POLIMEX-MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
WITH THE INDEPENDENT AUDITORS' REPORT

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(in PLN thousands)

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	Note	*Year ended 31 December 2007*	*Year ended 31 December 2006*
Continuing operations			
Sale of goods		934 197	631 637
Rendering of services		2 782 806	1 849 022
Rental income		3 483	2 746
Revenue		**3 720 486**	**2 483 405**
Cost of sales		(3 398 295)	(2 239 144)
Gross profit		**322 191**	**244 261**
Other operating income	14	33 330	9 311
Selling costs		(28 322)	(28 101)
Administrative expenses		(137 115)	(106 576)
Other operating expenses	0	(29 690)	(20 398)
Revenue from continuing operations		**160 394**	**98 497**
Finance income	14.3	19 532	12 357
Finance costs	14.4	(34 893)	(17 621)
Share of associate's profit	24	4 385	(1 817)
Profit before tax		**149 418**	**91 416**
Income tax	15	32 734	17 360
Profit for the year		**116 684**	**74 056**
Attributable to:			
Equity holders of the parent		100 073	62 637
Minority interests		16 611	11 419
		116 684	74 056
Earnings per share (in PLN)*:	18		
– number of shares		464 355 625	15 248 491
– basic, for profit for the year attributable to equity holders of the parent		0.22	4.11
Diluted earnings per share (in PLN)			
– number of shares		464 355 625	15 248 491
– diluting potential ordinary shares		12 378 196	241 432
– diluted, for profit for the year attributable to equity holders of the parent		0.21	4.04

*additional information for computation of earnings per share is presented in note No 18

(in PLN thousands)

CONSOLIDATED BALANCE SHEET
as at 31 December 2007

	Note	*31 December 2007*	*31 December 2006*
ASSETS			
Non-current assets			
Property, plant and equipment	20	426 425	261 727
Investment properties	21	42 867	30 972
Goodwill on consolidation	22	426 548	16 865
Intangible assets	23	11 047	2 750
Investments in associates accounted for using the equity method	24	19 989	11 037
Financial assets	25	8 508	44 730
Non-current receivables		29 543	35 154
Non-current prepaid expenses		36	-
Deferred tax assets	15.3	18 242	14 587
		983 205	**417 822**
Current assets			
Inventories	26	348 926	168 836
Trade and other receivables	27	1 282 098	867 119
Income tax receivables		7 547	5 716
Prepaid expenses	28	9 779	8 789
Cash and cash equivalents	29	143 071	148 278
Financial assets	25	26 806	15 192
		1 818 227	**1 213 930**
TOTAL ASSETS		**2 801 432**	**1 631 752**
EQUITY AND LIABILITIES			
Equity (attributable to equity holders of the parent)	30	982 971	354 867
Issued capital	30.1	18 574	15 248
Share premium		513 466	15 045
Treasury shares		(6 884)	(6 884)
Foreign currency translation		(1 703)	(278)
Supplementary capital	30.2	242 548	198 740
Reserve capital	30.3	12 091	6 077
Retained earnings / Accumulated losses		204 879	126 919
Minority interest	**30.4**	**102 585**	**93 928**
Total equity		**1 085 556**	**448 795**
Non-current liabilities			
Interest bearing bank loans and borrowings	31	12 363	27 391
Long-term debentures	32	317 500	143 888
Provisions	34	73 267	49 387
Other liabilities	33	34 983	60 598
Deferred income tax liability	15.3	19 330	11 716
Prepaid expenses and accruals		642	160
		458 085	**293 140**
Arrangement liabilities to write off		**4 049**	**-**
Current liabilities			
Trade and other payables	35	850 676	743 675
Short-term debentures		37 292	34 048
Current portion of interest-bearing loans and borrowings	31	192 151	49 158
Income tax payable		7 491	3 485
Provisions	34	39 546	15 291
Accruals	35	126 586	44 160
		1 253 742	**889 817**
Total liabilities		**1 715 876**	**1 182 957**
TOTAL EQUITY AND LIABILITIES		**2 801 432**	**1 631 752**

(in PLN thousands)

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	*Year ended 31 December 2007*	*Year ended 31 December 2006*
Cash flows from operating activities			
Profit before tax		149 418	91 416
Adjustments for:		(333 674)	(47 861)
Share of profit of associate accounted for using the equity method	24	(4 385)	1 817
Depreciation / Amortisation	14.6	45 048	31 229
Interests and dividends, net		11 495	8 062
Gain from investing activities		(2 806)	(1 837)
Decrease in receivables	29	(321 282)	(238 449)
Decrease in inventories	29	(143 811)	(21 820)
Increase in payables except for loans and borrowings	29	2 079	165 845
Change in accruals and prepayments	29	63 961	22 768
Movements in provisions	29	36 344	8 343
Income tax paid		(29 848)	(26 691)
Other		9 531	2 872
Net cash flows from operating activities		(184 256)	43 555
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		4 275	9 262
Purchase of property, plant and equipment and intangibles		(148 003)	(67 711)
Proceeds from sale of investment property		-	1 100
Purchase of investment property		(1 318)	-
Proceeds from sale of financial assets		47 512	4 269
Purchase of financial assets		(644)	(42 099)
Acquisition of a subsidiary, net of cash acquired		737	(34 540)
Dividends and interest received		4 531	9 614
Repayment of loans granted		329	18
Loans granted		(241)	(526)
Other		(4 231)	599
Net cash flows from investing activities		(97 053)	(120 014)
Cash flows from financing activities			
Proceeds from issue of shares		-	10 935
Proceeds from issue of debentures		313 497	232 001
Expenses for redemption of debentures		(136 897)	(54 065)
Payment of finance lease liabilities		(6 470)	(1 143)
Proceeds from loans and borrowings		214 351	55 057
Repayment of loans and borrowings		(104 749)	(87 291)
Dividends paid to equity holders of the parent		(8 544)	(6 863)
Interest paid		(16 179)	(7 405)
Other		2 730	(871)
Net cash flows from financing activities		257 739	140 355
Net increase/(decrease) in cash and cash equivalents		(23 570)	63 896
Net foreign exchange difference		(2 606)	(1 874)
Cash and cash equivalents at the beginning of the period	29	**142 263**	**78 367**
Cash and cash equivalents at the end of the period, of which	29	**118 693**	**142 263**
of limited possibility of disposal		1 258	3 199

(in PLN thousands)

Balance of cash and cash equivalents recognised in the cash flow statement comprises the following:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Cash at bank and in hand	143 071	147 786
Other	-	492
Bank overdrafts	(24 378)	(6 015)
Total	118 693	142 263

(in PLN thousands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007*

	Attributable to equity holders of the parent											
	Note	*Issued capital*	*Share premium*	*Treasury shares*	*Foreign currency translation*	*Reserve capital*	*Supplementary capital*	*Retained earnings/ Accumulated (losses)**	*Total*	*Minority interest*	*Total equity*
At 1 January 2007	**30.1**	**15 248**	**15 045**	**(6 884)**	**(278)**	**6 077**	**198 740**	**126 919**	**354 867**	**93 928**	**448 795**
Revaluation of executive options		-	-	-	-	6 014	-	-	6 014	-	6 014
Currency translation differences on consolidation		-	-	-	(1 425)	-	-	-	(1 425)	(384)	(1 809)
Deferred tax											
Gains/ losses for the year recognized directly in equity after taking into account deferred tax		**-**	**-**	**-**	**(1 425)**	**6 014**	**-**	**-**	**4 589**	**(384)**	**4 205**
Profit/(loss) for the year		-	-	-	-	-	-	100 073	100 073	16 611	116 684
Total income /expense for the year		**-**	**-**	**-**	**(1 425)**	**6 014**	**-**	**100 073**	**104 662**	**16 227**	**120 889**
Issue of shares relating to combination with ZREW S.A.		1 033	132 212	-	-	-	-	-	133 245	-	133 245
Issue of shares relating to combination with ZREW S.A.		-	(92 619)	-	-	-	8 993	10 555	(73 071)	(60 174)	(133 245)
Issue of shares relating to combination with Energomontaż Północ S.A.		2 293	460 859	-	-	-	-	-	463 152	-	463 152
Consolidation adjustments relating to obtaining control over Energomontaż-Północ S.A.		-	-	-	-	-	-	44	44	51 874	51 918
Costs of issue of shares		-	(2 031)	-	-	-	-	-	(2 031)	-	(2 031)
Acquisition of minority interest											
Dividends paid	19	-	-	-	-	-	-	(8 544)	(8 544)	-	(8 544)
Profit distribution		-	-	-	-	-	34 815	(34 815)	-	-	-
Declared unpaid capital in a subsidiary		-	-	-	-	-	-	9 990	9 990	-	9 990

(in PLN thousands)

Acquisition of minority interests in the Capital Group of a subsidiary	-	-	-	-	-	-	(24)	(24)	100	76
Change in shareholding structure	-	-	-	-	-	-	-	-	1 615	1 615
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	681	681	(985)	(304)
At 31 December 2007	**18 574**	**513 466**	**(6 884)**	**(1 703)**	**12 091**	**242 548**	**204 879**	**982 971**	**102 585**	**1 085 556**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007 (continued)

	Attributable to equity holders of the parent									
	Issued capital	*Share premium*	*Treasury shares*	*Foreign currency translation*	*Reserve capital*	*Supplementary capital*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
At 1 January 2006	**15 248**	**15 045**	**(6 884)**	**(80)**	**-**	**170 676**	**99 144**	**293 149**	**71 791**	**364 940**
Revaluation of executive options	-	-	-	-	6 077	-	-	6 077	-	6 077
Currency translation differences on	-	-	-	(198)	-	-	-	(198)	-	(198)
Revenue/expenses recognised directly in equity	**15 248**	**15 045**	**(6 884)**	**(278)**	**6 077**	**170 676**	**99 144**	**299 028**	**71 791**	**370 819**
Profit for the year	-	-	-	-	-	-	62 637	62 637	11 419	74 056
Total income /expense for the year	**15 248**	**15 045**	**(6 884)**	**(278)**	**6 077**	**170 676**	**161 781**	**361 665**	**83 210**	**444 875**
Profit distribution	-	-	-	-	-	28 080	(28 080)	-	-	-
Dividends paid	-	-	-	-	-	-	(6 863)	(6 863)	-	(6 863)
Issue of shares in a subsidiary	-	-	-	-	-	-	-	-	10 935	10 935
Reclassification	-	-	-	-	-	(16)	16	-	-	-
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	65	65	(217)	(152)
At 31 December 2006	**15 248**	**15 045**	**(6 884)**	**(278)**	**6 077**	**198 740**	**126 919**	**354 867**	**93 928**	**448 795**

(in PLN thousands)

ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. Corporate information

The Polimex-Mostostal capital group (the "Group") is composed of Polimex-Mostostal S.A. (the "parent company", "Company") and its subsidiaries (see Note 2). The Group's consolidated financial statements cover the year ended 31 December 2007 and contain comparative data for the year ended 31 December 2006.

The parent company is entered in the Register of Entrepreneurs kept by the District Court, 12th Economic Department of the National Court Register, Entry No. KRS 0000022460.

The parent company was granted statistical REGON number 710252031.

The parent company and other Group entities have an unlimited period of operation.

Polimex-Mostostal S.A. conducts business activities in the following segments:

1. Manufacturing
2. Construction
3. Power engineering
4. Chemistry
5. Other activities

The ultimate parent company of the entire Polimex Mostostal Group is Polimex-Mostostal S.A.

2. Composition of the Group

The Group is composed of Polimex-Mostostal S.A. and the following subsidiaries:

Item no.	Entity name	Registered office	Business activities	% held by the Group in share capital	
				31 December 2007 (%)	31 December 2006 (%)
1	Depolma GmbH	Ratingen-Germany	Supplies and engineering services on agency basis	100.00	100.00
2	Polimex-Cekop Development Sp. z o. o.	Warsaw	Trading activities, consulting and advisory services	100.00	100.00
3	Fabryka Kotłów "Sefako" S.A. (Capital Group)	Sędziszów	Design, manufacturing and sale of boilers	84.10	84.08
4	Lubelskie Przedsiębiorstwo Budownictwa Przemysłowego "Przemysłówka" S.A. in bankruptcy	Lublin	Construction of industrial plants and facilities, and buildings	The Company eliminated from consolidation. The Company in bankruptcy.	85.93
5	Naftobudowa S.A. (Capital Group)	Cracow	Comprehensive execution of construction and erection works	49.99	49.99
6	B. S. P. i R.I. Biprokwas Sp. z o.o. Capital Group	Gliwice	Preparing analyses, conceptions, studies and offers	96.33	96.33
7	Zakłady Remontowe Energetyki ZREW S.A. Capital Group	Warsaw	Manufacturing, construction, trade and services	On 2 April 2007 ZREW S.A. combined with Polimex-Mostostal S.A.	48.27
8	Polimex-Development Kraków Sp. z o.o. Capital Group	Cracow	Execution of construction works	100.00	100.00
9	Naftoremont Sp. z o.o. Capital Group	Płock	Execution of construction and erection works	71.40	71.40
10	Stalfa Sp. z o.o.	Sokołów Podlaski	Metal products manufacturing	100.00	100.00

(in PLN thousands)

11	Mostostal Siedlce Zakład Transportu Sp. z o.o.	Siedlce	Transport services	100.00	100.00
12	Mostostal Siedlce Zakład Usług Techn. Sp. z o.o.	Siedlce	Engineering services	100.00	100.00
13	Polimex-Mostostal Ukraina SAZ	Kiev	Housing development	100.00	100.00
14	SPB Przembud Sp. z o.o.	Szczecin	Special and general construction	75.54	75.54
15	Tchervonograd MSP - Ukraine	Tchervonograd-Ukraine	Metal structure manufacturing	98.94	98.94
16	Polimex-Hotele Sp. z o.o.	Warsaw	Housing development	100.00	100.00
17	Polimex-Mostostal Development Sp. z o.o.	Warsaw	Housing development	100.00	100.00
18	Torpol Sp. z o.o. Capital Group	Poznań	Comprehensive execution of transport facilities	100.00	100.00
19	Energomontaż Północ S.A. Capital Group	Warsaw	Execution of construction systems, manufacturing of metal structures, road transport of goods	65.55	14.55
20	Energotechnika – Projekt Sp. z o.o.	Knurów	Construction, urban and engineering design and planning	100.00	-
21	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.	Płock	Housing development, industrial buildings and rehabilitation	100.00	-
22	Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o.	Rybnik	Overhaul services of power engineering equipment	100.00	-
23	Zarząd Majątkiem Górczewska Sp. z o.o.	Warsaw	Real estate lease, tenancy and administration	100.00	100.00
24	ZRE Lublin S.A.	Lublin	Steam generator installation, repair and maintenance services	69.76	-

As at 31 December 2007 the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities, except for B.S.P. i R. I. Biprokwas Sp. z o.o., where voting rights are lower and amount to 93.39% (share in capital 96.33%).

In Naftobudowa S.A. the parent company exercises control by having the Supervisory Board composed mostly of Polimex-Mostostal S.A. employees including members of the Management Board of the parent company, which decides on the composition of the Board of this Company, and by having an absolute majority of votes at Company General Meetings in recent years.

Polimex – Sices Sp. z o.o. is recognised in the consolidated financial statements using the equity method due to the fact that the Group does not exercise joint control over entity operations.

3. Associates

1	PORTY S.A.	Gdańsk	Construction, trade, transport and machine rental	40.00	40.00
2	Polimex-Sices Sp. z o.o.	Warsaw	Execution of erection works	50.00	50.00
3	Valmont Polska Sp. z o.o.	Siedlce	Manufacturing	30.00	30.00
4	Energomontaż – Północ Bełchatów Sp. z o.o.	Bełchatów	Specialist construction and erection services	32.82	32.82

4. Composition of the Management Board of the parent company

As at 31 December 2007, the Management Board of the parent company consisted of:

Konrad Jaskóła	President of the Board
Aleksander Jonek	Vice President of the Board
Grzegorz Szkopek	Vice President of the Board
Zygmunt Artwik	Vice President of the Board

In the reporting period and till the day the financial statements have been authorised for issue the composition of the Management Board of the parent company did not change.

5. Approval of financial statements

These consolidated financial statements were authorized for issue by Management Board on 30 May 2008.

6. Significant values based on accounting judgements and estimates

6.1. Accounting judgements

In the process of applying the accounting policies to the issues described below, the management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Classification of lease commitments

The Group is a party to lease agreements which have been classified as finance leases or operational leases. While classifying its lease agreements the Group has assessed if under the agreement substantially all the risk and benefits incidental to ownership of the asset have been transferred to the lessee.

Estimating costs to contract completion and calculating project margins

Gross margins on contracts in progress are calculated on the basis of a formalised Project Review process as a difference between the selling price and estimated total costs of the contract (the total of the incurred costs and estimated costs to the completion of the contract). The verification of estimated costs to the completion of the contract takes place during the Project Reviews carried out on monthly, quarterly, half-yearly or other basis depending on the type of the contract. Costs to the completion of the contract are estimated by competent teams having professional knowledge and being responsible for the execution of the given area and based on their knowledge and experience.

Identification of embedded derivatives

As at the date of concluding the contract the Group management makes assessments if under the concluded contracts there are economic characteristics and risks typical of an embedded derivative denominated in a foreign currency, which would not be closely related to economic characteristics and risks typical of the host agreement (main contract).

Classification of financial assets

At every statement of financial position date the Group makes an assessment if the financial assets it owns are investments held to maturity.

Risk related to recognition of contingent liabilities

At each balance sheet date the Group makes an assessment if it is necessary to recognise contingent liabilities arising from agreements of acquisition of share in companies.

