreasing the amount of the share capital
- » Adopting resolutions on the issue of convertible bonds and subscription warrants
- » Adopting resolutions on the creation, use and liquidation of reserve capitals
- » Adopting resolutions on the use of supplementary capital
- » Adopting 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 Company's Articles of Association

Session of the General Meeting of Shareholders

- » The General Meeting Session is opened by the Chairman of the Supervisory Board, and in case of their absence, by any member of the Supervisory Board. In the event of the absence of Supervisory Board members, the General Meeting shall be opened by any member of the Management Board.
- » The General Meeting shall elect a Chairman from among the persons entitled to vote, who shall direct its course of action and ensure an efficient and correct course of the proceedings.
- » The General Meeting adopts resolutions only on matters included in the agenda, unless all share capital is represented at the Meeting and none of those present object to holding the General

- » Meeting or placing particular issues on the agenda.
- » Resolutions of the General Meeting are included in the minutes prepared by a notary public.
- » The General Meeting is valid regardless of the number of shares represented.

Voting

- » Votes at the General Meeting are open. A secret ballot is ordered in the case of election of Company bodies or its liquidator and in motions for dismissal of members of the Company's governing bodies or liquidators, for holding them liable and in personal matters. In addition, a secret ballot is ordered at the request of any shareholder or their representative.
- » The General Meeting may elect a ballot counting committee, whose duties include overseeing the proper course of each vote and checking and announcing the results.
- » One share gives the right to one vote at the General Meeting.
- » Resolutions of the General Meeting shall be adopted by an absolute majority of votes unless the law or the provisions of the Articles of Association provide for stricter adoption conditions.



4.6

Bodies of Pekabex S.A. and their composition

As at 31 December 2018 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 Board

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

In the period from 1 January 2018 to the date of approval of the financial statements for publication, the composition of the Company's Management Board did not change.

Competences and principles of work of the Supervisory Board of Pekabex S.A. are defined in the following documents: (I) Company's Articles of Association, (II) Regulations of the Supervisory Board (available on the Company's website), (III) Commercial Companies Code.

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

As at the balance sheet date and as at the date of publication of the financial statements, the Audit Committee appointed in 2017 by the Company's Supervisory Board was composed of:

Piotr Cyburt
President

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 financial audit
- » monitoring the independence of the statutory auditor or audit firm, including taking over from the auditor or audit firm the annual written confirmation of their independence and discussing its threats, and in the case of doubts whether the statutory auditor or audit firm has become excessively
- » recommending at least two entities authorised to audit financial statements to the Supervisory

dependent on the Company - deciding whether the statutory auditor or audit firm may continue to carry out statutory audits

» 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, Piotr Cyburt and 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.

Piotr Cyburt, a member of the Audit Committee, has knowledge and skills in accounting or auditing. He has a PhD in economics from the Institute of National Economy in Warsaw, and is the President of the Management Board of one of the banks in Poland and a 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.

Stefan Grabski, a member of the Audit Committee, has experience, knowledge and skills in the field of broadly understood construction industry. He is a construction engineer who graduated from the Gdańsk University of Technology (General Construction Department), worked, among others, as a Head of the Construction Team, for several 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 2018.

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

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

- » The Audit Committee presents the Pekabex Supervisory Board with a recommendation of the audit company to which it proposes entrusting the performance of the statutory audit,

» In the event that the choice of audit firm does not involve an extension of an audit agreement, 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 regarding the selection of an audit firm is drawn up in accordance with the procedure described in the "Procedure for selecting of the Poznańska Korporacja Budowlana Pekabex S. A. audit firm".
- » Before making the recommendation referred to above, and before accepting or continuing the commission of a statutory audit, 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 2018 report met the applicable conditions.

The main objectives 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:

- » A statutory auditor or audit firm carrying out a statutory audit of Pekabex or any other member of the network to which the statutory auditor or audit firm belongs shall not, 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, excluding unprohibited services referred to in Article 136(2) of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017.

Providing unprohibited 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.

- » The key statutory auditor, the audit firm, its employees involved in the audit and any natural person directly involved in the activities within the scope of the audit, whose services are used by, or who is supervised by a key statutory auditor or audit firm, as well as persons closely related to them, may not participate in keeping accounting books or preparing accounting documentation or financial statements of Pekabex in 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 Pekabex Management Board monitors the amount of remuneration paid for the services of the audit firm and immediately informs the Audit Committee thereof.

4.7

Internal control system and risk management

The Company's Management Board is responsible for the implementation and functioning of the internal control system in the process of financial statement preparation.

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 relevant competences.

The correct implementation 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.

Financial statement preparation is a planned process that includes the appropriate division of tasks between the employees of the financial division, suitable with respect to their competencies and qualifications. Accounting books are the basis for individual financial statement preparation.

Preparation of consolidated financial statements is carried out on the basis of uniform consolidation packages.

The Pekabex Group companies apply uniform accounting principles.

Control activities applied in financial statement preparation 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 adopted assumptions for valuation of estimated values
- » comparative and substantive analysis of financial data
- » verification of the arithmetic correctness and consistency of the data
- » an analysis of the completeness of disclosures
- » verification of the compatibility of data
- » with reports resulting from the management reporting system

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

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 of financial results and key indicators significant for activity on the basis of the assumed financial budget and historical data, carried out by the Management Board
- » participation of senior management in the planning phase, and then in the analysis of budget deviations
- » procedures for warehouse management and periodical inventories
- » ongoing monitoring of contract execution in material and financial terms with the involvement of individual project managers
- » a document workflow procedure to ensure the conformity of entries in the account records with accounting evidence and the correct allocation of system costs
- » analysis of current financial reports

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

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

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 while pursuing their goals and job satisfaction. Pekabex is open to diversity in terms of form of employment, age, gender, nationality and degree of fitness.

As a major employer, the Pekabex Group offers opportunities for high-class engineers, specialists, manual workers and young people entering the labour market, to whom it gives the possibility to work and study at

the same time. Young workers gain experience and learn from older workers, while, in turn, their energy and fresh ideas stimulate innovation in the Group.

An Inter-Enterprise Trade Union „Budowlani” functions within the Group, with whom employee issues are consulted and agreed upon, in particular the administration of the Company Social Benefits Fund and issues related to employee protection resulting from the provisions of law.



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 out on account of business trips in the country and abroad (VI) employer-provided supportive meals, health and safety clothing.

Within the framework of the organisation, employees can participate in a group insurance scheme and medical care on good 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 and cars.

In 2018, the Group spent approximately PLN 1300 thousand as part of the Company Social Benefits Fund: for one-time benefits and holiday allowances, purchase of textbooks for school children, camps, loans, sports cards, recreation and sports activities (in 2017: PLN 828 thousand).

5.1.2

Employment structure and remuneration policy

The Pekabex Group strives to provide its employees with the greatest possible comfort and safety.

The Group complies with the provisions of the Labour Code and the provisions on delegating workers abroad.

Data on employment (excluding cooperating persons) in the Group under an employment contract as at the end of 2018 is presented in the tables in chapter 9 of this report.

In 2018, the Pekabex Group had no collective labour agreements in force.

5.1.3

Relations with employees

5.1.4

Remuneration of members of management and supervisory bodies

5.1.5

Ethics



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

The key management personnel of the Group includes members of the Pekabex S.A. Management Board and management boards of its subsidiaries. Benefits (including salaries) paid to key personnel in 2018 and other information on the value of salaries, awards and benefits are presented in Note 31.5

to the additional information and disclosures to the Pekabex Group consolidated financial statements. Pekabex does not have any liabilities resulting from pensions or benefits of a similar nature for former managers, supervisors or former members of administrative bodies.

Pekabex S.A. attaches particular importance to the fact that the companies belonging to the Capital 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 2018, the Company's Management Board did not record any cases of breaches of ethics 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, without certification. It covers employees of 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, OHS consultations, monitoring, compliance assessment, emergency situations, legal requirements, contractor safety management and accident investigation.

There is a health and safety service in the organisation. It consists of 6 persons: one employee from each of the branches coordinated from the head office, and two employees from the Assembly Department.

The Health and Safety Committee meets once a quarter and the meetings are attended by members of the Management Board, managers, health and safety 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 and determining their causes and taking corrective and preventive action. This guarantees a thorough analysis of all accidents in order 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 risk levels as defined in the applicable legislation. This enables effective management of occupational health and safety risks.

Consultation on occupational health and safety

Any changes related to occupational health and safety management require consultation with involved parties. This involves the employees of the OHS Service presenting the scope of changes, 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 changes and about the need for training in a given field.

Monitoring the efficiency of the OHS system

The Group defined the principles for monitoring the effectiveness of the OHS management system. It is used to identify 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, a risk assessment is carried out periodically.

Assessment of compliance with applicable legal and other OHS requirements

The organisation has rules in place for carrying out periodic checks on compliance with the requirements of legal and other OHS requirements. The OHS Service analyses the results of the checks, which is the basis for taking corrective actions.

Emergency identification and response

The Group identifies potential emergency situations that may have an impact on 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 a safe and healthy working environment.



Employees raise security-related issues to

a direct supervisor or OHS officer in individual conversations, at training sessions or regular meetings with the staff as part of “A Minute for Safety”. In the event that 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 a superior. If refraining from work does not remove the danger, the employee has the right to withdraw from the danger area, about which they must also notify their supervisor. Importantly, such an employee is not threatened with any consequences for refraining from work or for moving away from the danger area.



1417*

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



47

number of accidents** in the Pekabex Group plants in 2018 (59 in 2017)



6

number of accidents at construction sites operated by the Pekabex Group in 2018 (7 in 2017)



0.98

accident-related absenteeism rate*** in 2018

* As at 31 December 2018.

** Defined as an emergency event, precipitated by an external cause, which caused an injury and occurred in connection with the work performed.

*** Average number of hours of absence caused by accidents per 1000 hours worked.

In addition to initial training and annual periodical training in OHS and fire protection other training is organised, including thematic training, training which is part of security campaigns conducted in 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 OSH service organises „A Month of Security”, where every week different activities aimed at increasing safety and employee awareness are undertaken.

Awareness of OSH issues is raised in cooperation with the National Labour Inspectorate, whose representatives participated in the safety campaign concerning accidents at work in 2018, conducting training for persons supervising work.