6.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Assets

The Group conducted tests for impairment of property, plant and equipment. This required an estimation of the value in use of the cash-generating unit to which those assets are allocated. Estimating the value in use amount requires making an estimate of the expected future cash flows from the cash-generating unit and also choosing a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of Provisions

Provisions for employee benefits are determined using actuarial valuations. The assumptions made for this purpose are presented in note 34.3.

Deferred tax assets

The Group recognises deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Group applies professional judgement in selecting appropriate methods and assumptions. The methods used for measuring the fair value of individual financial instruments are presented in note 39.1.

Revenue recognition

Long-term contracts are accounted for by the Group using the percentage of completion method. This method requires the Group to estimate the proportion of work already completed in relation to total work to be performed. If this proportion had been 1% higher than the one estimated by the Group, the amount of revenue would have been increased by PLN 39,051 thousand and the related costs would have increased by PLN 36,203 thousand.

Depreciation and amortisation rates

Depreciation and amortisation rates are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually by the Group based on current estimates.

Provision for losses

At each balance sheet date the Group carries out a revaluation of estimates of total costs and revenues by virtue of projects which are being completed. An estimated total loss on a contract is recorded as costs of the period in which it was recognized, according to IAS 11.

Write-down of unnecessary materials

At each balance sheet date the Group writes down unnecessary materials taking into consideration the period of keeping them in a warehouse and potential possibilities for use in the future.

7. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available for sale financial assets, which are measured at fair value.

The consolidated financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000), if it is not indicated otherwise.

The consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these consolidated financial statements, the parent company's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group.

7.1. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IFRSs endorsed by the European Union. At the date of authorisation of these financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, in terms of accounting policies applied by the Group there is no difference between the effective IFRSs and the IFRSs endorsed by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") .

Certain Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act of 29 September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of accounts of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRS.

7.2. Functional currency and presentation currency

Polish zloty is the functional currency of the parent company and other entities included in these consolidated financial statements as well as the presentation currency of these financial statements, except for MSP Tchervonograd-Ukraine, Polimex-Mostostal Ukraine and Depolma GmbH.

8. Changes in accounting policies

The Group has adopted the following new or amended IFRS and new IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company, except for some additional disclosures.

IAS 1 *Presentation of Financial Statements– Disclosures on equity*

The Group adopted amended provisions of IAS 1. New disclosures are presented in Note 40 *'Equity management'.*

IFRS 7 – Financial Instruments: Recognition and Measurement:

The Group adopted IFRS 7. The most significant changes were introduced to Note 30 *Trade and other receivables* and to Note 38 *Objectives and principles of financial risk management*.

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies*

Adoption of this interpretation has no impact on the Group's financial statements.

IFRIC 8 *Scope of IFRS 2*

The Group does not have any transactions, under which shares would be issued as payment for received goods or services. Adoption of this interpretation has no impact on the Group's financial statements.

IFRIC 9 *Reassessment of embedded derivatives.*

The Group adopted IFRIC 9. The interpretation states that assessment whether a given contract includes an embedded derivative is made when the entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the contract that significantly modifies the cash flows arising from the contract. Adoption of this interpretation did not cause any material changes in recognition of embedded derivatives held by the Group.

IFRIC 10 *Interim Financial Reporting and Impairment*

The Group adopted IFRIC 10. The interpretation states that the entity should not reverse impairment losses for goodwill or investment in equity instruments classified as held for sale it had recognised in the interim period. Adoption of this interpretation did not have a material effect on the financial statements of the Group.

During the reporting period covered by these financial statements, the parent company's Management did not make any changes to the Group's accounting policies.

9. New standards and interpretations published but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not yet effective:

- IFRS 8 *Operating segments* - effective for financial years beginning on or after 1 January 2009,
- IAS 1 *Presentation of Financial Statements* (amended in September 2007) - effective for financial years beginning on or after 1 January 2009, it has not been endorsed by the EU till the date of approval of these financial statements,
- IAS 23 *Borrowing costs* (amended in March 2007) - effective for financial years beginning on or after 1 January 2009, it has not been endorsed by the EU till the date of approval of these financial statements,
- IFRIC 11 *Group and Treasury Share Transactions* – effective for financial years beginning on or after 1 March 2007,

- IFRIC 12 *Service Concession Agreements* - effective for financial years beginning on or after 1 January 2008 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 13 *Customer Loyalty Programmes* - effective for financial years beginning on or after 1 July 2008 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 14 IAS *19 – The Limit in a Defined Benefit Asset, Minimum Funding Requirements and their Interactions* - effective for financial years beginning on or after 1 January 2008 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 3 *Business Combinations* (revised in January 2008) – effective for financial years beginning on or after 1 July 2009 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) – effective for financial years beginning on or after 1 July 2009 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 2 *Share-based payment:* Acquisition and cancellation conditions (amended in January 2008) - effective for financial years beginning on or after 1 January 2009, it has not been endorsed by the EU till the date of approval of these financial statements,
- Amendments to IAS 32 and IAS 1: Financial instruments puttable at fair value (amendments introduced in February 2008) – effective for financial years beginning on or after 1 January 2009 – they have not been enforced by the EU till the date of approval of these financial statements.

The Management is in the course of making an assessment of the effect of standard changes on the financial statements.

10. Adjustments of errors

No errors relating to the prior periods were found in the reporting period that would require an adjustment in the current period.

11. Changes in estimates

In the reporting period there were no changes in estimates which would affect the current and future periods.

12. Significant accounting policies

12.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of Polimex-Mostostal S.A. and financial statements of subsidiaries each time prepared for the year ended 31 December 2007. Financial statements of subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Certain subsidiaries prepare their financial statements in accordance with the Accounting Act or regulations in force in other countries. Data included in these statements is then converted to IFRS. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the parent company when the parent has, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the company has the power to govern the financial and operating policy of an entity.

12.2. Investments in associates

Investments in associates are accounted for using the equity method. An associate is an entity in which the parent company has, either directly or through subsidiaries, significant influence and which is neither its subsidiary nor a joint venture. Financial statements of the associates are the basis for valuation of investments in associates using the equity method. The financial year of an associate and that of the parent company is identical. Associates apply accounting policies as defined in the Act Before the share in their net assets is calculated, financial data of associates is adjusted to bring it to conformity with IFRS applied by the Group.

(in PLN thousands)

Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the parent's share of the associates' net assets, less any impairment losses. The income statement reflects the parent's share in the results of operations of the associates. Where there has been a change recognised directly in the associates' equity, the parent recognises its share in each change and discloses it, when applicable, in the statement of changes in equity.

12.3. Interest in a joint venture

Interests in joint ventures in which the Group exercises joint control are accounted for using the equity method. Before the share in the joint venture's net assets is calculated, the financial data of the joint venture is adjusted to bring it to conformity with IFRS applied by the Group.

Investments in joint ventures are assessed for impairment if there is any objective evidence that an investment may be impaired or when an impairment write-off recognised in previous years is no longer required.

12.4. Foreign currency translation

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date.

At the balance sheet date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP (National Bank of Poland) rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded under finance revenue (or finance costs), or – in cases defined in accounting policies – are capitalised in the cost of the assets. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding as at the date of remeasurement to fair value.

The following exchange rates were used for balance sheet valuation purposes:

	31 December 2007	31 December 2006
USD	2.4350	2.9105
EUR	3.5820	3.8312
CHF	2.1614	2.3842
LTL	1.0374	1.1096
XPF	3.0236/100	3.2148/100
CNY	0.3410	0.3731
CZK	0.1348	0.1393
GBP	4.8688	5.7063
LYD	2.0621	2.2839
SEK	0.3805	0.4234
DKK	0.4803	0.5139
NOK	0.4497	0.4635
RUB	0.0995	0.1105
UAH	0.4814	0.5760
EEK	0.2289	-
BYR	0.1164/100	-
RSD	0.0462	-
JPY	2.1728/100	-
KWD	9.1454	-
LVL	5.1399	-
SAR	0.6685	-

(in PLN thousands)

Functional currencies for foreign subsidiaries are UAH and EUR. At the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group using the rate of exchange prevailing at the balance sheet date, and their income statements are translated using the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to equity and recognised as a separate item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the income statement.

Weighted average foreign exchange rates for the reporting periods were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
UAH	0.5456	0.6129
EUR	3.7768	3.8991

12.5. Property, plant and equipment

Property, plant and equipment are measured at purchase price/ cost of manufacturing less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent an asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as presented below:

Type	**Useful life**
Buildings and structures	20-40 years
Plant and machinery	5-20 years
Office equipment	3-5 years
Motor vehicles	3-10 years
Computers	3-8 years
Leasehold improvements	10 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognised from the balance sheet upon disposal or when no future economic benefits are expected from its further use. Any gains or losses arising on derecognition of an asset from the balance sheet (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in the income statement for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of manufacturing less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

12.6. Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Any gains or losses arising from a change in the fair value of investment property are recognized in the income statement for the year in which they arose.

Investment property is derecognized from the balance sheet when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

If investment property is transferred to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is the fair value of investment property at the date of change in use.

12.7. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for capitalised research and development costs) are measured on initial recognition at purchase price or cost of construction. The purchase price of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at purchase price or cost of construction less any accumulated amortisation and any impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Research and development costs

Research costs are expensed in the profit and loss account as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at purchase price or cost of construction less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment is identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents and Licenses	**Development Costs**	**Software**
Useful lives	Indefinite. For patents and licenses used on the basis of a defined period contract, that period is adopted, taking into account any possible extended term of their use.	5 years	from 2 to 10 years
Applied method of amortisation	Straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment testing	Annual assessment to determine whether there is any indication that an asset may be impaired.	Annual assessment to determine whether there is any indication that an asset may be impaired.	Annual assessment to determine whether there is any indication that an asset may be impaired.

Gains or losses arising from derecognition of an intangible asset from the balance sheet are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

12.7.1 *Goodwill*

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortised.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the synergy of the combination. Each unit, or set of units, to which the goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- is not greater than a single business segment, in accordance with the definition of the Group's primary or secondary reporting format determined on the basis of IAS 14 *Segment Reporting*.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

12.8. Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Fixed assets used under finance lease agreements are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease charges and subsequent lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

12.9. Impairment of non-financial non-current assets

An assessment is made at each reporting date to determine whether there is any indication that any non-financial non-current asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or cash-generating unit to which the asset is allocated.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell the asset or cash-generating unit, as appropriate, and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those generated from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of assets used in continuing operations are recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised immediately as revenue in the income statement. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value, on a systematic basis over its remaining useful life.

12.10. Borrowing costs

Borrowing costs are recognised as an expense when incurred according to the approach presented in IAS 23. The borrowing costs include interest and foreign exchange gains or losses to the extent they are regarded as the adjustment to interest costs.

12.11. Financial assets

Financial assets are classified into the following categories:

– Financial assets held to maturity,
– Financial assets at fair value through profit or loss,
– Loans granted and receivables,
– Financial assets available for sale.

Financial assets held to maturity are investments with fixed or determinable payments and fixed maturities, which the Group has the positive intention and ability to hold until maturity. Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets acquired to generate profit due to short-term price fluctuations are classified as financial assets measured to fair value through profit or loss. Derivative instruments are also classified as held for sale unless they are designated as effective hedging instruments or bond contracts. Financial assets measured at fair value through profit or loss are measured at fair value, which takes into account their market value as at the balance sheet date less attributable transaction costs. Any change in the fair value of these financial instruments is taken to finance costs or finance income in the income statement. Financial assets measured at fair value through profit or loss are classified as current assets.

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans granted and receivables with maturities exceeding 12 months from the statement of financial position date are classified under non-current assets.

All other financial assets are available for sale financial assets. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted active market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at their purchase price, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition price, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to the revaluation reserve. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs which can be directly attributed to the acquisition.

Financial assets are derecognized from the balance sheet if the Group loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

12.12. Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

12.12.1 *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance amount. The amount of the loss shall be recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and evidence of impairment for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

12.12.2 *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

12.12.3 *Available-for-sale financial assets*

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition price of this asset (net of any principal payment and amortisation, for financial assets measured at amortised cost using the effective interest rate method) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

12.13. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid (compound) instrument is not recorded at fair value and changes in its fair value are not taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate derivative instruments, which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host (main) contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Group assesses whether a given embedded derivative is required to be separated from host contracts upon its initial recognition. For derivative instruments acquired in business combination transactions the Group assesses the embedded derivative instruments as at the date of acquisition, which is the date of instrument initial recognition by the Group.

12.14. Derivative financial instruments and hedges

The Group uses derivative financial instruments mainly such as forward currency contracts and interest rate swaps to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for (future) contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

12.15. Inventories

Inventories are valued at the lower of purchase price/cost of manufacturing and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition are accounted for, both for the current and previous year, as follows:

Raw materials	–	purchase price determined on a first-in, first-out basis.
Finished goods and work-in-progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs;
Goods for resale	–	purchase price determined on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of finishing and the estimated costs necessary to make the sale.

12.16. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance of receivables due to the passage of time is recognized as finance income.

Other receivables include in particular advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are recognized in accordance with the character of underlying assets, i.e. under non-current or current assets. Advance payments as non-monetary assets are not discounted.

12.17. Cash and cash equivalents

Cash and short-term deposits recognised in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents balance recognised in the consolidated cash flow statement is composed of the above defined cash and cash equivalents, less unpaid bank overdrafts.

12.18. Interest-bearing bank loans, borrowings and debt securities

All bank loans, borrowings and debt securities are initially recognised at purchase price which corresponds to the fair value of cash received, net of transaction costs associated with the bank loan or borrowing.

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

Amortised cost is calculated by taking into account any transaction costs, and any discount or premium granted in connection with the liability.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised from the balance sheet as well as a result of a settlement using the effective interest rate method.

12.19. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2007, no financial liabilities have been designated as at fair value through profit and loss (as at 31 December 2006: nil).

Financial liabilities measured at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less transaction costs. Changes in fair value of these instruments are recognised in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss, are measured at amortised cost, using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability has expired i.e. the obligation described in the contract has been fulfilled, cancelled or has expired. When an existing financial liability is replaced by another on substantially different terms between the same entities, the Group treats it as the expiry of the original liability and a recognition of a new financial liability. Similarly, the significant modifications of terms and conditions of an agreement relating to the existing financial liability are treated by the Group as an expiry of the original liability and recognition of a new financial liability. The differences in appropriate carrying amounts arising from these changes are recognised in the income statement.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax and advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognised at the amount due.

12.20. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expenses relating to any provision are presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

12.21. Retirement benefits and jubilee bonuses

In accordance with internal remuneration regulations, employees of Group companies are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid out after completion of a number of years in service. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee’s average salary. The Group makes a provision for retirement benefits and jubilee bonuses in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19, jubilee bonuses represent other long-term employee benefits, while retirement benefits are post-employment defined benefits. The carrying amount of the Company’s liabilities resulting from these benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future and accounts for staff turnover, and relates to the period to the balance sheet date. Demographic information and information on staff turnover are based on historical information. Any actuarial gains and losses are recognised in the income statement.

Additionally, according to Social Fund regulations employees of the parent company after retirement are entitled to supplementary non-compulsory benefits from the Social Fund. The parent company makes a provision for these future liabilities in order to allocate the cost of these allowances to the periods to which they relate.

12.22. Share-based payment transactions

The parent company makes a valuation of executive options as at the date of granting the rights i.e. the date when an entity or authorised persons accepts the agreed terms and conditions of the executive option plan.

The parent company recognises remuneration expenses defined on the basis of executive options fair value in the period of acquiring the rights i.e. in the period in which all the terms and conditions of acquiring the rights defined under the executive option plan are met. At the same time the Company recognises a corresponding increase in reserve capital item made for this purpose.

After the rights are acquired and the cost of received services and the corresponding increase in equity is recognised, the Parent Company does not make any further adjustments in total equity. This provision also applies to circumstances where executive options, the rights to which have been vested, are not exercised. Nevertheless, the Parent company transfers the amounts recognised in reserve capital to the item of reserve capital upon covering and paying for the shares acquired by entitled persons as a result of execution of the Incentive Plan.

12.22.1 *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an independent valuer using a binominal model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent entity ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the benefits ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms and conditions of an equity-settled award are modified, to fulfil the minimum requirement an expense is recognised as if the terms and conditions had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The diluting effect of issued options is reflected as additional share dilution in the computation of earnings per share (see Note 18).

12.23. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits relating to the transaction will flow to the Group and the revenue can be reliably measured. Revenues are recognised after deducting Value Added Tax (VAT), excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognised:

12.23.1 *Sale of goods*

Revenues are recognised when the significant risks and benefits of ownership of the goods and products have passed to the buyer and the amount of revenue can be reliably measured.

12.23.2 *Rendering of services*

Revenue from provision of an uncompleted service under the contract, provided at the balance sheet date to a significant extent (each time assessed by the Management for each contract individually) is recognised at the statement of financial position date on pro rata basis to the stage of completion of the service if the revenue can be reliably measured. The stage of completion is measured as a percentage of costs incurred from the date of concluding the contract to the date of recognition of revenue in estimated total costs of providing the service or as percentage of labour costs incurred to date to total labour costs.

Where at the statement of financial position date the stage of completion of the service cannot be measured reliably, revenue is recognised at the amount of costs incurred in a given reporting period, however not more than the costs which will probably be covered in the future by the employer.

Where it is probable that accumulated costs of executing the contract will exceed accumulated revenue from the contract, an estimated loss is recognised as the cost of the period in which it has been revealed.

Production costs of the service which is not completed include costs incurred from the date of concluding the contract to the balance sheet date. Production costs incurred before the date of concluding the contract and relating to the execution of the contract subject matter are recognised as assets if it is probable that these costs will be covered in the future with the revenue from the employer. Then they are recognised as production costs of an uncompleted construction service.

If the incurred costs less estimated losses plus gains recognised in the income statement exceed in their stage of completion the stage of completion of invoiced sales, the non-invoiced sales arising from the above mentioned difference are presented in the assets as trade receivables and corresponds to revenue from rendering of services.

If the percentage of invoiced sales exceeds the percentage of incurred costs less estimated losses and plus gains recognised in the income statement, deferred income resulting from the above mentioned difference is recognised as trade payables and corresponds to revenue from these services.

12.23.3 *Interest*

Revenue is recognised as interest accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

12.23.4 *Dividends*

Dividends are recognised when the shareholders' rights to receive the payment are established.

12.23.5 *Rental income (operating lease)*

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

12.23.6 *Government grants*

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the income statement over the estimated useful life of the relevant asset by way of equal annual instalments.

12.24. Taxes

12.24.1 *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authorities (to be recovered from the taxation authorities). The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

12.24.2 *Deferred tax*

For financial reporting purposes deferred income tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liability is recognised for all positive taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of positive taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses forwarded to future periods, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, only if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

12.24.3 *Value Added Tax*

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of acquisition price of the asset or as part of the expense item as applicable, or
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

12.25. Earnings per share

Basic earnings per share for each reporting period is calculated as quotient of the net profit attributed to parent entity’s shareholders for a given period and the weighted average of shares in a given reporting period. Diluted earnings per share for each reporting period is calculated as a quotient of the net profit attributed to parent entity's shareholders for a given period and the sum of the weighted average of the number ordinary shares in the reporting period and all potential shares from new issues.

(in PLN thousands)

13. Segment information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided. Each segment represents a strategic business unit that offers different products and serves different markets.

The Group usually settles the transactions between segments as if they referred to third parties i.e. using current market prices.

13.1.1 *Business segments*

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2007 and 31 December 2006 or respectively as at 31 December 2007 and 31 December 2006.

Year ended 31 December 2007 or as at 31 December 2007	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Other operations*	Eliminations	Total Operations
Revenue							
Sales to external customers	779 505	1 295 418	1 044 634	559 122	41 807	-	3 720 486
Inter-segment sales	179 272	83 411	54 729	91 266	45 692	(454 370)	-
Total segment revenue	958 777	1 378 829	1 099 363	650 388	87 499	(454 370)	3 720 486
Results							
Segment profit	148 546	42 474	49 570	69 897	11 704	-	322 191
Unallocated expenses	-	-	-	-	-	-	161 797
Profit from continuing operations before tax and finance costs	-	-	-	-	-	-	160 394
Net finance costs	-	-	-	-	-	-	15 361
Share of associate's profit	952	1 528	1 905	-	-	-	4 385
Profit before tax	-	-	-	-	-	-	149 418
Income tax	-	-	-	-	-	-	32 734
Profit for the year	-	-	-	-	-	-	116 684
Assets and liabilities							
Segment assets	369 764	557 680	1 066 721	416 670	84 634	-	2 495 469
Investment in an associate	11 220	4 909	3 860	-	-		19 989
Unallocated assets	-	-	-	-	-	-	285 974
Total assets	380 984	562 589	1 070 581	416 670	84 634	-	2 801 432
Segment liabilities	70 490	459 458	279 800	159 160	23 031	-	991 939
Unallocated liabilities	-	-	-	-	-	-	723 937
Equity	-	-	-	-	-	-	1 085 556
Total equity and liabilities	70 490	459 458	279 800	159 160	23 031	-	2 801 432

(in PLN thousands)

Year ended 31 December 2007 or as at 31 December 2007	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Other operations*	Eliminations	Total Operations
Other segment information							
Capital expenditure:	84 450	32 809	23 315	13 451	25 110	-	179 135
- property, plant and equipment	83 575	29 582	21 930	12 844	20 990	-	168 921
- intangible assets	875	3 115	1 385	596	4 120	-	10 091
- investment properties	-	112	-	11	-	-	123
Depreciation of property, plant and equipment	(12 966)	(8 893)	(8 670)	(5 647)	(5 795)	-	(41 971)
Amortisation of intangible assets	(526)	(454)	(773)	(279)	(500)	-	(2 532)
Impairment losses on property, plant and equipment	-	(132)	(37)	-	(1 678)	-	(1 847)
Impairment losses on intangibles	-	-	-	-	-	-	-
Other non-monetary expenditures, of which:	-	-	-	-	22	-	22
-guarantee provision	-	-	-	-	22	-	22

Year ended 31 December 2006 or as at 31 December 2006	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Other operations*	Eliminations	Total Operations
Revenue							
Sales to external customers	527 377	920 794	756 043	260 501	18 690	-	2 483 405
Inter-segment sales	156 530	49 248	3 437	51 367	33 637	(294 219)	-
Total segment revenue	683 907	970 042	759 480	311 868	52 327	(294 219)	2 483 405
Results							
Segment profit	106 061	40 629	54 545	36 462	6 564	-	244 261
Unallocated expenses	-	-	-	-	-	-	145 764
Profit from continuing operations before tax and finance costs	-	-	-	-	-	-	98 497
Net finance costs	-	-	-	-	-	-	5 264
Share of associate's profit	1 165	(3 090)	-	-	108	-	(1 817)
Profit before tax	-	-	-	-	-	-	91 416
Income tax	-	-	-	-	-	-	17 360
Profit for the year	-	-	-	-	-	-	74 056
Assets and liabilities							
Segment assets	255 376	552 864	323 388	288 339	101 024	-	1 520 991
Investment in an associate	5 630	1 630	3 313	464	-	-	11 037
Unallocated assets	-	-	-	-	-	-	99 724
Total assets	261 006	554 494	326 701	288 803	101 024	-	1 631 752
Segment liabilities	77 560	397 870	246 805	113 310	4 265	-	839 810
Unallocated liabilities	-	-	-	-	-	-	343 147
Equity	-	-	-	-	-	-	448 795
Total equity and liabilities	77 560	397 870	246 805	113 310	4 265	-	1 631 752

(in PLN thousands)

Year ended 31 December 2006 or as at 31 December 2006	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Other operations*	Eliminations	Total Operations
Other segment information							
Capital expenditure:	30 656	23 577	12 105	11 355	9 325	-	87 018
- property, plant and equipment	30 166	22 728	11 672	11 228	8 701	-	84 495
- intangible assets	490	849	433	127	624	-	2 523
- investment properties	-	-	-	-	-	-	-
Depreciation of property, plant and equipment	9 362	6 157	5 145	4 227	5 152	-	30 043
Amortisation of intangible assets	216	215	180	110	465	-	1 186
Impairment losses on property, plant and equipment	-	(143)	123	(420)	(33)	-	(473)
Other non-monetary expenditures, of which:	-	-	3 649	184	-	-	3 833
-guarantee provision	-	-	3 649	184	-	-	3 833

13.1.2 *Geographical segments*

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2007 and 31 December 2006 or respectively as at 31 December 2007 and 31 December 2006.

Year ended 31 December 2007 or as at 31 December 2007	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	2 460 591	1 259 895	-	3 720 486
Revenue from continuing operations	2 460 591	1 259 895	-	3 720 486
Inter-segment sales	454 370	-	(454 370)	-
Total segment revenue	2 914 961	1 259 895	(454 370)	3 720 486
Other segment information				
Segment assets	1 206 697	288 952	-	1 495 649
Unallocated assets	-	-	-	1 285 794
Investment in an associate	19 989	-	-	19 989
Total assets	1 226 686	288 952	-	2 801 432
Capital expenditure:				
- property, plant and equipment	167 820	1 101	-	168 921
- intangible assets	10 086	5	-	10 091
- investment properties	123	-	-	123

(in PLN thousands)

Year ended 31 December 2006 or as at 31 December 2006	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	1 696 852	786 553	-	2 483 405
Revenue from continuing operations	1 696 852	786 553	-	2 483 405
Inter-segment sales	294 219	-	(294 219)	-
Total segment revenue	1 991 071	786 553	(294 219)	2 483 405
Other segment information				
Segment assets	884 969	160 596	-	1 045 565
Unallocated assets	-	-	-	575 150
Investment in an associate	11 037	-	-	11 037
Total assets	896 006	160 596	-	1 631 752
Capital expenditure:				
- property, plant and equipment	84 495	-	-	84 495
- intangible assets	2 523	-	-	2 523
- investment properties	-	-	-	-

The parent company and one of subsidiaries recognise revenue on the basis of contracts concluded with consortium members. If the Parent company and the subsidiary are consortium leaders, the amount of revenue recognised by the Group is determined based on the revenue of the entire consortium. According to estimates by the Management, if the Group recognised only the revenue from the share of the parent company and the subsidiary in the consortium, the revenue recognised in the income statement for the year 2007 would be PLN 207,882 thousand lower and respectively PLN 281,773 thousand lower for the year 2006.

14. Revenues and expenses

14.1. Other operating income

	Year ended 31 December 2007	*Year ended 31 December 2006*
Release of guarantee provision	5 065	1 073
Release of allowance for receivables	7 136	–
Gain on disposal of property, plant and equipment	954	1 415
Gain on re-measurement of investment properties to fair value	5 950	-
Write-down of negative goodwill	24	3 147
Recovered damages payments and fines	1 600	868
Accrued liquidated damages	59	–
Court settlement	4 729	–
Reduction on arrangement	3 134	-
Gain/loss on subsidiary liquidation	1 001	–
Trade payables write-off	959	734
Other	2 719	2 074
	33 330	**9 311**

(in PLN thousands)

14.2. Other operating expenses

	Year ended 31 December 2007	*Year ended 31 December 2006*
Provision made for costs of contracts	10 424	3 983
Provision for disputable claims	4 273	-
Allowance for inventories	4 386	4 050
Loss on disposal of property, plant and equipment	142	–
Impairment loss on property, plant and equipment	2 078	-
Damages and fines	1 227	2 299
Court expenses	812	1 289
Donations	767	1 021
Post-accident repairs	442	190
Costs of completed contracts	740	1 569
Liquidation of supporting facilities	-	1 069
Receivables written-off	103	1 053
Other	4 296	3 875
	29 690	**20 398**

14.3. Finance income

	Year ended 31 December 2007	*Year ended 31 December 2006*
Revenue from measurement and exercise of derivative instruments*	6 870	5 350
Bank interest receivable	3 811	1 797
Income from interest for delay in payment	1 340	182
Guarantee payment discount	794	1 081
Gain on sale of financial assets	388	422
Revaluation of financial assets	1 180	1 284
Reversal of provision for interests	821	-
Dividend income	379	302
Foreign exchange gains	1 372	–
Other	2 577	1 939
Total finance income	**19 532**	**12 357**

14.4. Finance costs

	Year ended 31 December 2007	*Year ended 31 December 2006*
Interest on bank loans	7 425	5 381
Debenture interest	13 424	4 005
Interest on other liabilities	1 204	2 852
Finance charges payable under finance lease agreements	1 027	367
Foreign exchange losses	6 702	4 411
Revaluation of financial assets	529	-
Measurement of currency options	230	-
Adjustment related to discounting of settlements	751	-
Bank charges on guarantees and loans	636	-
Other	2 965	605
Total finance costs	**34 893**	**17 621**

(in PLN thousands)

14.5. Costs by type

	Note	*Year ended 31 December 2007*	*Year ended 31 December 2006*
Depreciation / Amortisation	14.6	45 048	31 229
Materials and energy		1 003 763	714 426
External services		1 585 375	1 130 096
Taxes and charges		21 684	15 803
Employee benefits expenses	14.7	745 929	469 269
Other costs by type		246 580	140 572
Total costs by type		**3 648 379**	**2 501 395**
Items included in selling and distribution expenses		(28 322)	(28 101)
Items included in administrative expenses		(137 115)	(106 576)
Cost of goods for resale and raw materials sold		71 585	29 928
Change in the stock of finished goods		(123 655)	(145 683)
Cost of goods produced for the entity's own use		(32 577)	(11 819)
Cost of sales		**3 398 295**	**2 239 144**

14.6. Depreciation/ amortisation and impairment losses included in the income statement

	Year ended 31 December 2007	*Year ended 31 December 2006*
Included in cost of sales:	**38 622**	**27 400**
Depreciation	36 894	26 188
Amortisation	1 728	739
Impairment of property, plant and equipment	-	473
Items included in selling and distribution expenses	**332**	**-**
Depreciation	319	-
Amortisation	13	-
Included in administrative expenses	**5 549**	**4 302**
Depreciation	4 758	3 855
Amortisation	791	447

14.7. Employee benefits expenses

	Year ended 31 December 2007	*Year ended 31 December 2006*
Wages and salaries	587 879	370 866
Social security costs	103 431	63 663
Retirement benefits	1 669	636
Jubilee bonuses	5 554	2 487
Other post-employment benefits	675	13
Share-based payments	6 015	6 077
Transfers to Social Fund	9 193	7 727
Others (of which: working clothes, cleansing agents)	31 513	17 799
Total employee benefits expenses	**745 929**	**469 268**

(in PLN thousands)

15. Income tax

15.1. Tax burdens

Major components of income tax expense for the year ended 31 December 2007 and 31 December 2006 are as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Consolidated income statement		
Current income tax	*32 185*	*24 914*
Current income tax charge	*31 338*	24 914
Adjustments in respect of current income tax of previous years	847	-
Deferred income tax	*549*	*(7 554)*
Relating to origination and reversal of temporary differences	549	(7 554)
An income tax burden reported in consolidated income statement	32 734	17 360

15.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2007 and 31 December 2006 is as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Accounting profit from continuing operations before income tax	149 418	91 416
Profit before income tax	**149 418**	**91 416**
At statutory income tax rate of 19% (2006: 19%)	**28 389**	**17 369**
Adjustments in respect of current income tax of previous years	461	(252)
Unrecognised tax losses	(33)	(11)
Utilisation of previously unrecognised tax losses	2	–
Expenditure not allowable for income tax purposes	14 774	10 850
Expenditure allowable for income tax purposes and not recognised in profit/loss	(200)	(150)
Not taxable incomes	(10 659)	(9 108)
Other	-	(1 338)
At the effective income tax rate of 21.90% (for the year ended 31 December 2006: 18.99%)	32 734	17 360
Income tax (burden) reported in the consolidated income statement	32 734	17 360

(in PLN thousands)

15.3. Deferred income tax

Deferred income tax relates to the following:

	Consolidated balance sheet		*Consolidated income statement for the year ended*	
	31 December 2007	*31 December 2006*	*31 December 2007*	*31 December 2006*
Deferred tax liability				
Accelerated depreciation for tax purposes	3 333	10 967	(7 634)	883
Revaluation of investment property to fair value	6 458	2 898	3 560	(1 062)
Measurement of fixed assets to fair value	5 992	4 730	(126)	(87)
Measurement of long-term contracts	56 143	28 822	25 612	6 618
Deferred gains on foreign exchange contracts	-	-	-	535
Perpetual usefruct right to land	2 411	-	2 411	-
Revaluation of available-for-sale financial assets to fair value	50	-	50	-
Revaluation of foreign exchange contracts (cash flow hedges) to fair value	1 418	1 080	339	627
Lease adjustments	758	-	642	(35)
Revaluation of a hedged loan to fair value	-	-	-	-
Foreign exchange gains	4 369	4 449	(298)	838
Other	5 448	8 197	(3 806)	(2 265)
Deferred tax liability	**86 380**	**61 143**	**20 750**	**6 052**
Deferred tax assets				
Jubilee bonuses and retirement benefits	15 373	8 891	6 166	1 393
Revaluation of an interest rate swap (fair value hedge) to fair value	68	15	53	15
Foreign exchange losses	5 512	4 848	573	300
Salaries/wages and employee benefits	13 857	7 515	5 616	2 338
Inventory write-downs	587	264	(1 727)	26
Measurement of long-term contracts	43 897	27 103	14 900	4 333
Receivables write-downs	2 564	2 503	43	(144)
Provisions for uninvoiced expenses	4 227	2 269	1 837	1 548
Losses available for offset against future taxable income	4 927	-	(641)	-
Other employee benefits	1 803	104	1 230	-
Provision for options		1 154	(1 154)	1 154
Reorganisation costs	236	-	236	-
Other	(7 759)	9 348	(6 931)	2 643
Deferred tax assets	**85 292**	**64 014**	**20 201**	**13 606**
Deferred income tax charge			549	(7 554)
Net deferred tax liability/asset, of which:	1 088	(2 871)		
Deferred tax asset	(18 242)	(14 587)		
Deferred tax liability – continuing operations	19 330	11 716		

The balance sheet change of deferred tax assets after offsetting with the provision for deferred tax does not correspond to the amount recognised in the income statement due to the acquisition of the following subsidiaries in the reporting period: Energomontaż Północ S.A. Group, Energotechnika Projekt Sp. z o.o., Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o., Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. (in 2006 due to the acquisition of the following entities: Torpol Group, Polimex-Development Kraków Sp. z o.o.).

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines and penalties. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and

(in PLN thousands)

government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.
Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2007.

16. Changes in the Capital Group

The following changes in the composition of the Group took place in the reporting period:

- 100% interest in Energotechnika - Projekt Sp. z o.o. was acquired for PLN 3,500 thousand.