The Pekabex construction sites are some of the safest in Poland, as prefabrication technology requires 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 investments (and employees in plants) through:

- » construction site induction 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 security campaigns (e.g. excavation
- » works, work at height, work with chemicals)
- » „Safety Week“
- » register of potential accidents and incidents

The improvement of occupational health and safety is achieved by applying the joint forces principle, i.e. the engagement of employees, the activities of persons who supervise work and the determination of the Management Board which sets strategic goals in this area and settles their implementation.

The level of safety is significantly affected by:

- » the development of safe working methods, especially in areas of increased risk
- » daily health and safety inspections, weekly health and safety audits and monthly reviews of working conditions
- » 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

contractors. It guarantees that the developed security principles will be respected by any entity with which a cooperation agreement is to be signed. It is ensured that the employees of contractors and subcontractors have the same health and safety conditions as employees of the Group. For each contractor, an OHS Coordinator cooperating with the Legal Department and the OHS Service is appointed.

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

- » security policy
- » accident history of 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 accountability for meeting the health and safety requirements of the Pekabex Group and the relevant provisions and regulations
- » clause allowing the designated persons to stop work which breaches safety regulations and rules
- » declaration that all public-law receivables are paid in accordance with the provisions in force, in particular those regulating the hiring of employees (ZUS - Social Insurance Institution, US - the Tax Office)

The Group has implemented a health and safety procedure for subcontractors and external

5.1.7

Internal communication

The Group's employees are employed in its four plants - in Poznań, Mszczonów k. Warszawy, Gdańsk and Bielsko-Biała - and also in Łódź, where one of the design offices is located. Investments are carried out on construction sites in Poland and abroad.

To give employees the best possible access to knowledge of company events, including organisational changes and relevant 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

attended by persons from different company levels, once a month, a few-hour video conference for the Management Board and senior and middle managers (more than 50 people) is held. 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 communications and initiates and executes tasks concerning employee integration.

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

a beach volleyball court constructed on the company premises in Mszczonów.

The Group's staff includes runners who represent the Group in charity competitions, half-marathons and other events, as well as motor sport fans and a group of winter swimmers. Employees meet for family picnics (e.g. at a picnic next to the JA_SIELSKA investment, in order to get acquainted with the pilot project carried out by the Group), the Day at the plant event - where children of employees visit the plant with their parents, kayaking trips, mushroom picking, winter and summer trips to the mountains.

The Group also co-finances sports activities with the MultiSport card.

5.1.8

Internal integration

Integration events build positive relations between employees and increase the efficiency of their cooperation. The following events took place in 2018:

- » „Pekabex Giant Slalom” skiing competition
- » employee outing to see a football match in Poznań
- » a regatta for the management
- » Builders' Day celebration in company branches
- » St. Nicholas' Day celebration for children of employees in all company branches
- » company Christmas party for employees in all company branches

The Group supports grassroots employee initiatives by financing and co-financing them. This includes employees participating in the Ekiden relay race, or

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 gain the necessary qualifications. The Group itself is also constantly developing, which means that every employee can find an area in which they can achieve their professional goals. The construction industry is constantly changing, 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 covering technical knowledge (specific issues, IT skills) and courses that strengthen the so-called soft skills (e.g. negotiation, empathy, teamwork, time management at work) are organised in individual departments.

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

Because the Group is present on 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 2018, the Group spent approximately PLN 400 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.

A list of goals for the following year is also established together with the supervisor.

The Group also employs a specialist Talent Development Manager whose task is to search for talent within the Group and to support the development of talented employees by establishing individual career paths and offering tailor-made training.

5.1.10

Diversity and social inclusion

Diversity is one of the important characteristics of the Group. The employment rate of women is almost three times higher than the industry average (more than 18% compared to 7% in the whole country). The largest number of women works in the Design Department, and the smallest - in the concrete plant. In total, the company employs 89 female engineers.

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

5.1.11

Control system for employee programmes

On 11 October 2016, the Extraordinary General Meeting of Shareholders adopted a resolution on the issue of series A subscription warrants with exclusion of pre-emptive rights of the existing shareholders and 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, persons in a business relationship, whose work creates the greatest value for the Company and its shareholders. Therefore, 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

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

Social inclusion also consists in supporting social rehabilitation. The Group's plants employ convicts from facilities in Kozięgły (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.

conditions for the improvement of the Company's financial results and long-term increase in its value, thanks to close connection of the economic interests of the persons covered by the MO Programme and the interest of the Company. The programme will be implemented until 31 December 2020 and assumes the issue of warrants to eligible persons, approved by the Supervisory Board. When determining the eligible persons, the Supervisory Board shall take into account the Management Board recommendations approved by the General Meeting. In accordance with the assumptions of the programme, warrants will be issued in three instalments - by 30 May 2017, 30 May 2018, and 30 May 2019.



5.1.12

Recruitment

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

The Group is committed to 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 be engaged. 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 to reach 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 Group has a structurally separate recruitment and direct headhunting team.

The construction industry suffers from a shortage of skilled workers, in particular manual workers. Therefore, the Pekabex Group engages in activities promoting vocational education, including cooperation with technical universities and vocational and technical schools.

» wherever possible, purchasing recycled materials (this applies to steel in particular: 90% of the purchased material is recycled)

Within the Research and Development Centre, Pekabex conducts research aimed at changing the design technology and organisational and production changes that will reduce

the use of steel, while maintaining the properties of the products.

An environmental management system team has been established within the Group. It identified the environmental aspects of the company's operations. At the same time, they are monitored on an ongoing basis, and a register of the impact of the company, its products

and services on the environment is kept. If employees or team members identify additional environmental impacts, the register shall be updated. The Company also has periodically updated emergency procedures.

The register of environmental aspects 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	Plants, administration and office buildings
2 Hazardous waste generation	Production processes	Plants
3 Electricity consumption	Production processes, administrative management of the company	Plants, administration and office buildings
4 Emission to the air	Production processes	Plants
5 Natural resources consumption	Production processes, administrative management of the company	Plants, administration and office buildings
6 Noise emission	Production and storage processes	Plants in areas where machinery and equipment emit noise
7 Raw materials consumption	Production processes, administrative management of the company	Plants, administration and office buildings
8 Vibration emission	Production processes	Plants in areas where machinery and equipment emit mechanical vibrations
9 Exhaust emission	Transport, administrative management of the company	Plants, administration and office buildings (diesel-powered industrial trucks, dump truck, gas boiler room)
10 Water consumption	Production processes, administrative management of the company	Plants, administration and office buildings
11 Discharge of waste water	Production processes, administrative management of the company	Plants, administration and office buildings

Pekabex cooperates with clients as part of the BREEAM and LEED environmental certification. The most important environmentally friendly investments include the Olivia Business Centre, Business Garden Poznań, and indoor facilities constructed in cooperation with

Prologis and Panattoni parks. In 2018, no significant non-financial penalties or sanctions for non-compliance with the environmental law and regulations were imposed on the Group.

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 air
- » striving to minimise the amount of waste generated and recycling and recovering waste
- » reducing noise emissions
- » raising employees environmental awareness
- » caring for the environment at every stage of the technological process
- » cooperating with local communities in order to protect the natural environment

The Pekabex Group does not carry out projects in areas of particular natural value or in their immediate vicinity. In 2018, there were no incidents resulting in environmental damage and no penalties were imposed on Group companies on this account.

Environmental impact of plants

The Group monitors environmental issues on an ongoing basis. Pekabex Bet implemented the ISO 14000 system in 2012.

Additionally, Pekabex applies the following principles when purchasing goods and services:

- » only purchasing aggregates obtained in an environmentally-friendly manner
- » only purchasing cement produced in an environmentally-friendly manner
- » cooperating exclusively with logistics companies that comply at least with the Euro 6 exhaust emissions standard

5.2.1

Materials and raw materials

The Company does not use hazardous materials in production.

Post-production waste

Concrete is sent to a crushing plant, aggregate is used - for instance as roadbase, and reinforcing bars are sent to a steel recycling centre.

The systems used in the Group's plants allow for the reuse of water, aggregates from washing the concrete

feeders, exhaust emissions from the combustion of gas (from the boiler room), remnants of rods or discarded prestressing strings and formwork.

Pekabex conducts activities aimed at further automation of the reinforcement plant, which will significantly reduce the amount of prestressed and reinforced steel waste. Unused steel is sold as scrap to contracting parties cooperating with the company.

The increase in energy consumption at the plants in Mszczonów and Poznań results from the increase in production, however, per m³ of production, the consumption in Poznań, Gdańsk and Bielsko-Biała plants decreased.

In April 2018, the Group completed an investment in Poznań 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 innovative technology - it enables the use of exhaust fumes from the heating process to heat the aggregates used in the production process, thus obtaining the optimum temperature of the concrete mix.

The new facility meets the highest environmental standards and contributes to the reduction of gas consumption. At the same time, it eliminates heat transfer losses, which increases efficiency.

Steel	2018	2017
Consumption during production and on the construction site (thousand kg)	32,000	2,826
Waste (thousand kg)	2110	2100
Waste in percent	6.59%	7.55%

A comparison of gas consumption at the Poznań plant before and after the start-up of the installation in April 2018:

month	Amount of gas [kWh] 2017	Amount of gas [kWh] 2018
January	655,756	645,920
February	641,673	609,733
March	582,772	645,320
April	476,108	289,369
May	271,230	106,475
June	175,743	112,115
July	147,888	134,187
August	176,885	124,335
September	289,823	114,009
October	494,183	236,272
November	548,242	258,668
December	630,564	296,438
Total	5,090,867	3,572,841

The Group has its own car fleet. Both the fleet and some of the equipment used for the transport of prefabricated products in the hall and in warehouses require adequate fuel. Each of the plants has a freestanding diesel fuel container with a capacity of 5000 litres.

5.2.2

Energy

Companies from the Pekabex Capital Group are implementing further projects aimed at improving energy efficiency, such as the improvement of thermal efficiency of buildings in use and replacement of machinery and equipment.