Fair value of identifiable assets and liabilities of Energotechnika - Projekt Sp. z o.o. in the initial settlement of the acquisition is as follows:

	Carrying amount on acquisition	*Fair value recognised on acquisition*
Property, plant and equipment	287	706
Intangible assets	103	103
Non-current receivables	197	197
Deferred tax assets	200	200
Cash and cash equivalents	302	302
Inventories	131	131
Trade receivables	1 148	1 148
Prepaid expenses	75	75
Total	**2 443**	**2 862**
Liabilities and accruals	2 030	2 030
Total	**2 030**	**2 030**
Fair value of net assets		832
Goodwill		2 668
Consideration:		3 500
Cash payment		3 500

- in connection with the issue of 2,292,830 shares by Polimex-Mostostal S.A. for existing Energomontaż-Północ S.A. shareholders on 23 and 26 March 2007 Polimex-Mostostal S.A. has increased its interest in share capital of this Company from 14.55% to 65.55%, thus obtaining control over the Company. As at the completion of these financial statements Polimex-Mostostal S.A. holds 15,619,693 shares of Energomontaz Północ S.A. The value of the shares in Polimex-Mostostal S.A. books amounts to PLN 503,872 thousand. The goodwill created as a result of acquiring by Polimex-Mostostal S.A. the controlling interest in Energomotaż Północ S.A. amounted to PLN 409,073 thousand. The date of establishing control was 26 March 2007, and the acquisition price was calculated as a product of the number of issued new shares and their acquisition price on 26 March 2007 taking into consideration the prior cost of acquisition.

Fair value of identifiable assets and liabilities of Energomontaż Północ Group is as follows:

	Carrying amount on acquisition	*Fair value recognised on acquisition*
Property, plant and equipment	46 296	48 040
Intangible assets	719	719
Investments in associates accounted for using the equity method	7 361	7 361
Financial assets	336	336
Deferred tax assets	1 769	1 769
Cash and cash equivalents	28 080	28 080
Inventories	12 886	12 886
Trade receivables	65 280	65 280

(in PLN thousands)

Prepaid expenses	17 856	17 856
Current financial assets	58 817	58 817
Total assets	**239 400**	**241 144**
Minority interest	5 349	5 349
Other non-current liabilities	5 152	5 152
Non-current provisions	2 614	2 614
Provision for deferred income tax	2 359	2 359
Trade and other payables	45 817	34 359
Current portion of interest-bearing loans and borrowings	3 259	3 259
Accruals	43 456	43 456
Total liabilities	**108 006**	**96 548**
Fair value of net assets		**144 596**
share in equity 65.55%		94 783
Goodwill		409 073
Consideration:		503 856
Cash payment		40 705
Issue of shares		463 151

At the end of 2006, the Management of Polimex-Mostostal decided to acquire a controlling stake in Energomontaż Północ. The transaction was conducted at the turn of 2006 and 2007 in a few stages and it was connected with the acquisition of a share block in out-of-session transactions, subscription for and execution of preemptive rights and release of Polimex-Mostostal shares to main shareholders of Energomontaż-Północ in return for interest held. To finance the acquisition the new series of Polimex-Mostostal shares was issued by way of increasing capital.
While buying back the shares in out-of-session transactions, and subscribing for and executing the preemptive rights, the average purchase price of Energomontaż Północ shares was at the level of PLN 11.74 per share. Taking into consideration stock exchange listings at the time of executing the above mentioned transaction, the acquisition of Energomontaż Północ shares which give 16.56% interest in share capital was conducted at 28.5% discount compared to average stock exchange price for this period. A key element in obtaining the controlling interest in Energomontaż Północ was subsequent acquisition of share blocks from the then company main shareholders in return for releasing Polimex-Mostostal shares. To help the process, an independent consultant was appointed who, based on prepared measurement of both parties to the transaction, determined the share exchange parity which was finally accepted at the level of 1:5.3. The completion of acquisition of Energomontaż Północ shares in return for own shares and recording them in Polimex-Mostostal books took place in the period from October 2006 to March 2007, which was the time of dynamic rises in quotations on the Warsaw Stock Exchange. This situation caused the fact that the final price of acquired Energomontaż Północ shares recorded in Polimex-Mostostal books amounted to an average of PLN 32 per share, with the set parity and share prices of both companies being at the record high.
At 31 December 2007 the book value of Energomontaż – Północ S.A.'s shares recognised in the financial statements amounts to PLN 32 per share, which means the value of investment in Polimex-Mostostal's books amounts to PLN 503.9 million. The market value of these shares measured based on Energomontaż - Północ S.A.'s stock exchange price as at 31 December 2007 is PLN 13.48 per share, which means the market value of shares held amounts to PLN 210.6 million. In accordance with IAS 36, the Management of Polimex-Mostostal reviewed the investment in Energomontaż Północ S.A. for impairment, the review showed that at the completion of these financial statements there is no need to impair the goodwill of this company. Depending on assumptions made, the valuation resulted in the value ranging from PLN 500 million to over PLN 550 million. The valuation was the final component of the works relating to Energomontaż Północ S.A. after adopting a new strategy for this company, which was subject to a series of discussions, works and anlaysis of the Management Boards and Supervisory Boards of Polimex-Mostostal S.A. and Energomontaż-Północ S.A. Furthermore the Energomontaż-Północ S.A.'s results for 1st quarter of this year are in accordance with budget assumptions.
The valuation was done with the following assumptions:
- average annual growth of revenues at the level of about 20%,
- EBIT: 6.0% - 7.8%,
- weighted average cost of capital (WACC) 10.1%,
- keeping the inventory and liability turnover at the current level and shortening the receivables turnover to 80 days,
- growth rate after the forecasting period: 5%.

The results of valuation were based on conservative assumptions and the sensitivity analysis shows that a relatively small positive changes in the model parameters, which depend on the level of macroeconomic factors, lead to a significant increase in the goodwill. Decrease in average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or an increase in EBIT of 10% results in the goodwill increase of about 10 percentage points.

(in PLN thousands)

- the Group acquired additional 197 shares of SEFAKO S.A. for PLN 9.9 thousand thus increasing the interest by 0.02% to 84.10%,
- as an increase in share capital, additional shares were acquired in Polimex Mostostal Development Sp. z o.o. for the amount of PLN 31,941 thousand, maintaining the current share of 100%,
- the Group acquired interest as an increase in the share capital in Polimex-Sices Sp. z o.o. for PLN 475 thousand keeping its interest of 50% ,
- the Group acquired additional shares in Tchervonograd Metal Structure Plant Ukraine (Czerwonograd ZKM Ukraina) for PLN 1,250 thousand, keeping its interest of 98.94%.
- in the reporting period LPBP „Przemysłówka" S.A. was eliminated from consolidation, (on 2 May 2007 the company was pronounced bankrupt).

The value of assets and liabilities of LBPB „Przemysłówka" is as follows:

	Value on pronouncing bankruptcy
Investments	5 009
Property, plant and equipment	73
Trade and other receivables	229
Cash and cash equivalents	9
Inventories	50
Total	5 370
Trade and other payables	870
Provisions	492
Consolidation adjustments	(5 009)
Fair value of net assets	(1 001)
Effect of company elimination from consolidation on consolidated profit/loss	1 001

- the Group acquired additional shares in Almost Sp. z o.o. for PLN 46 thousand keeping its interest of 100%;
- the Group acquired additional shares in Poilen Sp. z o.o. for PLN 47 thousand which increased the interest to 100%;
- the Group acquired 100% interest in Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o. with the registered office in Rybnik for PLN 3,500 thousand

Fair value of identifiable assets and liabilities of Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o. with the registered office in Rybnik in the initial settlement is as follows:

	Carrying amount on acquisition	*Fair value recognised on acquisition*
Property, plant and equipment	610	1 788
Intangible assets	4	4
Deferred tax assets	-	148
Financial assets	14	14
Cash and cash equivalents	513	513
Inventories	712	712
Trade receivables	3 559	3 559
Prepaid expenses	253	253
Total	**5 665**	**6 991**
Liabilities and accruals	2 809	3 592
Provision for deferred income tax	-	224
Total	**2 809**	**3 816**

(in PLN thousands)

Fair value of net assets	3 175
Goodwill	325
Consideration:	3 500
Cash payment	3 500

- the Group acquired an organised part of „WIBUD" Spółka Jawna enterprise with the registered office in Nidzica for PLN 3,500 thousand

Fair value of identifiable assets and liabilities of the organised part of „Wibud" Wiśniewski Spółka Jawna in the initial settlement of the combination on acquisition is as follows:

	Carrying amount	*Fair value recognised on initial settlement of acquisition*
Property, plant and equipment	1 145	1 622
Prepaid expenses	94	94
Cash and cash equivalents	627	627
Trade receivables	11 943	10 269
Inventories	2 046	2 046
	15 855	14 658
Other non-current liabilities	648	648
Provisions	-	1 301
Trade payables	11 594	11 594
Net assets	3 613	1 115
Consideration:		3 500
Goodwill arising on initial settlement of acquisition		2 385
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	627	
Cash paid	3 500	
Net cash outflow	2 873	

- the Group acquired 100% interest in Zakład Budowlano Instalacyjny Turbud Sp. z o.o. with the registered office in Płock for. PLN 2,090 thousand.

Fair value of identifiable assets and liabilities of Zakład Budowlano Instalacyjny Turbud Sp. z o.o. in the initial settlement of the acquisition is as follows:

	Carrying amount on acquisition	*Fair value recognised on acquisition*
Property, plant and equipment	216	348
Intangible assets	4	4
Non-current receivables	1 001	684
Financial assets	37	37
Cash and cash equivalents	118	118
Inventories	738	696
Trade receivables	1 125	1 061
Prepaid expenses	1	-
Total	**3 240**	**2 948**
Liabilities and accruals	3 815	3 303
Provision for deferred income tax	-	-
Total	**3 815**	**3 303**
Fair value of net assets		(355)
Goodwill		2 445
Consideration:		2 090
Cash payment		2 090

(in PLN thousands)

17. Social assets and SOCIAL FUND liabilities

The Social Fund Act of 4 March 1994, with further amendments, requires the companies whose full time employees' number exceeds 20 to establish and run a Social Fund. The Group operates such a Fund and makes periodical transfers to it based on the required amounts agreed with trade unions. The Funds' purpose is to subsidize the operation of the Group's social activity, loans to employees and other social expenditures.

The Group has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Group. Accordingly, the net balance as at 31 December 2007 is PLN 451 thousand (as at 31 December 2006 PLN 1,692 thousand).

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following tables:

	31 December 2007	*31 December 2006*
Loans granted to employees	1 511	1 420
Cash	5 681	3 159
Social Fund liability	7 643	2 887
Net balance	(451)	1 692

	Year ended 31 December 2007	*Year ended 31 December 2006*
Transfers made to the Social Fund during the period	9 193	7 727

18. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of issued ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders (after deducting convertible redeemable preference shares) by the weighted average number of issued ordinary shares outstanding during the year (adjusted by the effect of diluting options and diluting convertible redeemable preference shares).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Net profit attributable to shareholders of the parent company	100 073	62 637
Earnings per share (in PLN)		
- number of shares	464 355 625	15 248 491
- basic, from net profit attributable to shareholders of the parent company for the financial year	0.22	4.11
Diluted net profit attributable to shareholders of the parent company per share (in PLN)		
- number of shares	464 355 625	15 248 491
- diluting potential ordinary shares	12 378 196	241 432
- diluted from net profit attributable to shareholders of the parent company for the financial year	0.21	4.04

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

On 13 August 2007 District Court for the Capital City of Warsaw registered the change in the structure of share capital. The change in the structure of share capital resulted from splitting each Company's share of the nominal value of PLN 1 (one zloty) into 25 shares with the nominal value of PLN 0.04 (four Polish grosz). To make earnings per share comparable, the Company recounted the number of shares at the end of 31 December 2006 taking into consideration the share split registered on 13 August 2007, which is presented in the table below:

(in PLN thousands)

	Year ended 31 December 2007 after split	Year ended 31 December 2006 before split	Year ended 31 December 2006 after split
Net profit attributable to shareholders of the parent company	100 073	62 637	62 637
Number of shares (pcs)	464 355 625	15 248 491	381 212 275
Diluting potential ordinary shares (pcs)	12 378 196	241 432	6 035 800
Earnings per ordinary share (PLN)	0.22	4.11	0.16
Diluted earnings per ordinary share attributable to shareholders of the parent company (PLN)	0.21	4.04	0.16

19. Dividends paid and proposed

The parent company paid on 28 September 2007 the dividend for the year 2006 in amount of PLN 8,544 thousand (dividend for the year 2005, paid on 29 September 2006 in amount of PLN 6,862 thousand).

The dividend per share paid for the year 2006 was PLN 0.46 (for the year 2005 it was PLN 0.45)

The Management Board of the Parent Company proposes to pay the dividend for the year 2007 in amount of 10% of net profit made by the Company.

20. Property, plant and equipment

Year ended 31 December 2007	Land and buildings	Plant and equipment	Motor vehicles	Other fixed assets	Fixed assets under construction	Advanced payments to fixed assets under construction	Total
Net carrying amount at 1 January 2007	142 471	81 074	20 767	4 079	12 498	838	261 727
Acquisition of a subsidiary	36 511	7 211	1 232	1 840	367	-	47 161
Reclassification	-	(12 269)	9 510	2 759	86	(86)	-
Additions	22 182	58 935	18 719	7 406	104 172	5 513	216 927
Disposals	(9 441)	(761)	(735)	(169)	(44 565)	(3 441)	(59 112)
Revaluation	1 347	-	-	-	500	-	1 847
Elimination on subsidiary consolidation	-	(116)	(5)	(1)	-	-	(122)
Depreciation charge for the year	(6 606)	(22 690)	(9 133)	(3 542)	-	-	(41 971)
Adjustment	-	(32)	-	-	-	-	(32)
Net carrying amount at 31 December 2007	186 464	111 352	40 355	12 372	73 058	2 824	426 425
At 1 January 2007							
Cost	182 053	221 512	39 542	14 409	12 954	838	471 308
Accumulated depreciation	(39 582)	(140 438)	(18 775)	(10 330)	(456)	-	(209 581)
Net carrying amount	142 471	81 074	20 767	4 079	12 498	838	261 727
At 31 December 2007							
Cost	237 678	257 106	74 364	32 044	73 608	2 824	677 624
Accumulated depreciation	(51 214)	(145 754)	(34 009)	(19 672)	(550)	-	(251 199)
Net carrying amount	186 464	111 352	40 355	12 372	73 058	2 824	426 425

(in PLN thousands)

Year ended 31 December 2006	*Land and buildings*	*Plant and equipment*	*Motor vehicles*	*Other fixed assets*	*Fixed assets under construction*	*Advanced payments to fixed assets under construction*	*Total*
Net carrying amount at 1 January 2006	135 455	57 249	10 798	3 000	6 703	359	213 564
Additions	17 682	44 114	14 132	2 796	21 538	1 508	101 770
Disposals	(5 394)	(2 556)	(432)	(127)	(15 767)	(1 322)	(25 598)
Reclassification	-	(59)	-	59	-	-	-
Revaluation	(3)	(470)	-	-	-	-	(473)
Acquisition of a subsidiary	137	1 093	925	35	24	293	2 507
Depreciation charge for the year	(5 406)	(18 297)	(4 656)	(1 684)	-	-	(30 043)
Net carrying amount at 31 December 2006	142 471	81 074	20 767	4 079	12 498	838	261 727
At 1 January 2006							
Cost	169 431	186 229	25 599	10 968	7 159	359	399 745
Write-off and impairment loss	(33 976)	(128 980)	(14 801)	(7 968)	(456)	-	(186 181)
Net carrying amount	135 455	57 249	10 798	3 000	6 703	359	213 564
At 31 December 2006							
Cost	182 053	221 512	39 542	14 409	12 954	838	471 308
Write-off and impairment loss	(39 582)	(140 438)	(18 775)	(10 330)	(456)	-	(209 581)
Net carrying amount	142 471	81 074	20 767	4 079	12 498	838	261 727

Assets pledged as security – in the parent company

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2007 is PLN 132 thousand (as at 31 December 2006: PLN 424 thousand).

Lands and building are covered with the mortgage established to secure Company's bank loans at the total amount of PLN 22.4 million, of which PLN 19.5 million is security of acquired ZREW S.A. (as at 31 December 2006: PLN 26.4 million, of which PLN 19.5 million is security of acquired ZREW S.A.) Additionally, according to the terms and conditions of one of loan agreements the Company is obliged, on demand of the bank, to establish a conditional mortgage on real property in the amount of PLN 32.5 million.

Furthermore, at 31 December 2007 as security to loans and guarantee facility pledges were established at the joint amount of PLN 9.0 million (at 31 December 2006 – PLN 8.7 million).

Assets pledged as security – in subsidiaries

Naftobudowa Group

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2007 is PLN 4,727 thousand (as at 31 December 2006: PLN 2.285 thousand). Blank promissory notes were issued as security.

(in PLN thousands)

At 31 December 2007 the following fixed assets are object of security.

Pledged object	Pledge type	Creditor for whom the pledge was placed	Pledged amount
Manufacturing and service support facilities in Kraków Batowice	capped mortgage,	BRE Bank S.A.,	1 100
Manufactiring and service support facilities in Jasło	Ordinary compulsory mortgage	ZUS (Social Insurance Institution) Jasło Branch*	213
* an application was filed to delete the mortgage			
Real property located in Jedlicze	contractual capped mortgage	Podkarpacki Bank Spółdzielczy	600
Real property located in Berlin	contractual mortgage	Dresdner Bank AG	896
		Total pledged amount	2 809
		of which:	
		pledge against loans *	2 596
		pledge to ZUS	213

*/at 31 December 2007 the Group did not have any debt arising from utilising loans secured on real property

Energomontaż Group

At 31 December 2007 mortgages were established on Energomontaż Group's real property in amount of PLN 40,286 thousand that secure loan liabilities and bank guarantees. Furthermore, pledges and temporary ownership title transfers are established on property, plant and equipment at the amount of PLN 370 thousand that secure bank guarantees.