In 2018, an investment which increased energy efficiency was made, i.e. the indoor lighting of the production hall

in the Poznań plant was replaced with LED lighting, which both increases the employee work comfort and affects the number of necessary lighting points and reduces operating costs. A similar investment is planned in the last of the Group's plants in Bielsko-Biała. In 2017 lighting was replaced in the plants in Mszczonów and Gdańsk.

Electricity consumption (MWh)	2018	Consumption per m ³ of production	2017	Consumption per m ³ of production
Poznań	2166	0.034	2713	0.040
Mszczonów	2151	0.033	1893	0.030
Gdańsk	1652	0.045	1575	0.052
Bielsko-Biała	593	0.039	567	0.040
Total	6562	0.036	6748	0.039

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 offered product and water use optimisation.

Post-production washing of equipment and machines results in large amounts of wastewater. The Company undertakes activities 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 wastewater requires a special disposal method, which is why the Company signed agreements with entities that have appropriate authorisation.

5.2.4

Other environmental aspects

Noise emission and vibrations are part of technological processes. In order to reduce the inconvenience for employees and residents, Pekabex uses a special self-consolidating mix wherever possible.

The Poznań plant is located within the administrative boundaries of the city. The level of emitted noise is reduced by:

- » installing information boards for lorry drivers, reminding to maintain silence and contain instructions on how to proceed
- » setting up special waiting and loading areas
- » training for employees, including external companies

The Mszczonów plant has a system of almost total recovery and use of dirty water. There are plans for an investment which would enable total recovery of dirty water in the Poznań plant. It will consist in separating aggregate and reusing it, while dirty water will be used for the production of concrete mix. The remaining plants currently use sedimentation tanks, however similar investments are planned for the future.

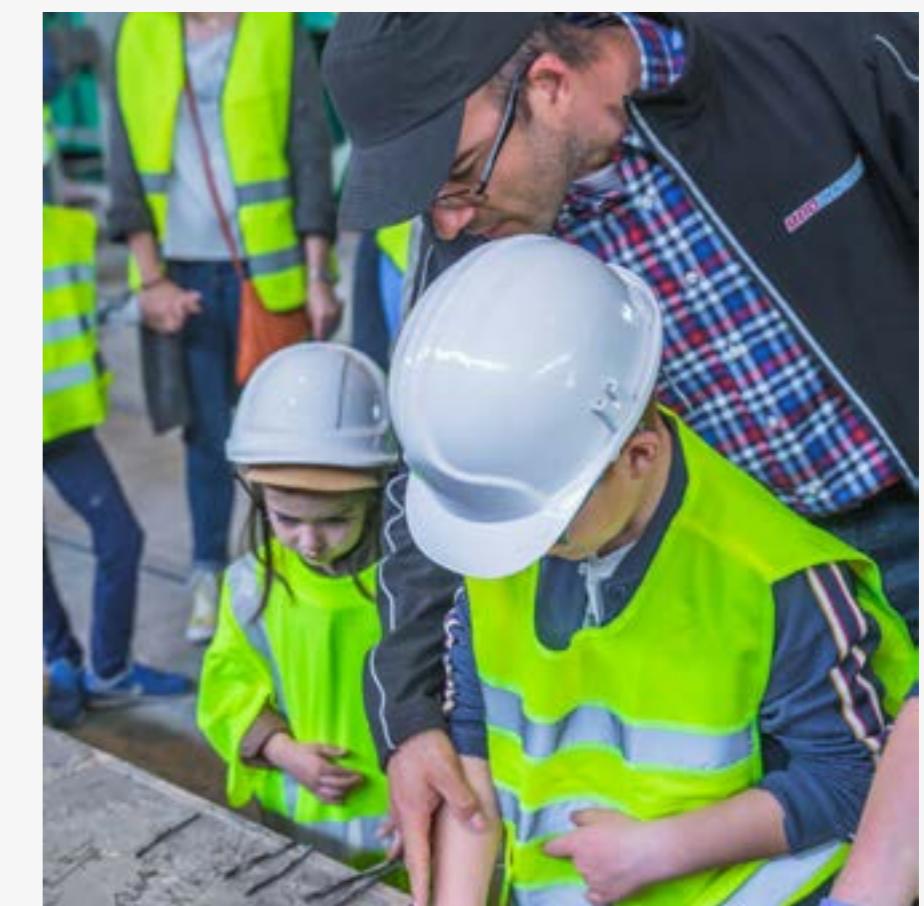
The Group plans investments aimed at reducing the emitted noise, e.g. modernisation of gantry cranes operating on the plant landfill sites.

Hazardous waste (e.g. fluorescent lamps, silicone and paint packaging, used sorbent) is stored in appropriately secured locations.

It is periodically collected and disposed of by companies with appropriate authorisation.

5.3

Pekabex for society



5.3.1

Local communities and social engagement

As a Polish company with international reach, Pekabex Group cares about the development of local communities: it cooperates with local suppliers, pays taxes and fees to local budgets, cooperates with local governments. Pekabex works with social institutions, non-governmental organisations and partnership authorities to solve significant socio-economic issues; in 2018 this was exemplified by participation in the Mieszkanie+ scheme. Pekabex creates jobs directly as an employer and a commissioning party, 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. At the same time production and construction works may cause temporary inconveniences, which the Group tries to minimise or eliminate, both on an ad hoc basis, and in the long term. Such inconveniences include in particular:

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

The Group has been involved in social initiatives, employee volunteering and supporting non-governmental organisations for many years. The numerous activities in this area undertaken in 2018 include:

- » the Na Tak Association charity event for people with intellectual disabilities
- » a fair in Mszczonów
- » sponsoring the Foster Family Day
- » festival in Podolany (the district in which the Group's headquarters is located)
- » food collection for the Przyborówko Animal Shelter
- » participating in the Szlachetna Paczka project

5.3.2

Respect for human rights

Pekabex respects human rights and condemns all human rights violations. Any employee or associate who becomes aware of such violations can bring them to the attention of 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 2018, the Company's Management Board did not record any cases of human rights violations in the Group.

Risks related to this issue are connected to the Group's reputation, financial risks (including those necessitating the payment of compensation), deterioration of relations with contracting parties and other areas described in the table in this chapter. In order to minimise the risks, the Management Board creates an atmosphere of mutual respect, fights all forms of discrimination, promotes diversity and implements projects to prevent social exclusion.

5.3.3

Schools and universities

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 during plant and construction site visits
- » their experts' presentations and lectures
- » supporting students' theses - Master's and PhD theses
- » offering a program for interns and apprentices, also from abroad

In 2018, the company expanded its cooperation with the Poznań School of Logistics, with which it maintains long-term relations, for instance as part of dual studies (logistics, production, transport and logistics), study visits, preparation of educational materials.

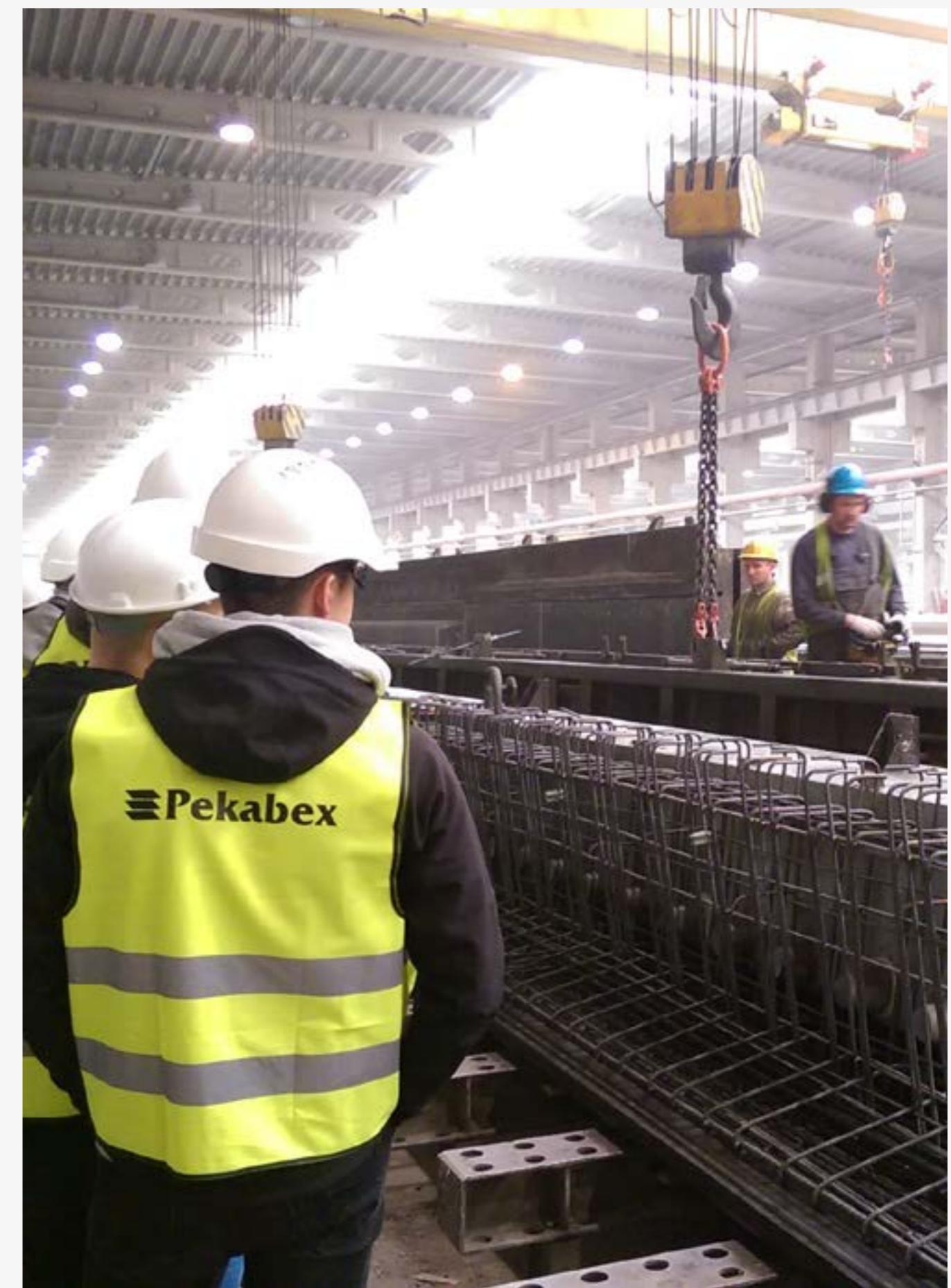
The Group actively cooperates with the State Construction Schools in Gdańsk, the Construction School and the Technical School of Construction No. 1 in Poznań, where patronage classes are offered.