Naftoremont Group

The carrying amount of plant and equipment held under finance lease agreements at 31 December 2007 is PLN 978 thousand (as at 31 December 2006: PLN 888 thousand)

As at 31 December 2007 lands and buildings and plant and machinery at the carrying amount of PLN 6,132 thousand (as at 31 December 2006 – PLN 6,510 thousand) and plant and machinery at the carrying amount of PLN 158 thousand (as at 31 December 2006 – PLN 388 thousand) constitute security to guarantees and bank loans granted to the Group.

Biprokwas Group

The carrying amount of plant and equipment held under finance lease agreements at 31 December 2007 is PLN 206 thousand (as at 31 December 2006: PLN 20 thousand).

Stalfa Sp. z o.o.

At 31 December 2007 land and buildings at the carrying amount of PLN 6,000 thousand (at 31 December 2006: PLN 6,000 thousand) were covered with the mortgage established to secure Company's bank loans.

Sefako Group

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2007 is PLN 1,388.2 thousand (at 31 December 2006: PLN 1.056 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Lands and buildings at the carrying amount of PLN 19,146 thousand (as at 31 December 2006: PLN 18,425 thousand) are covered with a mortgage established to secure Group's bank loans amounting jointly to PLN 25,601 thousand and EUR 1,500 thousand.

Energotechnika Projekt Sp. z o.o.

At 31 December 2007 fixed assets under construction and perpetual usefruct right to land at the carrying amount of PLN 222 thousand are covered with the mortgage up to PLN 300 thousand, which is a security to a multipurpose credit facility agreement.

EPE Zakład Robót Energetycznych Sp. z o.o.

At 31 December 2007 fixed assets – buildings at the carrying amount of PLN 223 thousand were covered with capped mortgages up to the joint amount of PLN 460 thousand, which constituted the security to bank guarantees granted.

(in PLN thousands)

Torpol Group Sp. z o.o.

At 31 December 2007 a portion of the Group's plant, property and equipment (mainly motor vehicles) was pledges as security to liabilities arising from, among others, granted loans, bank guarantees and finance lease contracts

20.1. Operating lease commitments – Group as the lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	*31 December 2006*
Within 1 year	2 304	3 532
Within 1 to 5 years	4 638	1 844
	6 942	5 376

20.2. Finance lease and hire purchase commitments

As at 31 December 2007 and 31 December 2006 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

	31 December 2007		*31 December 2006*	
	Minimum payments	***Value present value***	***Minimum payments***	***Value present value***
Within 1 year	5 050	5 080	382	311
Within 1 to 5 years	7 932	7 980	481	438
Over 5 years	2 077	2 077	–	–
Minimum lease payments, total	15 059	15 137	863	749
Less amounts representing finance charges	(2 042)	(169)	(187)	(16)
Present value of minimum lease payments, of which:	13 017	14 968	676	733
Current	3 757	5 004	286	343
Non-current	9 260	9 964	390	390

21. Investment properties

	31 December 2007	*31 December 2006*
Opening balance as at 1 January	30 972	34 555
Additions (further expenditures)	123	31
Net profit arising from adjustment to fair value	6 479	2 525
Disposals arising from sale	(6 626)	(1 047)
Reclassification to inventories	11 919	(5 092)
Closing balance	**42 867**	**30 972**

22. Goodwill on consolidation

	31 December 2007	*31 December 2006*
Prinż-1 Sp. z o.o.- a subsidiary in Torpol Group	835	1 624
Prinż-9 Sp. z o.o. - a subsidiary in Torpol Group	1 406	7 609
Torpol Group	7 264	7 395
Spec - a subsidiary in Sefako Group	237	237
Energotechnika Projekt Company	2 668	-
Energomontaż Północ S.A. Group	409 073	-
A subsidiary in Polimex-Development Kraków Group	2 295	-
Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o.	325	-
Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.	2 445	-
Total	**426 548**	**16 865**

(in PLN thousands)

Goodwill as at 1 January 2007	16 865	-
Increase on consolidation arising from acquisition.	416 806	-
Decrease arising from goodwill adjustment in subsidiaries	(7 123)	-
Goodwill as at 31 December 2007	426 548	-
Goodwill as at 1 January 2006		-
Increase on recognising the company using the full method		237
Increase on consolidation arising from acquisition.		16 628
Goodwill as at 31 December 2006		16 865

23. Intangible assets

Year ended 31 December 2007	*Development Costs*	*Patents and Licenses*	*Software*	*Goodwill*	*Other*	*Total*
Net carrying amount at 1 January 2007	-	815	1 935	-	-	2 750
Acquisition of a subsidiary	-	650	153	-	-	803
Additions	200	1 671	5 537	2 385	298	10 091
Disposals	-	(2)	(94)	-	-	(96)
Adjustment	-	-	31	-	-	31
Elimination on subsidiary consolidation						
Amortisation charge for the year	(25)	(897)	(1 448)	-	(162)	(2 532)
At 31 December 2007	175	2 237	6 114	2 385	136	11 047
At 1 January 2007	145	5 629	7 924	-	153	13 851
Cost						
Impairment	-	(395)	-	-	-	(395)
Accumulated amortisation	(145)	(4 419)	(5 989)	-	(153)	(10 706)
Net carrying amount	-	815	1 935	-	-	2 750
At 31 December 2007						
Cost	1 325	5 080	13 174	2 385	520	22 484
Impairment	(980)	(189)	-	-	-	(1 169)
Accumulated amortisation	(170)	(2 654)	(7 060)	-	(384)	(10 268)
Net carrying amount	175	2 237	6 114	2 385	136	11 047

Year ended 31 December 2006	*Development Costs*	*Patents and Licenses*	*Software*	*Goodwill*	*Other*	*Total*
Net carrying amount at 1 January 2006	18	573	1 082	-	-	1 673
Reclassification	-	(169)	169	-	-	-
Additions	-	730	1 792	-	1	2 523
Disposals	-	-	(316)	-	-	(316)
Revaluation	-	-	-	-	-	-
Acquisition of a subsidiary	-	-	56	-	-	56
Elimination on subsidiary consolidation	-	-	-	-	-	-
Amortisation charge for the year	(18)	(319)	(848)	-	(1)	(1 186)
At 31 December 2006	-	815	1 935	-	-	2 750
At 1 January 2006						
Cost	145	1 421	6 323	-	117	8 006
Write-off and impairment loss	(127)	(848)	(5 241)	-	(117)	(6 333)
Net carrying amount	18	573	1 082	-	-	1 673

(in PLN thousands)

At 31 December 2006						
Cost	145	5 629	7 924	-	153	13 851
Write-off and impairment loss	(145)	(4 814)	(5 989)	-	(153)	(11 101)
Net carrying amount	-	815	1 935	-	-	2 750

24. Investments in associates accounted for using the equity method

The Group holds a 40 % interest in Porty S.A. with the registered office in Gdańsk, whose main activity is in construction, trade and transport sectors. The following table presents summarised information on the investment in Porty S.A.

	31 December 2007	*31 December 2006*
Current assets	18 578	41 587
Non-current assets	6	571
Current liabilities	9 314	26 258
Non-current liabilities and provisions	6 371	9 493
Net assets	2 899	6 407
Share of associate's loss	(1 403)	(3 640)

The Group holds 50 % interest in Polimex-Sices Polska Sp. z o.o. with the registered office in Warsaw whose main activity is execution of civil works related to erection of facilities. The following table presents summarised information on the investment in Polimex-Sices Polska Sp. z o.o.

	31 December 2007	*31 December 2006*
Current assets	15 680	20 739
Non-current assets	66	253
Current liabilities and provisions	7 836	18 674
Non-current liabilities	592	182
Net assets	7 318	2 136
Share of associate's profit	2 931	551

The Group holds 30% interest in Valmont Polska Sp. z o.o. with the registered office in Siedlce whose main activity is in the construction sector. The following table presents summarised information on the investment in Valmont Polska Sp. z o.o.

	31 December 2007	*31 December 2006*
Current assets	20 651	20 843
Non-current assets	7 672	3 914
Current liabilities	6 494	5 930
Net assets	21 829	18 827
Share of associate's profit	952	1 165

(in PLN thousands)

The Energomontaż Capital Group holds 32.82% interest in Energomontaż-Północ-Bełchatów Sp. z o.o. with the registered office in Bełchatów whose main activity is specialist construction and erection services.

Current assets	48 592
Non-current assets	11 892
Current liabilities and provisions	34 592
Net assets	25 892
Share of associate's profit	1 905

Current assets, non-current assets, current liabilities, non-current liabilities and net assets presented in the above tables refer to the values recognised in the financial statements of these entities i.e. they do not refer to the Group interest in net assets of these entities.

In the reporting period of these financial statements the Group did not participate in any joint ventures as a partner.

25. Financial assets

25.1. Financial assets

	31 December 2007	*31 December 2006*
Financial assets		
Shares and interests	1 663	42 734
Financial assets held to maturity,	1 974	1 127
Other financial assets	4 871	869
Total	**8 508**	**44 730**
Current financial assets		
Available-for-sale financial assets	14 972	–
Financial assets at fair value	1 134	2 389
Derivatives	7 465	2 814
Other financial assets	3 235	9 989
Total	**26 806**	**15 192**

25.1.1 Financial assets

	31 December 2007	*31 December 2006*
Shares and interests		
Shares - companies listed on the stock exchange	302	40 713
Shares and interests – companies not listed on the stock exchange	1 316	2 021
Other	45	-
Total	**1 663**	**42 734**

25.1.2 Financial assets held to maturity,

	31 December 2007	*31 December 2006*
Deposits	1 974	1 127

(in PLN thousands)

25.1.3 Other non-current assets

	31 December 2007	*31 December 2006*
Other non-current assets		
Bank guarantee deposits	4 871	780
Other	-	89
Total	**4 871**	**869**

25.1.4 Change in financial assets

	2007	*2006*
At the beginning of the period	**42 734**	**5 928**
Increase	15 274	40 992
Acquisition of shares, interests	302	40 992
Debentures	14 972	-
Decrease	(41 373)	(4 186)
Interest write-downs	(529)	-
Change in the composition of the Group	(40 753)	(4 186)
Other	(91)	-
At the end of the period	**16 635**	**42 734**
of which:		
- non-current	1 663	42 734
- current	14 972	-

25.1.5 Change in non-current financial assets held to maturity

	2007	*2006*
At the beginning of the period	1 127	1 143
Opening a deposit	847	4 738
Settling a deposit	–	(4 754)
At the end of the period	1 974	1 127

25.1.6 Current financial assets at fair value

	31 December 2007	*31 December 2006*
Derivatives	1 134	2 389

25.1.7 Derivatives

	31 December 2007	*31 December 2006*
Forward currency contracts	1 311	-
Foreign currency options	9 982	2 814
- Interest rate options	(4 869)	-
- Interest rate swaps (IRS)	1 041	-
Total	**7 465**	**2 814**

(in PLN thousands)

25.2. Other financial assets

	31 December 2007	*31 December 2006*
Other non-current financial assets	**4 871**	**869**
Bank guarantee deposits	4 871	780
Other	-	89
Other current financial assets	**3 235**	**9 989**
Loans granted	245	506
Bank guarantee deposits	2 990	9 403
Other		80
	8 106	**10 858**

26. Inventories

	31 December 2007	*31 December 2006*
Raw materials (at cost)	85 924	56 767
Goods for resale	9 095	759
Raw materials advance payments	15	2 261
Work-in-progress (at cost)	235 645	94 336
Finished goods:	18 247	14 713
At cost	18 247	14 713
At net realisable value	18 247	14 713
Total inventories, at the lower of cost and net realisable value	348 926	168 836

Smelting products up to the amount of PLN 100 million constitute the security to a loan granted by Polimex S.A.as at 31 December 2007 and as at 31 December 2006.

In Stalfa as at 31 December 2007 no inventory category constituted security to loans and borrowings (as at 31 December 2006 – PLN 2,500).

At 31 December 2007 there were mortgages established on Polimex – Development Kraków's inventories up to the total amount of PLN 51,012 thousand that constituted the security to Company's liabilities.

27. Trade and other receivables

	31 December 2007	*31 December 2006*
Trade receivables	1 200 207	822 172
of which: trade receivables from related parties	10 461	22 289
Receivables from public authorities	26 066	25 968
Other receivables from third parties	45 205	16 449
Other receivables from related parties	10 620	2 530
Total receivables, net	1 282 098	867 119
Doubtful debts allowance	69 090	53 281
Total receivables, gross	1 351 188	920 400

Trade receivables are non-interest bearing and are usually receivable within 30 to 180 days.

For terms and conditions of related party transactions refer to note 37.1.

The Group has a policy to sell only to customers who have undergone an appropriate credit verification procedure. Thanks to that, as Management believes, there is no additional credit risk that would exceed the doubtful debts allowance recognised for trade receivables of the Group.

27.1. Trade receivables (gross) with remaining maturity from the balance sheet date

	31 December 2007	*31 December 2006*
Up to one month	822 968	479 600
Over 1 month to 3 months	181 161	160 894
Over 3 months to 6 months	7 849	11 654
Over 6 months to 1 year	12 990	8 921

(in PLN thousands)

Over 1 year	5 573	53 567
Past due receivables	227 865	153 656
Gross trade receivables	1 258 406	868 292
Impairment of trade receivables	58 199	46 120
Net trade receivables	**1 200 207**	**822 172**

27.2. Aging analysis of trade receivables

	31 December 2007	*31 December 2006*
Up to one month past due	90 886	42 490
Over 1 month to 3 months past due	30 995	19 582
Over 3 months to 6 months past due	25 363	11 134
Over 6 months to 1 year past due	16 337	10 419
Over 1 year past due	64 284	70 031
Gross past due trade receivables	227 865	153 656
Impairment of trade receivables*	57 749	49 244
Total	**170 116**	**104 412**

*impairment is mostly made for over 1 year past due receivables.

Movements in provision for impairment of receivables were as follows:

	2007	*2006*
Impairment at 1 January	46 120	50 496
Increase, of which:	29 882	15 215
- provision for impairment of receivables	10 601	14 473
- changes in Group structure	19 281	742
Decrease, of which:	17 284	19 591
- utilisation	8 694	17 439
- receivables pay-off	7 692	2 152
- other	1 417	-
Impairment at 31 December	**58 199**	**46 120**

28. Prepaid expenses and accruals

	31 December 2007	*31 December 2006*
Insurance costs	2 996	3 358
Cost of combination with a subsidiary	-	2 031
Adjustment of revenue from long-term contracts	-	744
Costs of starting production	575	-
Costs of uncompleted works	1 094	700
Settlement of patent fee	52	-
Commission on debentures	6	-
Deposit to real property lease	681	-
Perpetual usefruct charge	40	-
Advance payment to real property purchase	2 006	-
Other	2 329	1 956
Total	**9 779**	**8 789**

(in PLN thousands)

29. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2007 is PLN 141,391 thousand (31 December 2006: PLN 148,278 thousand).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	31 December 2007	*31 December 2006*
Cash at bank and in hand	92 253	73 876
Short-term deposits	50 811	73 910
Other	7	492
	143 071	148 278
Bank overdrafts	(24 378)	(6 015)
Cash and cash equivalents recognised in the consolidated cash flow statement	**118 693**	**142 263**

Reconciliation of changes in balance sheet items in 2007 to the changes recognised in cash flow statement

are presented in the tables below:

	Year ended 31 December 2007
Increase/(decrease) in receivables in the balance sheet	(409 368)
Receivables of acquired Turbud Sp. z o.o.	1 679
Receivables of acquired EPE ZRE Rybnik	3 559
Receivables of acquired Energotechnika Projekt Sp. z o.o.	1 345
Receivables of acquired Energomontaż Północ	65 280
Receivables of acquired WIBUD Spółka Jawna	11 943
Receivables of acquired BR Development Kraków	6
Receivables of liquidated L.P.B.P. Lubelska Przemysłówka	(175)
Receivables from sale of fixed assets	459
Receivables towards equity – Torpol Sp. z o.o.	3 990
Increase/(decrease) in receivables in cash flow statement	(321 282)

	Year ended 31 December 2007
Increase/(decrease) of inventories in the balance sheet	(180 090)
Inventories of acquired Turbud Sp. z o.o.	696
Inventories of acquired EPE ZRE Rybnik	712
Inventories of acquired Energotechnika Projekt Sp. z o.o.	131
Inventories of acquired Energomontaż Północ	12 886
Inventories of acquired WIBUD Spółka Jawna	2 046
Inventories of liquidated L.P.B.P. Lubelska Przemysłówka	(54)
Inventories of acquired BR Development Kraków	19 862
Change in inventories in the cash flow statement	(143 811)

	Year ended 31 December 2007
Increase/(decrease) in liabilities in the balance sheet	85 435
Liabilities of acquired Energomontaż Projekt Południe Sp. z o.o.	(2 856)
Liabilities of acquired EPE ZRE Rybnik	(2 808)
Liabilities of acquired Energotechnika Projekt Sp. z o.o.	(775)

(in PLN thousands)

Liabilities of acquired Energomontaż Północ	(50 969)
Liabilities of acquired WIBUD Spółka Jawna	(12 242)
Liabilities of acquired BR Development Kraków	(13)
Change in the liquidated L.P.B.P. Lubelska Przemysłówka	768
Adjustment for finance lease obligations	4 786
Investment acquisition liabilities	(8 393)
Adjustment of payment to share capital of Polimex-Mostostal Development Sp. z o.o.	(10 854)
Change in liabilities in the cash flow statement	2 079

	Year ended 31 December 2007
Change in accruals and prepayments in the balance sheet	81 882
Accruals and prepayments of acquired EPE ZRE Rybnik	36
Accruals and prepayments of acquired Projekt Południe Sp. z o.o.	93
Accruals and prepayments of acquired Energomontaż Północ	(17 463)
Accruals and prepayments of acquired WIBUD Spółka Jawna	93
Accruals and prepayments of acquired BR Development Kraków	(671)
Accruals and prepayments of liquidated L.P.B.P. Lubelska Przemysłówka	(9)
Change in accruals and prepayments in the cash flow statement	63 961

	Year ended 31 December 2007
Increase/(decrease) in provisions in the balance sheet	48 135
Provisions of acquired EPE ZRE Rybnik	(642)
Provisions of acquired Energotechnika Projekt Sp. z o.o.	(300)
Provisions of acquired Energomontaż Północ	(11 341)
Provisions of liquidated L.P.B.P. Lubelska Przemysłówka	492
Increase/(decrease) in provisions in cash flow statement	36 344

Acquisition of a subsidiary, net of cash acquired

	Year ended 31 December 2007
Acquisition of EPE ZRE Rybnik by Polimex-Mostostal S.A.	(3 500)
Cash of EPE ZRE Rybnik on acquisition	512
Acquisition of EPE ZRE Rybnik net of cash acquired	(2 988)
Acquisition of Energotechnika Projekt Południe Sp. z o.o. by Polimex-Mostostal S.A.	(3 500)
Cash of Energotechnika Projekt Południe Sp. z o.o. on acquisition	302
Acquisition of Energotechnika Projekt Południe Sp. z o.o. net of cash acquired	(3 198)
Acquisition of Turbud Sp. z o.o. by Polimex-Mostostal S.A.	(2 090)
Cash of Turbud Sp. z o. o. on acquisition	117
Acquisition of Turbud Sp. z o.o. net of cash acquired	(1 973)
Cash of Energomontaż Północ on acquisition	28 080
Acquisition of BR Development by Polimex-Development Kraków Sp. z o.o.	(19 201)
Cash of BR Development on acquisition	17
Acquisition of BR Development net of cash acquired	(19 184)
Total acquisition of subsidiaries, net of cash acquired	737

(in PLN thousands)

Reconciliation of changes in balance sheet items in 2006 to the changes recognised in the cash flow statement are presented in the tables below:

	Year ended 31 December 2006
Increase/(decrease) in receivables in the balance sheet	(303 659)
Receivables of Prinż-1 acquired by Torpol	4 757
Receivables of Prinż-9 acquired by Torpol	2 230
Receivables of acquired Torpol Capital Group	58 028
Receivables of MSP Ukraine	438
Receivables of WBP acquired by Biprokwas	493
Receivables of Polimex-Development Kraków	32
Receivables of liquidated PCD	(768)
Increase/(decrease) in receivables in the cash flow statement	(238 449)

	Year ended 31 December 2006
Increase/(decrease) of inventories in the balance sheet	(51 516)
Inventories of Prinż 1 acquired by Torpol	538
Inventories of Prinż 9 acquired by Torpol	426
Inventories of acquired Torpol Capital Group	3 595
Inventories of MSP Ukraine	1 022
Inventories of WBP acquired by Biprokwas	5
Inventories of acquired Polimex-Development Kraków (land valuation)	24 110
Change in inventories in the cash flow statement	(21 820)

	Year ended 31 December 2006
Increase/(decrease) in liabilities in the balance sheet	244 966
Liabilities of Prinż 1 acquired by Torpol	(8 990)
Liabilities of Prinż 9 acquired by Torpol	(8 913)
Liabilities of acquired Torpol Capital Group	(56 471)
Liabilities of MSP Ukraine	(1 022)
Liabilities of WBP acquired by Biprokwas	(1 970)
Liabilities of acquired Polimex-Development Kraków	(292)
Increase/(decrease) in investment liabilities	(2 606)
Adjustment for change in finance lease obligations	1 143
Change in liabilities in the cash flow statement	165 845

	Year ended 31 December 2006
Change in accruals and prepayments in the balance sheet	24 057
Accruals and prepayments of Prinż 1 acquired by Torpol	124
Accruals and prepayments of Prinż 9 acquired by Torpol	318
Accruals and prepayments of Torpol Capital Group	1 674
Accruals and prepayments of WBP acquired by Biprokwas	1 108
Accruals and prepayments of Polimex-Development Kraków	(4 513)
Change in accruals and prepayments in the cash flow statement	22 768

(in PLN thousands)

	Year ended 31 December 2006
Increase/(decrease) in provisions in the balance sheet	11 715
Provisions of Prinż 1 acquired by Torpol	(649)
Provisions of Prinż 9 acquired by Torpol	(936)
Provisions of acquired Torpol Capital Group	(1 678)
Provisions of WBP acquired by Biprokwas	(122)
Provisions of acquired Polimex-Development Kraków	-
Provisions of liquidated PCD	13
Increase/(decrease) in provisions in cash flow statement	8 343

Acquisition of a subsidiary, net of cash acquired

	Year ended 31 December 2006
Acquisition of Torpol by Polimex-Mostostal S.A.	(18 000)
Cash of Torpol on acquisition	2 977
Acquisition of Torpol net of cash acquired	(15 023)
Acquisition of Polimex- Development Kraków by Polimex-Mostostal S.A.	(18 000)
Cash of Polimex- Development Kraków on acquisition	128
Acquisition of Polimex- Development Kraków net of cash acquired	(17 872)
Acquisition of Prinż-1 i Prinż-9 by Torpol sp .z o.o.	(4 900)
Cash of Prinż-1 and Prinż-9 on acquisition	3 255
Acquisition of Prinż-1 and Prinż-9 net of cash acquired	(1 645)
Total acquisition of subsidiaries, net of cash acquired	(34 540)

30. Issued capital and supplementary/ reserve capital

30.1. Issued capital (in share thousands)

Share capital	*31 December 2007*	*31 December 2006*
Series A ordinary shares	55 375	2 215
Series B ordinary shares	36 550	1 462
Series C ordinary shares	8 600	344
Series D ordinary shares	13 476	539
Series E ordinary shares	43 476	1 739
Series F ordinary shares	223 726	8 949
Series H ordinary shares	25 826	–
Series I ordinary shares	57 326	–
Total	**464 355**	**15 248**

All issued shares are at the nominal value of PLN 0.04 as at 31 December 2007 and PLN 1 as at 31 December 2006. Shares have been fully paid.

On 23 and 26 March 2007 Polimex-Mostostal S.A. issued 2,292,830 shares for existing shareholders of Energomontaż Północ S.A.

On 2 April 2007 District Court for the capital city of Warsaw, 12th Economic Department of National Court Register (Krajowy Rejestr Sądowy) in the decision disclosed on 02.04.2007 in the National Court Register register of entrepreneurs entered a business combination of Polimex-Mostostal S.A. and ZREW S.A. The combination was by means of acquiring Zakłady Remontowe Energetyki Warszawa S.A. with the registered office in Warsaw (acquired company) by Polimex-Mostostal S.A. with the registered office in Warsaw (acquiring company) under Article 492 (1) of the Code of Commercial Companies by means of transferring all assets of the acquired company to the acquiring company for shares of acquiring company issued to the shareholders of the acquired company, taking into consideration Article 514 of the Code of Commercial Companies.

(in PLN thousands)

The business combination of Polimex- Mostostal S.A. and Zrew S.A. was settled using minority interest acquisition method. IFRS 3 does not describe clearly the case of acquiring minority interest where the acquiring Company already has control over the acquired company.

On 28 June 2007 Ordinary General Meeting of Polimex - Mostostal S.A.'s shareholders passed the Resolution No 38 on the change in the Company's Articles of Association relating to the change in the structure of issued capital. On 13 August 2007 District Court for the capital city of Warsaw, 12th Economic Department of National Court Register (Krajowy Rejestr Sądowy) issued a decision on registration of these changes. The change consisted in a division of existing Company shares at the nominal value of PLN 1.00 (PLN one) into 25 (twenty five) new shares at the nominal value of PLN 0.04 (four grosz) each. After changing its structure the share capital is divided into 464,355,625 (say: four hundred sixty-four million three hundred and fifty-five thousand six hundred and twenty-five) ordinary shares i.e. 70,500 (say: seventy thousand five hundred) series A bearer shares and 464,285,575 (say: four hundred sixty-four million two hundred and eighty-five thousand five hundred and seventy-five) series A to F and H and I bearer ordinary shares – admitted to listing. The amount of share capital has not changed and is PLN 18,574,225 (say: eighteen million five hundred and seventy-four thousand two hundred and twenty-five).

30.1.1 *Shareholders rights*

Each share has a right to 0.04 vote at a General Meeting of Shareholders. There are no shares with preferences relating to distribution of dividends or repayment of capital. According to the information based on stock exchange releases, the structure of shareholders who have directly or indirectly through subsidiaries at least 5% of total number of votes is as follows:

30.1.2 *Shareholders with significant shareholding*

	31 December 2007	*31 December 2006*
Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK S.A. (Commercial Union Open Pension Fund BPH CU WBK S.A.)		
share in equity	9,58%	10,01%
share in votes	9,58%	10,01%
Otwarty Fundusz Emerytalny PZU „Złota Jesień" (PZU „Złota Jesień"Open Pension Fund)__		
share in equity	6,99%	8,51%
share in votes	6,99%	8,51%
Gloria S.a.r.l. Luxemburg __		
share in equity	6,18%	-
share in votes	6,18%	-
Sices International B.V. Holland		
share in equity	6,16%	-
share in votes	6,16%	-
ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund) __		
share in equity	5,14%	6,26%
share in votes	5,14%	6,26%
Pioneer Pekao Investment Management S.A.		
share in equity	-	5,22%
share in votes	-	5,22%
Bank Gospodarstwa Krajowego		
share in equity	-	5,06%
share in votes	-	5,06%
Polimex-Cekop Development Sp. z o.o. *) (Polimex-Mostostal S.A.'s subsidiary)		
share in equity	2,83%	3,45%
share in votes	2,83%	3,45%

Polimex-Cekop Development sp. z o.o. holds 13,152,500 shares of Polimex-Mostostal S.A. which fair value at 31 December 2007 was PLN 112.6 million and at 31 December 2006 PLN 79.9 million.

(in PLN thousands)

30.2. Supplementary capital

According to Article 396 (1) of The Code of Commercial Companies, to cover a loss supplementary capital should be recognised to which at least 8% of the profit for the year is transferred until the supplementary capital reaches at least a third of the share capital. Supplementary capital recognised in this way is not subject to distribution.

30.3. Reserve capital

Reserve capital resulted from the Resolution No 2 of Extraordinary General Meeting of Shareholders of Polimex-Mostostal S.A. of 31 January 2006. According to the resolution provision Company equity capital can be conditionally increased by not more than PLN 762,417 by issuing not more than 762,417 bearer shares a the value of PLN 1 each The purpose of a conditional increase of the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries. The plan is for three years and the warrants will be issued after meeting assumed growth criteria for each of the reporting periods i.e. 2006, 2007 and 2008.

- Criterion 1: meeting required growth rate of consolidated EBIDTA per Company share,
- Criterion 2: meeting required growth rate of consolidated net profit per Company share,
- Criterion 3: Achieving the required difference between the change in the simple average of Company shares closing quotation (computed for the last three months of the calendar year) and a change in the simple average of WIG Warsaw Stock Exchange Index (computed for the last three months of the calendar year)

An additional allocation criterion is the employment criterion that is the requirement for being employed by the Company for at least 9 months of a given financial year. If the above described allocation criteria are not met, the warrants for which the allocation criterion was not met are subject to redemption. Warrants may be exercised in the following periods:

- warrants granted for 2006: from 1 October 2010 to 31 December 2013,
- warrants granted for 2007: from 1 October 2011 to 31 December 2013,
- warrants granted for 2008: from 1 October 2012 to 31 December 2013,

As at 31 December 2007 the balance of provision for this plan recognised as accrued in Group's administrative expenses amounts to PLN 12,091 thousand.

As at 31 December 2006 the balance of provision for this plan recognised in Group's administrative expenses amounts to PLN 6,077 thousand. The criteria for making the provision were met – the level of achieving the ratios in 2006 was as follows:

		Growth rate	
		According to the programme	*Realisation in 2006*
Criterion 1:	EBITDA per Company share	> 14%	28%
Criterion 2:	earnings per share	> 14%	46%
Criterion 3:	market condition	> 8%	150%

30.4. Minority interest

	Year ended 31 December 2007	*Year ended 31 December 2006*
At the beginning of the period	93 928	71 791
Profit for the year	16 611	11 419
Issue of shares in a subsidiary	-	10 935
Share issue – obtaining control in a subsidiary	51 874	-
Currency translation differences on consolidation	(384)	(217)
Combination with a subsidiary	(60 174)	-
Changes in Group structure	730	-
At the end of the period	**102 585**	**93 928**

(in PLN thousands)

31. Interest-bearing bank loans and borrowings

At 31 December 2007

Bank / financing entity	Capital Group Entity	Maturity	amount
Current			
	Parent company		**157 614**
Pekao S.A. – working capital facility in PLN		30.04.2008*	32 262
*maturity date has been changed to 31.07.2008.			
PKO BP S.A. – working capital facility in EUR		26.12.2008	11 104
PKO BP S.A. – working capital facility in PLN		26.12.2008	10 120
BOŚ S.A. – bank overdraft in PLN		04.07.2008	9 281
Raiffeisen Bank Polska S.A. – bank overdraft in PLN		31.07.2008	13 243
Bank Handlowy w Warszawie – working capital facility in PLN		27.06.2008	12 743
Kredyt Bank S.A. – working capital facility in PLN		30.10.2008	29 402
Pekao S.A. – bank overdraft in PLN		31.10.2008	11 829
Pekao S.A. – bank overdraft in PLN		31.07.2008	25 646
Bank Spółdzielczy w Nidzicy – working capital facility in PLN		31.03.2008	1 000
Polibuur Engineering – loan in GBP		10.04.2008*	984
* after the balance sheet date the loan maturity date has been changed to 10.04.2009			
	Sefako Group		**3 506**
Fortis Bank Polska S.A. – investment loan in PLN (current portion)		05.07.2010	615
BRE Bank S.A. – bank overdraft in PLN		26.06.2008	724
BRE Bank S.A. – investment loan in PLN (current portion)		30.09.2011	800
BPH S.A. – multipurpose facility in PLN		31.10.2008	247
Fortis Polska – bank overdraft in PLN		16.08.2008	480
Obligations under finance leases and hire purchase contracts (current portion)		from 3 to 5 years	640
	Naftobudowa Group		**5 715**
DZ Bank S.A. – bank overdraft in PLN		31.12.2008	2 971
BRE Bank S.A. – bank overdraft in PLN		18.06.2008	827
BRE Bank S.A. – working capital facility in PLN		18.06.2008	1 000
DZ Bank S.A. – bank overdraft in PLN		02.10.2008	917
	Biprokwas Sp. z o.o.		**1 469**
Bank Millennium S.A. – bank overdraft in PLN		27.04.2008*	1 469
*maturity date has been changed to 27.04.2009.			
	ZUT Sp. z o.o.		**997**
Pekao S.A. – bank overdraft in PLN		31.01.2008*	997
*maturity date has been changed to 31.01.2009.			
	Stalfa Sp. z o.o.		**5 762**
Pekao S.A. – bank overdraft in PLN		31.07.2008	2 953
Fortis Bank Polska S.A. – bank overdraft in PLN		17.09.2008	2 809
	Tchervonograd		**57**
Prominwestbank – credit line in UAH		16.12.2008	57
	Torpol Group		**451**
Toyota Bank Polska S.A. – investment loan in PLN		20.02.2008	10
Santander Bank S.A. – investment loan in PLN		04.09.2008	45

(in PLN thousands)

Volkswagen Bank Polska S.A. – investment loan in PLN (current portion)		07.01.2009	72
BOŚ S.A. – investment loan in PLN (current portion)		30.06.2014	324
	Naftoremont Group		**5 787**
ING Bank Śląski S.A. – bank overdraft in PLN		30.04.2008*	3 641
*maturity date has been changed to 30.04.2009.			
Pekao S.A. – bank overdraft in PLN		31.08.2008	146
PKO BP S.A. loan under a multipurpose borrowing limit		26.06.2009	2 000
	Energomontaż Północ Group		**866**
BZ WBK S.A. – bank overdraft in PLN		30.04.2008	866
	Energotechnika Projekt Sp. z o.o.		**661**
Pekao S.A. – multipurpose line in PLN		28.03.2008*	200
*maturity date has been changed to 27.03.2009.			
BRE Bank S.A. – bank overdraft in PLN		28.08.2008	461
	Polimex-Development Kraków Sp. z o.o.		**9 266**
PKO BP S.A. – investor loan in PLN		31.12.2008	3 733
PKO BP S.A. – investor loan in PLN		31.12.2008	5 533
Non-current			
	Parent company		**781**
PKO BP S.A. – bank overdraft in PLN		12.02.2010	105
Ge Money Bank S.A. – investment loan in PLN		08.11.2012	98
Ge Money Bank S.A. – investment loan in PLN		08.05.2011	43
Ge Money Bank S.A. – investment loan in PLN		25.05.2011	41
Ge Money Bank S.A. – investment loan in PLN		21.09.2012	166
Ge Money Bank S.A. – investment loan in PLN		17.04.2012	224
Toyota Bank Polska S.A. – investment loan in PLN		28.06.2010	104
	Sefako Group		**3 117**
BRE Bank S.A. – investment loan in PLN		30.09.2011	1 284
Fortis Bank Polska S.A. – investment loan in PLN		05.07.2010	1 077
Obligations under finance leases and hire purchase contracts		from 3 to 5 years	756
	Stalfa Sp. zo.o.		**1 945**
BPH S.A. – investment loan in PLN		30.11.2009	1 945
	Torpol Group		**6 520**
PKO BP S.A. – bank overdraft in PLN		08.10.2010	5 012
Volkswagen Bank Polska S.A. – investment loan in PLN		07.01.2009	9
BOŚ Bank S.A. – investment loan in PLN		30.06.2014	1 499