Pekabex organises a competition for the best thesis (2014, 2015, 2018 and soon 2019). Winners are awarded cash prizes and paid internships.

In 2018, Pekabex implemented a procedure for analysing the introduction of a new employee to the organisation. Feedback from newly recruited employees is obtained at meetings with the person responsible for employee development in the Group. In 2018, 33 such conversations were conducted and the collected data served as a basis for the introduction of the first changes to 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 contact with students. 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

5.4.1

Relevant risk and hazard factors

Description of the risk

Risk of engineering error

Within the scope of its activity, the Company offers comprehensive design services provided by internal and external engineers. Execution and design may involve the risk of engineering error, resulting in significant costs or even demolition of a facility.

Risk of accidents at work

The activities of the Group's companies, as it is with any other enterprise whose main activity is the production and provision of construction and assembly services, are subject to the risk of occupational accidents. This applies mainly to employees operating machinery and equipment in plants and on construction sites.

Materiality
(1-5, where
5 is the maximum materiality)

Countermeasures

4 Careful selection of engineering staff with appropriate qualifications and experience, as well as constant training of designers mitigate the abovementioned risks. Additionally, the Group applies internal quality control procedures.

4 In order to minimise this risk, the Company undertakes actions to improve occupational health and safety. Before they are allowed to work, each employee must receive health and safety training and training for work at a given position, and each employee in the production area must wear protective clothing and personal protective equipment. The Group monitors this risk on an ongoing basis and adjusts its needs to operational requirements.

Description of the risk	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures
Risk related to the macroeconomic situation	3	In order to minimise the risk, the Group monitors the market situation and cooperates with recognised external advisers.
The achievement of the Group's strategic objectives and financial results is affected by, among other things, macroeconomic factors whose effects are independent of the Group'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 business activity is primarily closely dependent on the construction industry situation, investment demand, enterprises' development plans and plans concerning infrastructure expenses.	3	The Group conducts activities aimed at cost optimisation and development on new markets.
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 for the Group.	3	The actions undertaken are aimed at preparing the financial and organisational side of the organisation for changing business cycles.
Risk of slowdown in the development of the industries in which the Group operates	3	The Group's business is divided into several revenue segments, which allows it to diversify the risks associated with the industry slowdown. Diversification of industry risks also enables the Group to operate on foreign markets. Moreover, in order to minimise the risk, the Group monitors the market situation and conducts activities aimed at cost optimisation and development on new markets.
In connection with the current economic situation, the development of industries in which the Group operates or which are to constitute a key area of its operations, may be slowed down due to, for instance, suspension of investment processes, incomplete implementation of investment assumptions, abandonment of the implementation of investment programmes and changes in the investment conception, often after the completion of two-stage tendering procedures, which are costly for bidders. If the development of industries in which the Group operates is halted, its operations, financial position, results of operations or prospects may be adversely affected.	3	The undertaken actions are aimed at preparing the Group, from the financial and organisational point of view, for the changing economic cycles.
Risk related to strategic objectives	2	In order to minimise the risk, the Management Board monitors the implementation of the Group's strategy on an ongoing basis and guides the activities aimed at its implementation.
The strategic objectives of the Group 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. All wrong decisions taken as a result of inability to adapt to changing market conditions may have a material adverse impact on the Group's operations, financial position, results or development prospects.	2	

Description of the risk	Materiality (1-5, where 5 is the maxi- mum materia- lity)	Countermeasures	Materiality (1-5, where 5 is the maxi- mum materia- lity)	Countermeasures
Risk related to the nature of construction activities	Construction activity is based on the execution of individual contracts, and the results obtained from it often depend on external factors not attributable to the contractor. Delays and downtimes in the implementation of construction projects may be caused by, among others: (I) deficiencies or errors in the design documentation prepared by the contracting party; (II) exceeding the legal deadlines for obtaining appropriate decisions and approvals necessary to execute the construction works contract; (III) adverse weather conditions; (IV) unfavourable ground conditions; (V) other factors that are unforeseeable at the stage of preparing the design and related works. Delays and work downtimes may hinder effective management of operating costs, which may result in a temporary reduction in the Group's production potential and have a negative impact on its financial results.	3 The Group makes every effort to ensure that the agreements concluded do not contain any provisions sanctioning disadvantageous situations for the group. At the same time, it employs specialists and highly qualified industry staff.	Risk related to possible claims for damages from contractors	Group companies execute orders and construction projects for a diverse group of customers. Contracts concluded with them contain clauses obliging the Group companies to execute the subject of the contract in accordance with specified technical requirements and within specified timeframes. The parties also include provisions regulating liability for damages and contractual penalties. In particular, delays at any stage of the production process may cause delays in the delivery of products manufactured on customers' request, and thus result in the obligation to pay contractual penalties to them. This may contribute to a decrease of profitability of a given contract, and consequently have a negative impact on the Group's financial situation. Moreover, failure to execute or improper execution of contracts or other events causing liability on the part of the Group companies result in the risk of raising significant claims for damages and claims for contractual penalties against them. It cannot be ruled out that claims will result in the loss of contracting parties, deterioration of financial conditions for service provision or weakening of the Group's competitive position. The occurrence of any of the above circumstances may have a material adverse impact on the Group's operations, financial position, results or development prospects.
Risk related to the loss of capability to execute contracts as a result of failure, destruction or loss of assets	In the event of failure of machines used by the Group companies, their damage or loss, there may be a risk of temporary suspension of execution of the concluded contracts, in whole or in a substantial part. Significant downtime may lead to failure to meet 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 of operations.	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 event of a failure, production may be transferred to other Group plants.	Risk related to the execution of development projects	Due to their complex legal and technical nature, there are many significant risks associated with the implementation of 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 deliver the building ready to use, delays in 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 material or construction equipment, accidents or unforeseen technical difficulties and regulatory changes to land use regulations. The occurrence of any of these risks may cause a delay in the completion of the development project, increase of costs or loss of profit, a freeze of the funds invested in the purchase of real estate for the project and in some cases, the Group's inability to complete the investment, which may have a material adverse impact on the Group's operations, financial position or results.
Risk related to changes in market prices of raw materials	The economic effectiveness of the production conducted by the Group companies is largely dependent on fluctuations in raw material prices, including in particular 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 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 apply equally to all manufacturers, including the Company's competitors, which increases the chances of passing on these costs to customers. The Group analyses raw material markets and service prices on an ongoing basis. Offers submitted to the commissioning parties take into account current market prices and the anticipated price volatility. Due to contract execution periods, the existing risk of changes in prices of goods and services was significantly limited. The Group does not use derivatives to hedge prices of goods and services.	2 This risk is minimised by, among others, cooperation with reliable suppliers on the basis of 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 ongoing monitoring of prices and reacting to price changes by adjusting valuations and offers for customers.	2 The Group has an organisationally separate team of specialists in real estate development projects. The Group applies internal procedures for monitoring and control of the production process and contract execution. This means that its reaction to events is immediate.	



Description of the risk	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures		
Risk related to liability under warranty for physical defects and guarantee of quality of manufactured products	The Group companies are responsible for any warranty for physical defects in their products, unless excluded on the basis of the concluded agreement and under the guarantee of quality of performed works in cases where it was granted. There is a risk, that should any defects or faults be discovered during the warranty or guarantee periods, the contracting authorities will raise 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 in relation to prefabricated constructions manufactured by the Group than in the case of comprehensive services.	3	The Group applies internal procedures for quality control and contract execution, and employs suitable, trusted subcontractors. The level of defectiveness of prefabricated elements is very low in relation to traditional construction.	Interest rate risk	1	The Group assesses the risk on a case-by-case basis, depending on the credit agreement. 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, i.e. the IRS.
Risk related to the insolvency of contracting parties	Applied assessment systems, monitoring of the financial standing of contracting parties, receivables collateral and the internal system of procedures and reporting may not be suitable and appropriate for each type of a contracting party. In addition, there is a possibility of underestimating the risk related to the financial standing of contracting parties.	3	The Group continuously monitors arrears by analysing credit risk individually or within particular asset classes defined on the basis of this risk (e.g. by industry, region or customer structure). Trade credit is granted to reliable contracting parties, and the sale of products to new customers is usually carried out with the use of additional collateral in the form of advances, bills of exchange, pre-payments, bank guarantees, and corporate guarantees and sureties. In addition, most trade credit holders have a reservation of ownership of the prefabricated elements supplied until the payment of the amount due in their contracts.	Risks related to guarantees	2	The Group applies internal procedures for monitoring and controlling the production process, and the execution of contracts. This means that its reaction to events is immediate.
Risk related to new investments	Investments implemented by the Group mainly concern the acquisition of investment land, other entities or enterprises, and the construction of new plants and increasing production capacity. There is a risk that the planned investments will not be completed 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. If new plants are constructed or production capacity increases, the Group carries out market analysis and discerns possible scenarios in order to make an optimal decision and secures the financing of the investment in question in advance.	Risk related to concluding contracts with related parties	2	As a rule, the Group does not conclude any agreements with related parties on terms other than market terms. The Group employs qualified staff and continuously monitors changes in regulations and case-law, cooperating with recognised external consultants and requests individual interpretations.
Credit risk	There is a possibility of insufficient monitoring of customer and creditor arrears. The applied credit risk analysis, 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 contracting parties, using receivables collateral and an internal reporting and procedures system. In addition, the Group tries to make transactions with reliable contracting parties.	Risk related to the possibility of breach of obligations under financial contracts by Group companies	3	The Group applies internal procedures for monitoring and reporting obligations arising from financial agreements and fulfils them in a timely manner. The Group monitors and adjusts the financial policy to the operational needs.

Description of the risk	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures
Bonds risk	2	<p>The benefits from the bonds consist in the redemption of bonds through payment of their nominal value and payment of interest and, in some cases, also of bonuses. Such services 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 on the due dates. 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 an 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 losing all or part of the funds invested in the bonds. The bonds do not constitute a bank deposit and are not covered by any deposit guarantee scheme.</p>	4	Risk related to the Poznań plant's location in the vicinity of single-family housing and the proceedings in connection with the determination of the permissible noise level
Risk of insufficient insurance protection	2	<p>Insurance policies held by the Group may not protect it against all risks and losses it may incur in connection with its operations. Certain types of insurance may be entirely unavailable or unavailable on commercially reasonable terms, for example in the case of risks related to natural disasters, terrorist attacks or wars. Other factors, including in particular inflation, construction law changes and environmental protection issues, may also cause the proceeds from insurance to be insufficient to repair the damage that occurred. Additionally, the Group may incur significant losses or damages for which it is impossible to obtain full or any compensation. As a consequence, the Group may not be covered by sufficient insurance protection against all damages it may incur. Nor can it ensure that in the future there will be no material losses exceeding the limits of insurance protection.</p>	4	Wherever possible, the Group reduces noise emissions by using a special self-consolidating mix in production. The Group installed information boards on the plant premises, reminding employees to maintain silence at night. There are training courses for employees, as well as for employees of external companies on preventing inconveniences in the area. The Group is planning investments aimed at reducing noise emissions.
Risk related to administrative and legal proceedings	2	<p>The Group companies are parties to administrative and legal proceedings, including ones related to receivables and liabilities under trade agreements. There is possibility that an outcome may be unfavourable for the Group. Moreover, it is possible that in the future other proceedings may be instituted against the Group companies or by the Group companies in connection with its business activity, in which decisions unfavourable for the Group may also be made. Some of the unfavourable decisions made in legal, arbitration or administrative proceedings may have a material adverse effect on the Group's operations, financial performance, financial condition or development prospects.</p>	2	Risks related to competition
Risk related to loss of liquidity	3	<p>The Group employs qualified staff and monitors changes in regulations and judicial decisions on an ongoing basis, cooperating with renowned external law firms. When regulations change, the Group adjusts to the new rules and responsibilities.</p>	2	<p>The Pekabex Group reduces the competition risk by ensuring 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, innovativeness, investing in highly qualified engineers and specialists, systematic improvement of efficiency and effectiveness.</p>
Risk related to loss of liquidity	2	<p>Like any other business entity, the Group is exposed to the risk of loss of liquidity, i.e. the ability to settle its financial liabilities on time.</p>	2	<p>The Group actively manages its 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), and long-term demand for cash, based on cash flow forecasts updated on a monthly basis. The demand for cash is compared with available sources of funds (in particular by evaluating the ability to obtain credits) and collated with investments of free funds.</p>

Description of the risk	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures
Risk related to foreign exchange rate changes	1	Revenue and costs in Scandinavia are earned and incurred mainly in PLN. Revenue and costs earned and incurred by the branch in Germany in Euro are, to a large extent, in balance. For significant contracts denominated in foreign currencies (in particular in EUR), the Group minimises the risk by entering into currency transactions (forwards). In order to limit the impact of changes in EUR/PLN exchange rates on the results achieved by the Group in 2018, a hedge accounting policy was implemented.	Environmental protection risks	2
Risk related to inability to find new employees and retain qualified employees	4	The market for qualified employees is complex and the Group faces difficulties in attracting them. In order to recruit a sufficient number of appropriately qualified people the Group has an internal recruitment department and internal motivational schemes and cooperates with employment agencies. The Group also hires employees from Ukraine.	Risk related to the change of tax law regulations and its interpretation, and to the change of individual interpretations of tax law regulations received by the Group companies	4
Risk related to the loss of key employees	4	The Group strives to mitigate this risk by building long-term relationships 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.	Tax law regulations are complicated and opaque, 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 their compliance and/or non-compliance with the new regulations. Additionally, tax authorities apply tax law in a non-uniform manner, and there are significant discrepancies in the judicial decisions of administrative courts in the area of tax law. The Company cannot guarantee that tax authorities will not interpret tax regulations implemented by the Group companies in a different way, one that is unfavourable for the companies. It cannot be ruled out that individual tax interpretations obtained and applied by the Group companies will be challenged. In view of the above, there is a possibility of potential disputes with tax authorities, and the resulting questioning of the correctness of the Group's companies' tax settlements in the area of non-time-barred tax liabilities and determination of tax arrears of these entities. Moreover, due to the fact that the Group operates in various jurisdictions, its operations are also affected by double taxation avoidance 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 also have a material adverse effect on the Group's operations, financial position or results of its operations. In addition, in 2017, regulations on VAT reverse charge were introduced with respect to the specified types of construction services. Due to the lack of practice and judicial decisions regarding the implementation of new regulations, there is a risk of misinterpretation by the Group companies, and consequently issuing invoices with an incorrect VAT rate, which will result in the necessity to make corrections and possible refunds of underestimated tax.	The Group employs qualified staff and monitors changes in regulations and judicial decisions on an ongoing basis, cooperating with recognised external advisers, and applies for individual interpretations.
Risks related to employees working in Germany	3	As at the day of preparing the report, to the Group's best knowledge, there are no grounds for questioning its practice. The status of a public company listed on the WSE should additionally limit the risk, as it builds a good image of the Company.	Risk related to changes in foreign law	3
Pekabex Pref hires Polish employees and delegates them to Germany to work for the clients of the local branch of the company. The accounts with these employees are settled in accordance with the rules applicable to employees temporarily delegated to perform work in another EU Member State, i.e. e.g. social security contributions on their salaries are paid to ZUS (the Polish Social Insurance Institution). Consequently, it cannot be ruled out that the actual circumstances in which the employees work may be grounds for the conclusion that their permanent place of work is Germany, and the delegation rules are not applicable in their case. In addition, it cannot be ruled out that the company may 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 agreements.				

Description of the risk	Materiality (1-5, where 5 is the maximum materiality)	Countermeasures
Risk related to operations on markets other than the Polish market		
The Group also operates in Germany and Sweden. Statutory law is the foundation of civil law. The regulations in force in the countries mentioned are subject to various interpretations and may be applied in a non-uniform manner. The Company cannot ensure that its interpretation of the laws of the countries in which it operates will not be questioned, and any such questioning 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 recognised external advisers.

Risk related to the internal control system in the Company's structures	2	The Group reviews and updates its internal procedures in accordance with changes in regulations and ongoing processes in the Group
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5.4.2

Corruption prevention

The considerable value of contracts executed by the Group companies generates the risk of corrupt behaviour. The Management Board of Pekabex S.A. has a zero tolerance policy in this area. Any employee or associate who discovers corrupt practices may bring them to the attention of 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 2018, the Company Management Board did not record any corruption practices in the Pekabex Group.

The risks associated with this issue concern the Group's reputation, deterioration of relations with contracting parties, 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 actions taken within the Group.

5.5

Changes in fundamental management principles

In 2018, there were no significant changes to the fundamental management principles in the Pekabex Group.

6.0

Outlook

6.1

Position on the market

The Group offers comprehensive services in the area of prefabricated concrete structures, including design, production, delivery and assembly of prefabricated elements and reinforced concrete and prestressed elements. Additionally, it offers comprehensive execution of construction contracts, mainly in the area of buildings, including halls. As at the balance sheet date, the Group had four plants in Poland and a branch in Germany, belonging to Pekabex Pref S.A. After the balance sheet date, on 22 January 2019 Pekabex Bet registered a branch in Sweden, where it has been executing contracts since 2011.

Contracts are executed in Poland, Germany, Sweden and Denmark, whereas 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 sector and this is strongly linked to the macroeconomic situation in the country concerned, including in particular the economic situation.

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

the industry, including, partly, for the Pekabex Group. At the same time, the shortage of workers is an opportunity for the Group, as it contributes to the increased interest in prefabricated technology, which requires less human labour and shortens investment execution times:

- » uncertainty related to the profitability of the executed contract. In a way, this problem is related to the lack of labour force, which results in increased prices of services and materials. For Pekabex, the risk of increased execution costs is largely limited, as the Group does not conclude long-term contracts. Project implementation time usually does not exceed a few months and rarely exceeds one year. Moreover, in the case of framework agreements, the Group can renegotiate the price and thus quickly react to changes in the market.

As far as non-residential construction is concerned, 22 917 new buildings were delivered in 2018 and 3698 existing buildings were expanded (respectively 2.2% and 3.8% fewer than in the previous year). The total usable area of new and expanded non-residential buildings amounted to 15 964.2 thousand m², i.e. 0.7% less than in 2017.

In 2018, permits were issued for the construction of 35 873 new non-residential buildings with a total usable area of 21 882.5 thousand m². Compared to the previous year, there was a 6.4% increase in the area, while the number of buildings decreased by 4.7%. The highest growth in new non-residential buildings planned for construction was recorded for hotels and tourist accommodation buildings (increase of 76.5%), industrial and warehouse buildings (14.2%) and retail and service buildings (6.1%). The structure of usable area of new buildings for which permits were granted was dominated by industrial and warehouse buildings (45.9%), other non-residential buildings (22.1%) and retail and service buildings (12.7%). Industrial and retail buildings,

warehouses and other non-residential buildings are the key segment for the Group, which generated the highest revenue.

According to the permits issued in 2018, the construction of the largest area of new non-residential buildings is planned in the following voivodeships: Mazowieckie (3364.2 thousand m²), Wielkopolskie (3154.3 thousand m²) and Łódzkie (2376.4 thousand m²), while the smallest is in Opolskie (399.7 thousand m²), Lubuskie (491.4 thousand m²) and Świętokrzyskie (558.8 thousand m²). The largest increase of area planned for construction in relation to the previous year was recorded in Świętokrzyskie (44.9%), Łódzkie (41.1%) and Podlaskie (38.9%).

According to the assumptions of the Ministry of Finance, GDP growth rate in Poland will decrease to 3.8% at the end of 2019. Unfortunately, Pekabex estimates that the economic situation in the construction industry may also deteriorate due to a reduction in private investment.