Interest-bearing bank loans and borrowings	
Current, of which:	**192 151**
Bank loans	190 527
Borrowings	984
Obligations under finance lease agreements	**640**
Non-current, of which:	**12 363**
Bank loans	11 607
Borrowings	-
Obligations under finance lease agreements	756

(in PLN thousands)

At 31 December 2006

Bank / financing entity	Capital Group Entity	Maturity	amount
Current			
	Parent company		**35 966**
Pekao S.A. – bank overdraft in PLN		30.04.2007	13 119
BPH S.A.(currently Pekao S.A.) – bank overdraft in PLN		31.10.2007	5 740
PKO BP S.A. – working capital facility in EUR		31.12.2007	1 245
Raiffeisen Bank Polska S.A. – bank overdraft in PLN		30.04.2007	4 453
BOŚ S.A. – bank overdraft in PLN		04.07.2007	9 208
PKO BP S.A. – working capital facility in PLN		31.12.2007	1 045
Polibuur Engineering – loan in GBP		10.04.2007	1 156
	Sefako Group		**1 704**
Fortis Bank Polska S.A. – investment loan in PLN (current portion)		05.07.2010	308
Obligations under finance leases and hire purchase contracts (current portion)		from 3 to 5 years	412
BPH S.A. (currently Pekao S.A.) – investment loan in EUR (current portion)		28.02.2008	613
B.S. Sędziszów – bank overdraft in PLN		16.08.2007	371
	ZREW S.A.*		**77**
BPH S.A. (currently Pekao S.A.) – working capital facility in PLN		31.01.2009	77
* on 2 April 2007 ZREW combined with the parent company			
	Naftobudowa Group		**1 400**
BRE Bank S.A. – bank overdraft in PLN		27.04.2007	991
Podkarpacki B.S.. – bank overdraft in PLN		04.11.2007	278
Podkarpacki B.S. – investment loan in PLN		31.12.2007	100
Ford Bank – investment loan in EUR (current portion)		31.12.2007	31
	Biprokwas Group		**1 501**
Millennium Bank S.A. – bank overdraft in PLN		27.04.2007	1 501
	ZUT Sp. z o.o.		**732**
Pekao S.A. – bank overdraft in PLN		31.01.2007	732
	Stalfa Sp. z o.o.		**4 340**
Pekao S.A. – bank overdraft in PLN		31.07.2007	1 845
Pekao S.A. – working capital facility in PLN		31.07.2007	1 500
Fortis Bank Polska S.A. – bank overdraft in PLN		17.09.2007	995
	Tchervonograd		**230**
Prominwestbank – credit line in UAH		10.12.2007	230
	Torpol Group		**3 208**
Toyota Bank Polska S.A. – investment loan in PLN (current portion)		20.02.2008	58
Toyota Bank Polska S.A. – investment loan in PLN		01.02.2007	8
Santander Bank S.A. – investment loan in PLN (current portion)		04.09.2008	57
Millennium Bank S.A. – bank overdraft in PLN		23.11.2007	58
BRE Bank S.A. – bank overdraft in PLN		29.05.2007	22
BPH S.A. (currently Pekao S.A.)– working capital facility in PLN		31.05.2007	2 011
Pekao S.A. – bank overdraft in PLN		30.06.2007	994

(in PLN thousands)

Non-current

	Parent company		**21 997**
PKO BP S.A. – working capital facility in EUR		26.12.2008	11 878
PKO BP S.A. – working capital facility in PLN		26.12.2008	10 119
	Sefako Group		**2 316**
BPH S.A. (currently Pekao S.A.)– investment loan in EUR		28.02.2008	69
Fortis Bank Polska S.A. – investment loan in PLN		05.07.2010	1 692
Obligations under finance leases and hire purchase contracts		from 3 to 5 years	555
	Stalfa Sp. z o.o.		**3 000**
BPH S.A. (currently Pekao S.A.) – investment loan in PLN		30.11.2009	3 000
	Naftobudowa Group		**23**
Fortis Bank – investment loan in EUR		10.09.2008	23
	Torpol Group		**55**
Toyota Bank Polska S.A. – investment loan in PLN		20.02.2008	10
Santander Bank S.A. – investment loan in PLN		04.09.2008	45

Interest-bearing bank loans and borrowings	
Current, of which:	**49 158**
Bank loans	47 590
Borrowings	1 156
Obligations under finance lease agreements	412
Non-current, of which:	**27 391**
Bank loans	26 836
Borrowings	-
Obligations under finance lease agreements	555

Comparison of interest rate for the periods	**31 December 2007**	**31 December 2006**
Weighted average for bank loans in PLN	WIBOR + 0.5215%	Wibor + 0.6681%
Weighted average for bank loans in EUR	EUROIBOR + 0.60%	Euribor + 0.6000%

32. Debentures

	31 December 2007	*31 December 2006*
Long-term debentures	317 500	143 888
Short-term debentures	37 292	34 048
Total debentures	**354 792**	**177 936**

In 2006 -2007 under Debenture Issue Plan the following were issued:

- On 28 June 2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 million, of which:

  -PLN 10.0 million with the redemption date at 29 February 2008. At the completion of these statements the debentures were rolled over, and current redemption date falls on 30 May 2008

  -PLN 22.5 million with the redemption date at 04 April 2008. As at the completion of these statements the debentures were rolled over, and current redemption date falls on 04 July 2008
- at 17 July 2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN, for the amount of PLN 114.5 million and with the maturity at 18 January 2010;
- at 27 September 2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 15.0 million and with the maturity at 18 January 2010;

(in PLN thousands)

- at 17 October 2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 15 million and with the maturity at 18 January 2010.

Three blocks of long-term debentures with the redemption date at 18 January 2010 for the total amount of PLN 144.5 million were consolidated and the maturity of quarterly coupons, as well as the redemption dates for the blocks, fall at the same dates.

- at 25 July 2007 a block of coupon debentures not admitted for listing was issued, denominated in PLN for the amount of PLN 100.0 million and with the maturity at 25 July 2012;
- at 16 October 2007 another block of coupon debentures not admitted for listing was issued, denominated in PLN for the amount of PLN 7.0 million and with the maturity at 25 January 2013.

Both above mentioned blocks of long-term debentures for the total amount of PLN 173.0 million were consolidated and maturity of half-yearly interest coupons by 25 July 2012 falls at the same dates.

The balance of debentures issued by Polimex-Mostostal S.A. as at 31.12.2007 was PLN 350.0 million, of which short-term debentures PLN 32.5 million, and long-term debentures PLN 317.5 million.

33. Other non-current liabilities

	31 December 2007	*31 December 2006*
Arrangement payments	5 132	4 420
Finance lease	12 716	4 592
Non-current guarantee payment liabilities	14 234	50 030
Deposits	2 783	89
Other	118	1 467
Total	**34 983**	**60 598**

34. Provisions

34.1. Movements in provisions

	Provisions for guarantee repairs and refunds	***Restructuring provision***	***Post-employment benefits - note***	***Other provisions***	***Total***
At 1 January 2007	9 008	825	45 957	8 888	64 678
Acquisition of a subsidiary	-	-	2 091	4 271	6 362
Recognised during the year	8 988	523	21 571	29 674	60 756
Utilised	(4 773)	-	(841)	(2 844)	(8 458)
Released	(1 498)	(825)	(559)	(7 151)	(10 033)
Elimination on subsidiary consolidation	-	-	(38)	(454)	(492)
At 31 December 2007	11 725	523	68 181	32 384	112 813
Current as at 31 December 2007	7 856	523	1 003	30 164	39 546
Non-current as at 31 December 2007	3 869	-	67 178	2 220	73 267
At 1 January 2006	4 500	825	37 833	9 805	52 963
Acquisition of a subsidiary	305	–	28	390	723
Recognised during the year	6 214	–	9 248	6 196	21 658
Utilised	(1 855)	–	(1 033)	(4 733)	(7 621)
Released	(156)	–	(119)	(2 770)	(3 045)
At 31 December 2006	9 008	825	45 957	8 888	64 678
Current as at 31 December 2006	7 024	825	614	6 828	15 291
Non-current as at 31 December 2006	1 984	–	45 343	2 060	49 387

(in PLN thousands)

34.2. Guarantee and refund provision

The Group recognised in the balance sheet provisions for guarantee repairs at the amount of PLN 11,725 thousand as at 31 December 2007 and at the amount of PLN 9,008 thousand as at 31 December 2006. Assumptions used to compute the provision for guarantees were based on current sales levels and current information available about the contractual guarantee period for all products sold.

34.3. Employee benefits and other post-employment benefits

The Group provides retiring employees with the amounts of retirement benefits as specified in Company Collective Agreement. As a result, based on the valuation made by a professional actuarial company a provision for the current value of this retirement benefit liability, jubilee bonus liabilities and other post-employment benefit liabilities is recognised. The table below summarises the amounts of the provision and movements in the benefit liability over the period:

	31 December 2007	*31 December 2006*
At 1 January 2007/ 1 January 2006	45 957	37 833
Provision recognized	21 571	9 248
Benefits paid	(763)	(1 033)
Provision released	(559)	(119)
Change in the composition of the Group	2 053	28
Reclassifications	(78)	-
At 31 December 2007/ 31 December 2006	68 181	45 957

Main assumptions made by an actuary

	31 December 2007	*31 December 2006*
Discount rate (%)	5.1	4.2
Future inflation index (%)	2.7	2.6
Future salary increases (%)	2.0	3.6

Employee rotation ratio was based on historical data as in the table below:

AGE	**Probability of leaving** (valuation at 31.12.2007)	
	Male	**Female**
18-25	30.01%	24.66%
26-30	30.01%	11.97%
31-35	12.70%	5.02%
36-40	10.85%	5.02%
41-45	8.56%	2.89%
46-50	8.56%	2.89%
51-55	8.56%	2.89%
56-60	8.56%	2.89%
61-65	9.56%	-
over 65	-	-

34.4. Other provisions

At the balance sheet date other provisions item comprises of provisions for employee disputes and other court disputes as well as provisions for future losses on long-term contracts.

35. Trade and other payables (current)

	31 December 2007	*31 December 2006*
Trade payables		
To related parties	17 788	26 670
To third parties	662 440	604 517
	680 228	**631 187**

(in PLN thousands)

Taxation, customs duty, social security and other payables		
VAT	16 996	13 487
Withholding tax	44	–
Personal income tax	10 577	5 985
Social Insurance Institution (ZUS)	36 472	8 515
National Disabled Persons Rehabilitation Fund (PFRON)	964	607
Other	2 222	16 269
	67 275	**44 863**
Financial liabilities		
Interest payable	–	1 555
Foreign currency option contract	143	–
Leases	5 344	–
Other	362	248
	5 849	**1 803**
Other liabilities		
Remuneration payable to employees	33 032	16 782
Payables to entities not included in the consolidation	5 981	3 174
Fixed asset purchase payables	15 513	–
Supply advance payments	25 930	21 355
Arrangement payment liabilities	5 195	9 411
Other liabilities	11 672	15 100
	97 324	**65 822**
Accrued expenses related to:		
Unused annual leave	15 657	11 367
Bonuses and rewards	19 091	14 003
Accrued service expenses	79 834	10 037
Other	12 004	8 753
	126 586	**44 160**

Terms and conditions of payment of financial liabilities presented above:

Transactions with related parties are concluded on market conditions (typical trade transactions).

Trade payables are non-interest bearing and are normally settled within 30 to 180 days.

Other payables are non-interest bearing and have an average term of 1 month.

The net VAT payable is remitted to the appropriate tax authority in periods specified in tax regulations.

Interest payable is normally settled based on accepted interest notes.

35.1. Trade receivables with remaining maturity from the balance sheet date

	31 December 2007	*31 December 2006*
Up to one month	465 360	384 973
Over 1 month to 3 months	61 439	82 475
Over 3 months to 6 months	15 297	10 080
Over 6 months to 1 year	60 814	95 416
Past due liabilities	77 318	58 243
Total trade payables	**680 228**	**631 187**

35.2. Past due trade payables

	31 December 2007	*31 December 2006*
Up to one month	62 554	35 807
Over 1 month to 3 months	10 390	10 291
Over 3 months to 6 months	1 346	2 492
Over 6 months to 1 year	1 327	3 464
Over 1 year	1 701	6 189
Total past due liabilities	**77 318**	**58 243**

(in PLN thousands)

36. Contingent liabilities

OFF-BALANCE SHEET ITEMS AND LEGAL CLAIMS	*31 December 2007*	*31 December 2006*
Contingent Liabilities	**857 122**	**650 311**
To related entities (arising from)	-	12 161
- guaranties and sureties granted	-	12 161
To other entities (arising from)	857 122	638 150
- guaranties and sureties granted	662 884	462 156
- promissory notes	83 049	72 062
- legal claims	18 451	18 556
- other	6 331	6 331
- contractual capped mortgage*	55 200	58 900
- conditional agreements	17 062	6 000
- assignment of the debt	14 145	14 145
Other (arising from)	**121 522**	**121 522**
- perpetual usefruct right to land	6 899	6 899
- transferred to off-balance sheet records balances relating to: **	114 623	114 623
- receivables	48 839	48 839
- cash	15 973	15 973
- liabilities	25 330	25 330
- deferred income	24 481	24 481
Total off-balance sheet items	**978 644**	**771 833**

* of which PLN 32,500 thousand is a contingent capped mortgage that may be established on bank's demand, if any

** these are the balances on contracts executed by the Parent Company in Iraq before 1991

The parent company recognises in its accounting books real property at a net carrying amount PLN 1.7 m In Land and Mortgage Register for the plot, on which the above mentioned real property is located, Gmina Centrum (the Centrum Commune) is entered as the owner. The parent company has filed with Urząd Miasta (City Office) a proposal for an arrangement concerning the above mentioned case.

The parent company is the party to legal proceedings before administration authorities on applications filed by former owners to return expropriated plots being the property of State Treasury situated at ul.Górczewska in Warsaw. One of the plots is leased by Polimex-Mostostal S.A., and others are part of real property which is perpetually usefructed by Zarząd Majątkiem Górczewska Sp. z o.o.and administered by this company.

In July 2007 the parent Company acquired 100% interest in Turbud Sp. z o.o. for PLN 2,090 thousand, on the stipulation that this amount will be increased by PLN 1,000 thousand if in the period of 2008-2010 the acquired company meets the level of sales and net profitability specified in the contract.

In September 2007 the parent Company acquired 100% interest in Energy and Power Engineering Zakład Robót Energetycznych Sp. z o.o. for PLN 3,500 thousand, on the stipulation that this amount will be increased by PLN 1,000 thousand if in the period of 2008-2010 the acquired company meets the level of sales and net profitability specified in the contract.

Naftobudowa Group

Litigations are pending against Naftobudowa S.A. in Germany brought by the leave fund. On 27 February 2007 leave fund's petition was dismissed by the judgement of the court of the first instance, however on 10 December 2007 the court of second instance rendered a judgement unfavourable to Naftobudowa S.A. Therefore, the Company recognised provisions for potential liabilities that may arise from the final, unfavourable to Naftobudowa S.A. settlement of the dispute. The judgement is not final. The Management of Naftobudowa S.A. still sees the claims of the leave fund groundless, thus it will be taken to the Federal Labour Court.

Sefako Group

Petition for reinstatement filed by Krzysztof Moś against SEFAKO S.A. .

The District Court in Jędrzejów with the judgement of 12.05.2005 reinstated the plaintiff, Krzysztofa Moś – company social labour inspector and the chairman of NSZZ „Solidarność" (trade union) at F.K. SEFAKO S.A., at the same time adjudicating from the defendant the amount of PLN 10,264.25 as remuneration and PLN 200.00 as reimbursement of court costs. As a result of SEFAKo S.A.'s appeal, the Regional Court in Kielce, 5th Labour Department rendered a reformatory judgement, with which it amended the appealed judgement of the District Court in Jędrzejów and dismissed the petition, as well as withdrew from charging the plaintiff with the costs of the proceedings in the second instance. The plaintiff filed a last resort appeal to the Supreme Court on – on 15.11.2006 in a closed session the Supreme Court repealed the challenged judgement of the Regional Court in Kielce and referred the case back to hearing and adjudicating on the costs of the last resort proceedings. The Regional Court in Kielce reconsidered the case on 15.02.2007. The Court postponed rendering the judgement until 28.02.2007. The Regional Court in Kielce, 5th Labour Department amended the judgement and dismissed the petition in full and removed court costs. The plaintiff did not file another last resort appeal. On 11.06.2007 case files were transferred to the District Court in Jędrzejów.

<u>Petition filed by SEFAKO S.A. against Andrzej and Stanisław Maszczyński for obligation to make a declaration to transfer real property ownership.</u>

Fabryka Kotłów SEFAKO S.A. (Boiler Factory) regulating the ownership of company real property filed on 05.04.2005 a petition againsts Andrzej and Stanisław Maszczyński for obligation to make a declaration of intent to transfer the ownership of real property, for which the District Court in Jedrzejów, Land and Mortgage Register Department, keeps the land and mortgage register no. KW 9863.