The Group also operates on other markets, in particular on the Swedish market. In 2018, the sales of Pekabex in this country decreased. According to the Group's assessment, this was related to the slowdown in the local residential market resulting from

the change in law concerning the availability of home loans. A significant part of contracts executed in Sweden concerns housing.

A Public-Private Partnership (PPP) is a solution which, according to many experts, could energise the Polish construction market, while significantly improving its quality. According to the data of the Public-Private Partnership Platform, at the end of 2018, 131 agreements were either executed or in progress in the above formula, and 40 proceedings remained unresolved. However, our country is still in one of the last places in Europe when it comes to the number and value of such investments. The development of this implementation formula is hampered by complex rules and business being distrustful towards public partners.

6.1.1

Conditions for further development of the Group

Construction market in Poland

The Polish construction market is still one of the fastest growing in Europe. This situation is influenced, for instance, by an increase in the level of investments and a good economic growth rate; according to preliminary data of the Central Statistical Office (GUS), the growth of gross domestic product in 2018 in constant prices of the previous year amounted to 5.1%. In 2017, this growth, in relation to constant prices in 2016, amounted to 4.8%. Just like in 2017, the main reason for the high rate of GDP growth was the increase in the level of investments.

The increase in construction and assembly production is a good example of the development of the market which Pekabex operates on. In 2018, according to preliminary data of the Central Statistical Office (GUS), it increased by 21.3% as compared to 2017. This was caused by a strong demand for construction services, mainly in the area of infrastructure investments.

In the areas put into operation in 2018 industrial and warehouse buildings

prevailed (44.4%). Other non-residential buildings (21.1%) and retail and service buildings (14.7%) had significant shares.

In 2018, 1 083 new industrial buildings were built, which is an increase of 10.6% compared to 2017. Their total usable floor area amounted to 3033.2 thousand m² and was 1.9% larger than the year before. The largest share in the area of new industrial buildings was held by the following voivodeships: Śląskie (16.5%), Dolnośląskie (9.9%) and Wielkopolskie (9.5%).

In 2018, 2 182 new warehouse buildings were delivered (decrease of 5.1%). The total usable area of this type of buildings decreased by 11.7% in comparison to the previous year and amounted to 4063 thousand m².

The sector is adversely affected by:

- » uncertainty associated with a significant shortage of qualified labour force on the labour market. In 2018, the majority of business entities in the construction sector pointed to this problem. It is one of the main sources of uncertainty and restrictions for



Development of the residential construction market

Residential construction is a market with prospects of high growth in the use of prefabricated technology. An increase in the number and usable floor area of flats was recorded in 2018. 185 170 flats with a total usable floor area of 16 708.7 thousand m² were delivered that year. Compared to the previous year, there were increases in: the number of flats, by 6828 (3.8%), area – by 168.4 thousand m² (1.0%).

The residential construction market is affected by several important factors which, according to experts, will continue to drive the economy in the development market for some time:

- » customers withdrawing from low-interest deposits and transferring 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, renovating or finishing the flat and quickly re-selling it for a high profit)
- » wage growth on the labour market with high GDP growth, which facilitates decisions to buy real estate
- » relatively low cost of mortgage credit, which allows for greater involvement of investors and their high activity; thanks to financial leverage, they acquire new properties, thus expanding their portfolio of investments for lease

» the governmental MDM scheme, which provides assistance in the purchase of one's own house by refinancing own contribution by the National Housing Fund

Some studies show that every third Pole considers moving to a new flat within the next two years. This demonstrates the absorption capacity of the market and the wide scope for developers to act.

In 2018, the Group launched the JA_SIELSKA pilot development project, which consisted in the construction of six five-storey buildings in modular construction technology. They will comprise 162 two-, three- and four-room flats with a surface area of 36 to 86 m².

The interest in modular construction among other developers is very high, especially due to the pace of work. Each successive floor of the first two buildings was constructed in eight working days. Shorter

construction time translates into lower costs and the developers' lower demand for financing. It is also very attractive for customers who want to move into their dream flat as quickly as possible.

According to the CSO data, the average time for a developer to construct a residential building is about 25 months. Two residential buildings in the JA_SIELSKA housing estate were erected in less than a year.

If things go well and Poles are won over by modular construction, implementation of pilot projects at own risk may become a significant part of Pekabex's operating activity.

Developers face many challenges that force them to raise prices per m² of flats. One of the main factors here is the constant increase in general contracting costs, associated with rising prices of construction materials and shortage of workers suffered by the entire construction sector. Filling the employment gap will be one of the industry's biggest challenges in the coming years.

6.2

Short, medium and long term perspective

Key internal factors important for the development of the enterprise and increasing its cost and quality competitiveness

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, and through participation in internal processes. The Group increased its production capacity through organic growth and acquisitions (acquisition of the plant in Bielsko-Biała in 2012, the plant in Gdańsk in 2015, finalising the purchase of the plant in Mszczonów in 2016), as well as thanks to investment expenditures and solutions increasing the efficiency of production facility use. At present, the production capacity is almost 200 thousand m³ per year.

Automation and digitisation is the Group's response to the development of new technologies and new business models related to it. In 2018, the Group commenced with the construction of a new plant in which an innovative production line for automated production of prefabricated filigran floors and walls will be installed, which is a pioneering undertaking on the Polish market. The target production capacity is about 500 thousand m² annually. 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 a fully automated production line is Pekabex's answer to problems with access to workforce in the construction and manufacturing sector and the progressive increase in employment costs. Thanks to the construction of the plant, the Group will add a new product to its offer, i.e. the Filigran slab, and will become independent of suppliers, in particular with regard to contracts executed in Scandinavia. Thanks to the automated production line, employment for this production will be low and will not exceed 15 people per shift.

Cost competitiveness

In the Management Board's assessment, the Group's competences mean that it is able to further increase its effectiveness by using its management know-how and achieve cost synergies, mostly related to costs of administration, logistics and purchase of raw materials and other materials (e.g. by increasing purchasing power vis-à-vis suppliers), and increase its bargaining power vis-à-vis ordering parties. Having plants in different parts of Poland gives the Group greater flexibility in the supply of prefabricated elements, which reduces the unit cost of transportation to the contract execution location. The location of plants was the primary criterion for their selection. The Group is working on further increasing cost competitiveness based on economies of scale, specialisation, standardisation and experience.

High quality of products resulting from, e.g., quality control systems

The Group companies hold certificates confirming compliance with the requirements set for manufacturers of construction products in 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, and an Integrated Quality, Environment and OHS Management System in accordance with ISO 9001:2008, ISO 14001, and BS OHSAS 18001.



Product diversification and comprehensive services

In the opinion of the Management Board, ordering parties in Poland have an increasing appreciation of innovative and comprehensive solutions, including consultations in the field of prefabricated technology, as well as design, production, transport and assembly of prefabricated elements, as well as comprehensive development of objects. For Pekabex, the coordination of the entire construction process increases the flexibility of the production processes thanks to the possibility to more precisely plan the demand for prefabricated products at a given time. The Group intends to continue developing its product offer, including more technologically complex products with a higher margin.

Technological and product innovation

According to specialist evaluations, innovations which create long-term development chances for the construction industry include augmented reality and software for the sector and data management systems. Building Information Modelling (BIM) will have a significant impact on the increase of efficiency and productivity of construction companies, as the basis for further digitisation of ongoing projects. Digitisation in the industry should not be limited to BIM, but should also include the digitisation of all process chains, both at the stage of obtaining or preparing an offer and in the work itself. Digitalisation is most profitable in the areas where most mistakes are made. Experts jointly distinguished the key directions of implementation of innovations in the construction industry, including the use of artificial intelligence, drone systems and robotisation. In addition to reinforced concrete and prestressed elements, the Group offers complementary consultation services on prefabricated technology, thus strengthening its competitive advantage in the implementation of more technologically complex products and construction solutions.

In the opinion of the Management Board, the aforementioned factors and market trends significantly affected the Group's operating results in 2018. The Management Board also expects that they will have a significant impact on future results.

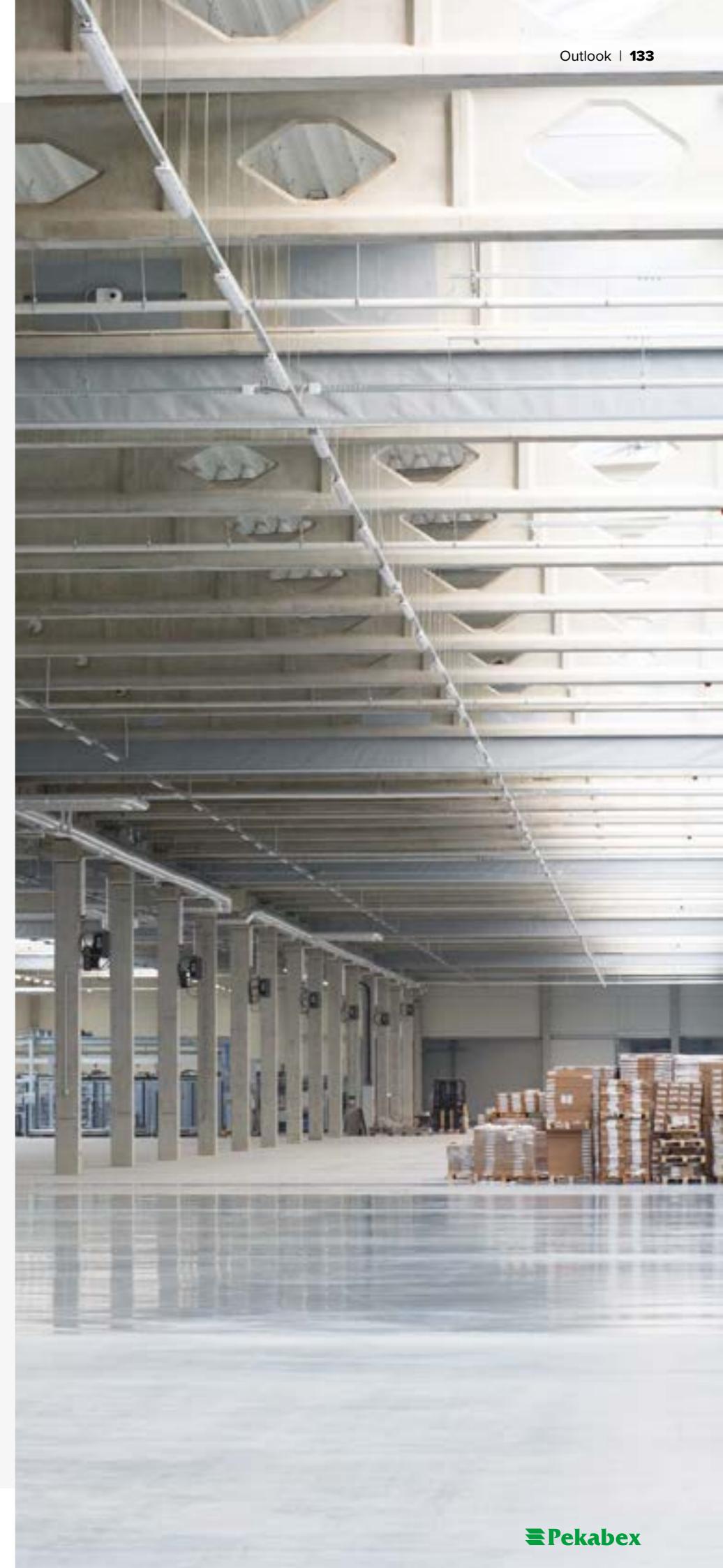
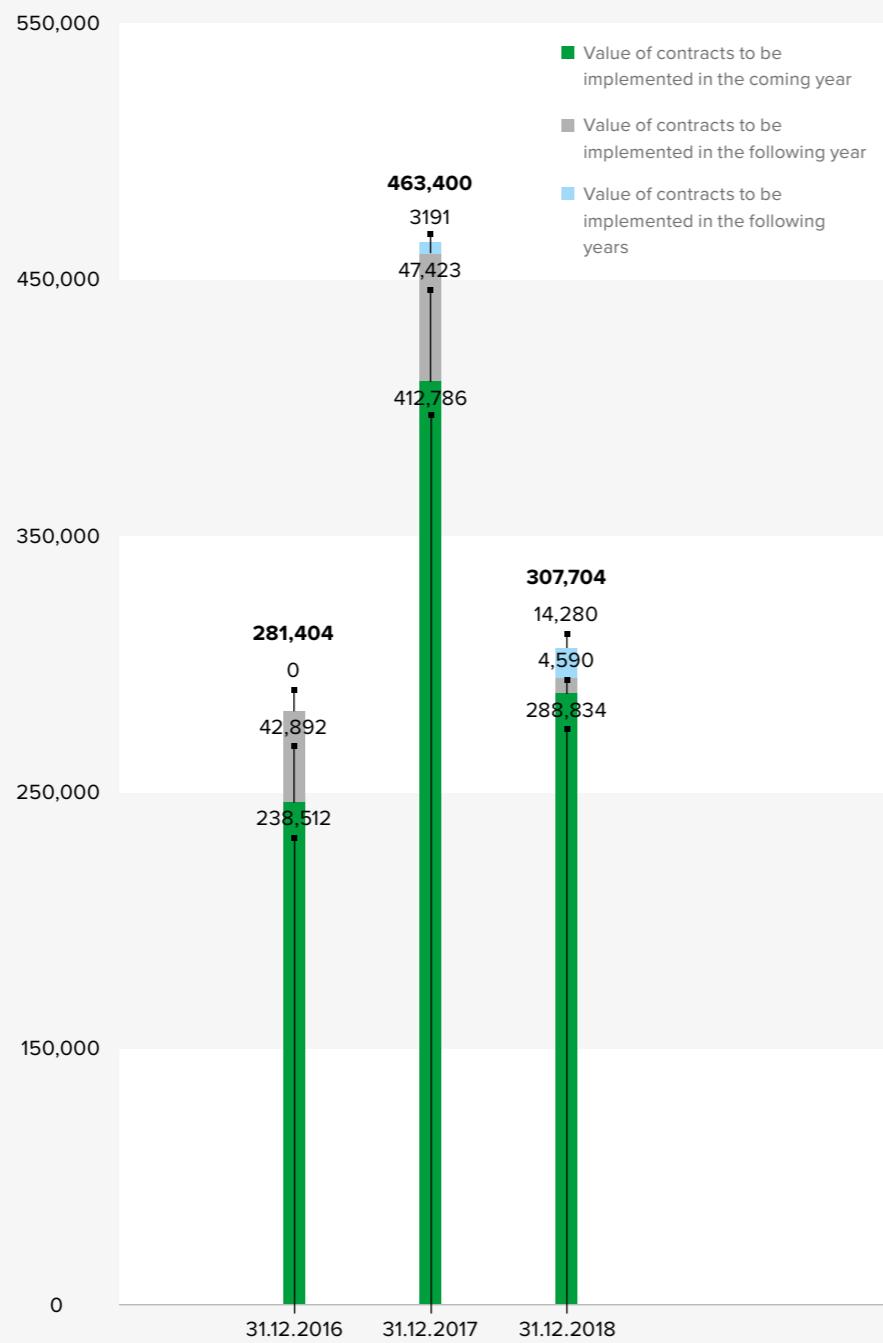
The Group is systematically building a strong and a diversified portfolio of orders (backlog) that will fill production in subsequent periods. It contains the aggregated value of signed contracts, which were concluded before the balance sheet date and are/will be executed and recognised in sales revenue after the balance

sheet date. The backlog does not include contracts that are planned and not yet concluded. The values of the portfolio broken down by periods/years result from payment schedules specified in the contracts and assume their timely performance.

Value of contracts signed for execution in 2019 as at 31 December 2018 amounted to PLN 288 34 thousand, whereas as at the end of 2017 the value of contracts signed for execution in 2018 amounted to PLN 412 786 thousand. At the end of 2017, the Group had, in its portfolio of contracts to be executed, large contracts in the prefabrication segment, which are not standard in the winter season. Moreover, according to Pekabex, the decline in the value of the portfolio results from market uncertainty as to the profitability of the projects planned by investors. Labour costs, including subcontractors, increased significantly in 2018 and a review of assumptions and investment budgets is needed. Investors also point to legal and tax uncertainty, complicated administrative procedures, lack of own funds for investments and development, low accessibility of investment areas and lack of spatial development plans.

In 2019, the Group intends to continue to optimise, among other things, the costs and efficiency of production and assembly capacities. In the nearest future Pekabex plans to develop all segments of its activity. The Group will continue to increase the share of revenue from comprehensive execution of construction projects, taking into account modern technologies, mainly in the segments considered to be target segments.

The value of the portfolio as at the end of a given year (in PLN thousand), including sales from the prefabrication, construction services and production services segments, is as follows:



7.0

Additional information



7.1

Feasibility of investments and information on the Company's relations with other entities

The Group does not expect any significant changes in the structure of financing of investment activity. Pekabex plans to invest the amount of about PLN 35 000 thousand in its new plant in Gdańsk in 2019 and other investments at the level of about PLN 25 000 thousand, of which more than PLN 20 000 thousand is expenditure on production infrastructure (mainly in the field of automation) in existing plants, including machinery and production equipment. The remaining amount includes mainly expenditures on IT infrastructure (including the purchase and set-up of operating software) and transport. The Group's investments may be funded both from

the Company's own resources and from debt financing.

The structure of the Company's Capital Group is described in chapter 1.0 of this report.

Information on organisational or capital relations of the Company is described in note 26 of additional information to the consolidated report of the Group.

In 2018, the Company did not make any capital investments outside the group of related entities.

7.4

Disputes and litigation

As at 31 December 2018, the Group was not a party to any material (i.e. where the value of the subject of the dispute exceeds 10% of the value of consolidated equity) legal proceedings for which it would be reasonable to create a provision. The Group recognises as significant the following disputes in 2018:

- » Pekabex Bet entered the receivable in the amount of PLN 955 thousand in the list of receivables of Hydrobudowa Polska S.A., withheld as a guarantee deposit for works performed and elements delivered as part of the contract for the construction of the National Stadium. The Pekabex Bet receivable was included in the list of receivables. It is subject to a full write-off. At the same time, the company took legal action against the State Treasury - the Minister for Sport and Tourism, on whose behalf and for the benefit of whom Narodowe Centrum Sportu Rozliczenia Sp. z o.o. (The National Sports Centre-Accounts) operates. In the statement of claim dated 5 February 2016, the plaintiff requested payment of PLN 1056 thousand on account of joint liability of the investor towards the liabilities resulting from the construction of the National Stadium in Warsaw. 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 issued, which took into account practically all the claims asserted by Pekabex Bet. The judgement is final.
- » In 2015, Pekabex Pref received an employee's claim for compensation and redress in the amount of approx. PLN 3200 thousand. It is related to an accident at the Poznań plant, which took place in April 2015. The claims have been transferred to the insurer, which conducts liquidation proceedings. The Company is covered by insurance policies. The extent of compensation liability of both the insurer and the company is affected by the degree to which the injured party contributed to the accident, which is being analysed, as well as the defect of the equipment for transporting elements (traverse), the technical condition of which was the responsibility of the ordering party for whom the contract was executed. The company and the ordering party intend to assert claims for damages against the manufacturer of the traverse. The claimant and his family called Pekabex Pref for an amicable settlement. The claimant filed a lawsuit against the contracting party who delivered the defective equipment. In December 2018, the court decided to summon Pekabex Pref to participate in the proceedings. The value of the object of litigation is over PLN 4200 thousand.
- » In 2016, Pekabex Pref received an employee's claim for compensation and redress in the amount of approx. PLN 2500 thousand in connection with an accident at the Poznań plant on 22 March 2016. The claims have been transferred to the insurer, which conducts liquidation proceedings. The Company is covered by insurance policies. The competent authorities are now clarifying the causes of the accident and the possible liability of particular actors, and in particular any possible contribution to the claimant's 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 object of litigation is over PLN 1 900 thousand.
- » On 29 September 2014, the Mayor of Poznań issued a decision setting the maximum limit for permissible level of noise emitted to the environment by Pekabex Bet in Poznań. It was established as for areas of one-family residential buildings. The decision was issued on the basis of measurements carried out, also at night. The Company appeals against it in an administrative procedure. The company for instance points to the fact that it operates in an industrial area, which was not taken

7.2

Unusual events affecting the result of activities

In the year ended 31 December 2018 there were no unusual events.

7.3

Agreements which may result in changes in the shareholder structure

As at the date of publication of this report, the Company has no information on any agreements which could result in future changes in the proportions of shares held by the existing shareholders. The changes that occurred in 2018 pertain to the conditional increase of the share capital adopted by virtue of Resolution No. 3 of the Extraordinary General Meeting of Shareholders of the

Company on 11 October 2016 and are related to the warrant issue programme. Similar changes are possible in subsequent periods, as described in the programme description presented in Note 15.1 of the additional information and notes to the consolidated financial statements prepared as at 31 December 2018.



into account in the assessment of the actual state of affairs, as well as the fact that the housing development began in the area in question after the majority of it had been developed for industrial purposes. In addition, Pekabex Bet indicates in the appeal, that the site inspection, the findings of which were the basis for the judgement, was carried out in violation of administrative procedural law, and the measurements of noise emissions were carried out in violation of the guidelines adopted in this respect. As a result of the company's complaint to the Supreme Administrative Court of Poland, the Court overturned all previous judgements and the case was referred back for reconsideration. Consequently, the Supreme Administrative Court accepted the arguments of the complaining party, i.e. of Pekabex Bet. Subsequently, another judgement determining the permissible noise level for the plant was issued, which was challenged by the company. The judgement was made immediately enforceable, which was also challenged by Pekabex Bet, and annulled by decision of the Local Government Appeals Authority. The Company awaits information on the meeting date for the Local Government Appeals Authority.

» On 31 May 2016, Pekabex Bet concluded an agreement with Marathon International Sp. z o.o. sp. kom. for the execution of construction works with a total net value of PLN 18 157 thousand. On 25 May 2017, in connection with the failure of the ordering party to provide a guarantee in accordance with Article 649(4) of the Civil Code, the company withdrew from the agreement. As at 30 September 2018, receivables invoiced on account of the settlement of performed work amounted to PLN 22 333 thousand gross. The Contracting Party did not pay part of the amount due on time, justifying this, i.e., with the fact that Pekabex Bet did not present final clearance certificates from subcontractors, and with the

presence of faults. The Company Management Board is of the opinion that the suspension of payments is unjustified.

» Moreover, on 30 May 2017 the contracting party drew a bank guarantee in the amount of PLN 1640 thousand, justifying this with the need to cover the penalties imposed on Pekabex Bet. The Management Board of Pekabex Bet and Pekabex S.A. analysed the basis for the imposition of penalties by the contracting party and recognised that they were unjustifiable. Pekabex Bet has filed a lawsuit against Marathon International, with total value of the object of litigation exceeding PLN 5281 thousand. The claims relate to receivables resulting from the construction works performed by Pekabex Bet on the premises of the investment 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 ordering party with the permission to use the investment, the ordering party incorrectly charged contractual penalties and failed to pay the remaining part of remuneration due under the construction works agreement.

» The maximum possible level of penalties under the agreement amounts to 12% of the net remuneration. Despite the penalties not being justified, a write-down within the prudent valuation of the Management Board was created to update receivables in the amount of the maximum level of penalties that the contracting party may impose on the company, i.e. in the amount of PLN 2179 thousand. Additionally, in the second and third quarters of 2018, the Group increased the amount of write-downs for receivables under the contract with Marathon International by PLN 1000 thousand in each quarter (an additional PLN 2000 thousand in total). The total amount of write-offs on receivables under the aforementioned contract presented in the Group's consolidated financial statements as at 31 December 2018 amounted to PLN 4179 thousand. As at the date of submission of the financial statements, the Group companies are not a party to any proceedings concerning receivables or liabilities which, either separately or in aggregate, exceed 10% of the Group's equity. No other significant settlements on account of litigation not included in the report occurred in the reporting period.



8.0

About the report



The document covers the Pekabex Group, where Pekabex S.A. is the group parent. It was prepared as an integrated report, meeting the requirements for integrated reporting set by the International Integrated Reporting Council (IIRC).

The financial data was prepared in accordance with International Financial Reporting Standards (IFRS). Non-financial data was prepared in accordance with the guidelines of the Global Reporting Initiative in the GRI Standards version (core level). The report is published on an annual basis, i.e. it covers the period from 1 January to 31 December 2018. The financial part was audited externally, the non-financial part was not verified externally.

The content of the report (relevant subjects) was defined on the basis of the results of the meeting with the management staff which took place in March 2018 in Poznań, and taking into account the context of the stakeholders - based on the PN-ISO 26000 standard and competition analysis. The most important topics for Pekabex and its stakeholders are: employee health and safety, diversity and equal opportunities, employees, reduction of energy consumption, indirect economic impact, consumption of materials, raw materials and water, reduction of waste water production, compliance with environmental and socio-economic regulations, economic results, emission reduction, health and safety of customers. Key stakeholder groups in the Group include its employees, customers, investors, suppliers, media, local communities and business partners. Application of the PN-ISO 26000 standard helps to maintain the context of sustainable development.

CONTACT

**Should you have any questions about the report, please contact
Beata Żaczek
beata.zaczek@pekabex.pl**

9.0

Tables with GRI numerical indicators



Tables with GRI numerical indicators

Employment:

As of 31 December 2018, Pekabex had a total of almost two thousand employees, both employed under contract and in other forms of close cooperation.

The following figures refer to the number of employees employed at the end of December 2018 only under an employment contract.

This does not include persons employed under civil law contracts, self-employed or convicted persons assigned by the State Treasury or the staff of subcontractors.

Total number of employees by type of contract and gender

Type of contract	Total	women	men	total
fixed period	932	134	731	865
Indefinite period	485	92	460	552
Total	1417	226	1191	1417
Total - women	226			
Total - men	1191			
Total number of full-time employees	1417			

Total number of employees by gender

Women	226
Men	1191
Total number of full-time employees	1417

Total number of employees by type of employment and gender

	Total	women	men
full-time	1408	222	1186
part-time	9	4	5
Total	1417	226	1191

Place of work of persons employed under employment contract by location

	Number of women	Number of men
Poznań	144	497
Mszczonów	31	188
Łódź	2	9
Gdańsk	35	140
Bielsko-Biała	13	127
Germany Branch	1	181
Sweden	0	49
Total	226	1191

Organisational supervision bodies

Breakdown by structure and age	Total	women	men
Management Board of Pekabex S.A. and its subsidiaries*			
under 30 years of age	0	0	0
30 to 50 years of age	7	1	6
over 50 years of age	2	0	2
The Management Board of Pekabex S.A. and its subsidiaries in total	9	1	8
Supervisory Board of Pekabex S.A.			
under 30 years of age	0	0	0
30 to 50 years of age	2	0	2
over 50 years of age	4	0	4
The Supervisory Board of Pekabex S.A. in total	6	0	6

* After the balance sheet date, a new member (male) of the Management Board of Pekabex Development Sp. z o.o. was appointed.

Breakdown by structure and age	Total	women	men
Senior management			
under 30 years of age	0	0	0
30 to 50 years of age	17	7	10
over 50 years of age	5	0	5
Senior management in total	22	7	15
Middle management staff			
under 30 years of age	27	12	15
30 to 50 years of age	64	16	48
over 50 years of age	21	2	19
Middle management staff in total	112	30	82
Blue collar workers			
under 30 years of age	238	0	238
30 to 50 years of age	422	7	415
over 50 years of age	144	7	137
Total number of blue collar workers	804	14	790
Other employees			
under 30 years of age	228	94	134
30 to 50 years of age	211	74	137
over 50 years of age	40	7	33
Other employees in total	479	175	304

Employee categories:
senior management
– directors and deputy directors
middle management
– managers and deputy managers
blue collar workers
– concrete workers, steel fixers, construction workers, etc.
Other employees
– specialists, junior managers, coordinators, foremen, charge-hands, assistants, accountants, etc.

Percentage of employees belonging to particular categories

Breakdown by structure and age	Total	women	men
Senior management			
under 30 years of age	0%	0%	0%
30 to 50 years of age	1%	3%	1%
over 50 years of age	0%	0%	0%
Senior management in total	2%	3%	1%
Middle management staff			
under 30 years of age	2%	5%	1%
30 to 50 years of age	5%	7%	4%
over 50 years of age	1%	1%	2%
Middle management staff in total	8%	13%	7%
Blue collar workers			
under 30 years of age	17%	0%	20%
30 to 50 years of age	30%	3%	35%
over 50 years of age	10%	3%	12%
Total number of blue collar workers	57%	6%	66%
Other employees			
under 30 years of age	16%	42%	11%
30 to 50 years of age	15%	33%	12%
over 50 years of age	3%	3%	3%
Other employees in total	34%	77%	26%

Total number of new employees employed in 2018	women	men	total
senior management	0	2	2
middle management	5	22	27
blue collar workers	2	528	530
other employees	58	87	145
Total	65	639	704

Employment rate

0.29 0.54 0.50

Total number of employee departures in 2018	women	men	total
senior management	0	4	4
middle management	7	16	23
blue collar workers	0	519	519
other employees	35	69	104
Total	42	608	650

Rotation indicator			
	0.19	0.51	0.46

Number of all employees			
	226	1 191	1 417

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 stakeholder groups	full	141
102-3	Location of the organisation headquarters	full	7	102-41	Collective bargaining agreements	full	97
102-4	Number of countries where 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 organisation	full	14	102-43	Approach to stakeholder engagement	none	
102-6	Served markets	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 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 content of the report	full	141
102-11	Precautionary principle	none		102-48	Adjustments in relation to the previous report and full 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			102-51	Date of publication of the last report	full	This report is the first to be prepared according to GRI Standards
102-14	Statement by senior management	none		102-52	Reporting cycle	full	141
	Ethics and integrity			102-53	Contact on the report	full	141
102-16	Values, principles, standards and norms of behaviour in the organisation	partial	98	102-54	Statement on reporting in accordance with GRI Standards	full	141
	Management			102-55	GRI content index	full	152–154
102-18	Management structure	partial	7	102-56	External verification	full	141

Thematic indicators

Indicator number	Indicator name	Scope of reporting	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) inside 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 regularly receiving 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