The District Court for Wrocław-Fabryczna 1st Civil Department rendered a judgement dismissing SEFAKO S.A.'s petition, at the same time adjudicating for Andrzej and Stanisław Maszczyński the amount of PLN 2,415.00 as reimbursement of court costs. On 05.06.2006 another petition was filed with the District Court for Wrocław-Fabryczna 1st Civil Department against the defendants for obligation to make a declaration to transfer the ownership of this real property for consideration (including the amount already paid by SEFAKO S.A.). On 06.07.2006 the District Court for Wrocław - Fabryczna 1st Civil Department rendered a decision stating its territorial incompetence and decided to refer the case to hearing by the District Court in Jędrzejów. The said decision was challenged by means of a complaint, which was heard by the Regional Court in Wrocław 2nd Civil Appeal Department on 30.10.2006 and the Court decided to repeal the challenged decision.

On 22.01.2007 there was a court hearing during which one of the defendants, Stanisław Maszczynski, was heard. On 28.02.2008 there was a court hearing before the District Court for Wrocław – Fabryczna, during which the other defendant, Andrzej Maszczyński, was hears in his capacity of a party to the proceedings and Andrzej Ogórek, the employee of Fabryka Kotłów SEFAKO S.A. was heard in his capacity of a witness. The Court closed the hearing and postponed rendering the judgement until 13.03.2008.

As a result, the Court rendered a judgement complying with the petition of Fabryka Kotłów SEFAKO S.A. On 18.03.2008 the Company filed a request to make a judgement justification and to serve it together with the content of the judgement. As at the completion of this document the said decision is not final.

<u>Fabryka Kotłów SEFAKO S.A. as the creditor in enforcement proceedings</u>,

against its debtors: tenants of the former Rotation Hotel at ul. Spółdzielcza in Sędziszów (there are final court decisions in this cases in the form of payment injunction; additionally, the Company established compulsory mortgages on real property owned by the aforementioned debtors), Piotr Śliwowski conducting business activity under the business name PIONEX with the registered office in Kodrąb and Dariusz Dłużniewski – obliged by the final court decision to reimburse the Company the court costs. Enforcement proceedings in the said cases are pending or as a result of satisfying the creditor in full have been closed.

<u>Lodging the claim in bankruptcy proceedings of Elektrociepłownia Tychy S.A. in Tychy -</u>

On 8 June 2006 the District Court in Katowice, 10th Economic Department in a form of a decision pronounced the bankruptcy, open to composition arrangements, of the Fabryka Kotłów SEFAKO S.A.'s debtor – Elektrociepłownia Tychy Spółka Akcyjna with the registered office in Tychy. The bankyptcy anouncement was placed in „Monitor Sądowy i Gospodarczy (Court and Economic Monitor)" on 3 August 2006 under no. 150. On 31 August 2006 our attorney lodged the claim of PLN 96,593.50. The manager filed with the Court the list of claims. Sefako's claim was accepted in full, item 100 in the list, category 3. The list of claims was approved. On 12.06.2007 there was a court session in the District Court Katowice-Wschód on the approval of the arrangement. The arrangement was approved. The repayment of debts to Fabryka Kotłów SEFAKO S.A. in accordance with the arrangement proposals (repayment of 85% of the debt i.e. extinction of 15% of debt included in the approved list of claimants) will take place within 90 days of the final approval of the arrangement.

(in PLN thousands)

On 19.09.2007 the bankrupt paid the amount of PLN 83,254.62 and PLN 18.46 in the Fabryka Kotłów SEFAKO S.A.' bank account.

On 20.09.2007 Fabryka Kotłów SEFAKO S.A. filed a request with the District Court in Katowice, 10th Economic Department to serve a copy of the decision on the fulfilment of the arrangement and the copy of an extract from the list of claims.

On 12.11.2007 the copy of the decision of the District Court in Katowice, 10th Economic Department on the approval of the arrangement together with the statement that the decision became final, copy of the decision on the approval of the list of claims and the excerpt from the list of claims were served on the registered office of the Legal Firm of our attorney.

Completion of the arrangement proceedings
There was a session at the District Court in Kielce Section for Corporate Bankruptcy and Reorganisation on 28.08.2007 at 10:50 on deciding the arrangement proceeding as completed, the members of the Management Board of Fabryka Kotłów SEFAKO S.A. were heard in their capacity of the party. We submitted the documents confirming the fulfillment of arrangement obligations (statements on repayment of the arrangement by the debtor signed by the claimants or the documents confirming the transfer of the receivables into claimants' bank accounts). On 12.09.2007 the Court rendered a decision on declaring the arrangement proceedings complete. The decision became final on 16.11.2007. It was published in Monitor Sądowy i Gospodarczy (Court and Economic Monitor) no. 217 of 08.11.2007 item 13917. The copy of the decision on declaring the arrangement proceedings of Fabryka Kotłów SEFAKO S.A. complete was issued to the company on 05.12.2007. The completion of the arrangement proceedings resulted in the recognition of PLN 3,134 thousand in other operating income.

37. Related party disclosures

The following table presents the total values of transactions with related parties entered into during the year ended 31 December 2007 and as at this date:

Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Porty S.A.	133	3 133	5 566	23 276
Polimex-Sices Sp. z o.o.	2 297	17	277	-
Valmont Sp. z o.o.	5 155	144	660	22
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	-	49	-	-
Poilen Sp. z o.o.	-	-	31	-
Polimex-Arabia Co.	-	-	-	471
Terminal LNG S.A.	-	-	2	-
Energomontaż Północ Bełchatów Sp. z o.o.	4 129	2 603	-	-
TOTAL:	**11 714**	**5 946**	**6 536**	**23 769**

The following table presents the total values of transactions with related parties entered into during the year ended 31 December 2006 and as at this date:

Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Porty S.A.	781	24 719	12 972	29 811
Polimex-Sices Sp. z o.o.	8 742	3	211	-
Valmont Sp. z o.o.	3 886	24	790	12

(in PLN thousands)

Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	-	8	-	-
Poilen Sp. z o.o.	8	-	31	-
Polimex-Arabia Co.	-	-	-	21
Terminal LNG S.A.	-	-	2	-
Energomontaż Północ Bełchatów Sp. z o.o.	170	74	-	-
TOTAL:	**13 587**	**24 828**	**14 006**	**29 844**

37.1. Terms and conditions of transactions with related parties

Transactions with related parties are concluded on market conditions (typical trade transactions).

37.2. Director's loan

There were no director's loans.

37.3. Other directors' interests

There was no directors' interest .

37.4. Compensation of key management personnel of the Group

37.5. Compensation of the Management Board and Supervisory Board of the Parent Company

	Year ended 31 December 2007	Year ended 31 December 2006
Compensation of the Management Board	3 575	3 882
Compensation of the Supervisory Board	308	266
Total compensation of the Management and Supervisory Boards	**3 883**	**4 148**

Compensation paid by the Issuer to the Management in the reporting period amounted to PLN 3.575 thousand and respectively PLN 3,882 thousand in 2006, of which:

		Year ended 31 December 2007	Year ended 31 December 2006
President of the Board	Konrad Jaskóła	1 300	1 254
Vice President of the Board	Aleksander Jonek	778	732
Vice President of the Board	Grzegorz Szkopek	732	692
Vice President of the Board	Andrzej Kalużny	-	579
Vice President of the Board	Zygmunt Artwik	765	625
Total		**3 575**	**3 882**

As at 31 December 2007 the balance of provisions made for the Board of Directors' bonuses amounts to PLN 1,475 thousand and the balance of provisions for options amounts to PLN 2,857 thousand.

Compensation of the Management Board in subsidiaries, of which:

		Year ended 31 December 2007	Year ended 31 December 2006
President of the Board	Konrad Jaskóła	83	111
Vice President of the Board	Grzegorz Szkopek	132	139
Vice President of the Board	Zygmunt Artwik	58	31
Vice President of the Board	Aleksander Jonek	32	19
Total		**305**	**300**

(in PLN thousands)

Compensation of the Management Board in associates, of which:

President of the Board	Konrad Jaskóła	60	301

Compensation paid to the Supervisory Board (SB) by the Issuer in the reporting period amounted to PLN 332 thousand and in 2006 it amounted to PLN 266 thousand, of which:

		Year ended 31 December 2007	Year ended 31 December 2006
Chairman of the SB	Kazimierz Klęk	69	64
Member of the SB	Wiesław Rozłucki	24	-
Vice Chairman of the SB*	Leszek Moskwiak	-	45
Member of the SB	Dariusz Górski	49	48
Member of the SB	Zbigniew Zubrzycki	-	36
Member of the SB	Janusz Lisowski	49	9
Member of the SB	Andrzej Szumański	60	10
Secretary of the SB	Elżbieta Niebisz	57	54
Total		**308**	**266**

*Until 20 October 2006 Mr Leszek Moskwiak held a position of the Vice Chairman of the Supervisory Board

The following table presents the current holding of the issuer's shares by the persons managing and supervising the Issuer as at the publication of the financial statements of Polimex-Mostostal S.A. and of Polimex Mostostal Group for the year 2007

Position held	Current number of held shares
Management Board Member	3,820,350 pcs
Management Board Member	1,894,575 pcs
Management Board Member	-
Total	5,714,925 pcs

At present, according to the information available to the Company, none of the members of the Supervisory Board hold the Issuer's shares.

38. Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management reviews and agrees on policies for managing each of these risks - the policies are summarised below. The Group also monitors the market price risk arising from all financial instruments it holds.

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible redeemable preference shares, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also holds various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also contracts derivative transactions, principally interest rate swaps, forward currency contracts and option contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management reviews and agrees on policies for managing each of these risks - the policies are summarised below. The Group also monitors the market price risk arising from all financial instruments it holds.

(in PLN thousands)

The magnitude of this risk that has arisen over the year is discussed in note 38.3. The Group's accounting policies in relation to derivatives are set out in note 12.14.

38.1. Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations.

The Group relies on financing from bank loans, debenture issues and to some extent from borrowings. Interest rate fluctuations influence the amounts of incurred finance costs. The level of interest rates also influences the amount of interest paid by contractors, who have taken out bank loans to finance investments. The Group monitors the level of interest rates and appropriate forecasts so as to enter into hedging transactions in justified cases.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact of floating rate borrowings). The impact on the Group's equity has not been presented.

Analysis of sensitivity to changes in interest rates

	Amount exposed to risk	*Increase/decrease by*	
		+0.5%	*-0.5%*
Year ended 31 December 2007			
Cash in bank accounts	143 071	715	(715)
Bank loans and borrowings	204 514	(1 023)	1 023
Obligations under finance lease agreements	18 060	(90)	90
Debentures	354 792	(1 774)	1 774
Effect on profit before tax	–	(2 172)	2 172
Deferred tax	–	413	(413)
Total		(1 759)	1 759
Year ended 31 December 2006			
Cash in bank accounts	148 278	741	(741)
Bank loans and borrowings	76 549	(413)	413
Obligations under finance lease agreements	6 392	(32)	32
Debentures	177 936	(890)	890
Effect on profit before tax	–	(594)	594
Deferred tax	–	113	(113)
Total		(481)	481

38.2. Foreign currency risk

The Group is exposed to foreign currency risk arising form transactions related to the execution of export contracts and domestic transactions denominated in foreign currencies (financed from aid funds mainly in EUR). For service contracts the foreign currency risk is eliminated to a large extent by incurring production costs in the same currency as revenues. In justified cases appropriate re-insurance agreements are concluded. The Group does not apply hedge accounting.

The table below presents the sensitivity to reasonably possible exchange rate fluctuations, with all other variables held constant, of profit before tax (due to changes in the fair value of monetary assets and liabilities):

Foreign currency risk exposure*

	31 December 2007			*31 December 2006*		
	EUR	*USD*	*SEK*	*EUR*	*USD*	*SEK*
Trade receivables	163 978	26 315	4 756	99 900	24 102	4 526
Hedged bank loans	11 901	-	-	14 258	-	-
Trade payables	39 115	3 964	2 389	31 001	2 612	1 943
Gross carrying amount	112 962	22 351	2 367	54 641	21 490	2 583
Estimated sales forecast	671 123	38 949	-	628 313	67 809	-
Estimated purchase forecast	246 727	60 573	-	198 096	140 475	-
Gross exposure	424 396	(21 624)	-	430 217	(72 666)	-
Forward foreign currency contracts	(48 352)	-	-	-	-	-
Foreign currency option contracts	(234 466)	-	-	(92 133)	-	-

Net exposure	254 540	727	2 367	392 725	(51 176)	2 583

* data in the above table are presented in PLN thousands

Foreign currency risk sensitivity analysis at 31.12.2007

	Carrying amount	*EUR/PLN*		*USD/PLN*		*SEK/PLN*	
		exchange rate (5% change)	*exchange rate (-5 % change)*	*exchange rate (5% change)*	*exchange rate (-5% change)*	*exchange rate (-5% change)*	*Exchange rate (-5 % change)*
Cash and cash equivalents	30 948	1 361	(1 310)	39	(39)	108	(108)
Trade and other receivables	236 206	9 542	(10 494)	1 316	(1 316)	238	(238)
Derivatives	18 043	(10 636)	13 023	-	-	-	-
Trade and other payables	56 042	(1 342)	1 513	(198)	198	(121)	134
Bank loans, borrowings and other sources of finance	11 901	(595)	595	-	-	-	-
Effect on profit before tax		(1 670)	3 327	1 157	(1 157)	225	(212)

Foreign currency risk sensitivity analysis at 31.12.2006

	Carrying amount	*EUR/PLN*		*USD/PLN*		*SEK/PLN*	
		exchange rate (change %)	*exchange rate (change %)*	*exchange rate (change %)*	*exchange rate (change %)*	*exchange rate (change %)*	*exchange rate (change %)*
Cash and cash equivalents	17 773	435	(435)	4	(4)	32	(32)
Trade and other receivables	160 390	6 573	(6 573)	1 205	(1 205)	224	(224)
Derivatives	3 296	(3 313)	4 007	-	-	-	-
Trade and other payables	64 867	(1 657)	1 657	(132)	132	(81)	81
Bank loans, borrowings and other sources of finance	14 258	(713)	713	-	-	-	-
Effect on profit before tax		1 325	(631)	1 077	(1 077)	175	(175)

38.3. Raw material price risk

Economic effectiveness of production carried out by the Parent company depends to a large extent on fluctuations of raw material prices, mainly steel and zinc composite prices. The main factor which limits the above mentioned risk is the fact that the Parent company has a team of first class specialists analysing the market and making centralised material purchases (economies of scale, opportunity to negotiate lower purchase prices). For zinc alloys purchases the Parent company, depending on current market situation, analyses the need for using actively futures instruments available on the financial market. Hedging transactions, if any, will be entered into in a form of zero-cost operations based on collar structure/ price tunnel (structured strategies).

38.4. Credit risk

Credit risk for the Group arises from applying deferred payment periods for its customers, investments made in securities and deposits opened at banks. Due to relatively high creditworthiness of contracting parties, for whom portion of Group sales is made, and opening deposits with reputable banks the risk is minor. Furthermore, the Company insures part of credit risk (block policy), aims at hedging its payments with documentary letters of credit or bank and insurance guarantees and other hedges which minimise credit risk such as (ordinary or registered) pledge, mortgage or bills of exchange.

38.5. Liquidity risk

The risk of the Group losing liquidity arises from the fact that the amounts and payment periods for receivables and payables do not match. The Group hedges against this risk by taking short term bank loans and issuing debt securities which amount and maturity date matches the hedged cash flows. To hedge against this risk, diversification of supplier and customer portfolios, diversification of bank loan portfolio, financing subcontracting projects with funds received from employers are of key importance;

(in PLN thousands)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 31 December 2006 based on contractual undiscounted payments.

31 December 2007	*On demand*	*3 months and less*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest bearing bank loans and borrowings	2	1000	191 149	10 540	1 823	204 514
Trade and other payables	349 305	491 004	10 367	33 697	1 286	885 659
Leases	-	160	480	-	-	640
Derivative financial instruments						
	349 307	**492 164**	**201 996**	**44 237**	**3 109**	**1 090 813**

31 December 2006	*On demand*	*3 months and less*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest bearing bank loans and borrowings	-	-	49 158	27 391	-	76 549
Trade and other payables	184 081	451 927	107 667	48 334	12 264	804 273
Leases	-	103	309	555	-	967
	184 081	**452 030**	**157 134**	**76 280**	**12 264**	**881 789**

39. Financial instruments

39.1. Fair values of individual classes of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments in a breakdown by individual classes and categories of assets and liabilities.

	Category in accordance with IAS 39	***Carrying amount*** *31 December 2007*	*31 December 2006*	***Fair value*** *31 December 2007*	*31 December 2006*
Financial assets		1 378 592	1 030 372	1 378 592	1 072 875
Long-term shares and interests*		1 663	42 734	1 663	85 238
Financial assets held to maturity,	AFS	16 946	1 127	16 946	1 127
- non-current		1 974	1 127	1 974	1 127
- current		14 972	-	14 972	-
Current financial assets at fair value	AFS	1134	2 389	1134	2 389
Other financial assets	AFS	8 106	10 858	8 106	10 858
- non-current		4 871	869	4 871	869
- current		3 235	9 989	3 235	9 989
Trade receivables	LaR	1 200 207	822 172	1 200 207	822 172
Derivative financial instruments, of which:	FVtPoL	7 465	2 814	7 465	2 814
- *Forward* foreign currency contracts	FVtPoL	1 311		1 311	
- Currency futures contracts	FVtPoL	9 982	2 814	9 982	2 814
- Interest rate options		(4 869)		(4 869)	
- Interest rate swaps (IRS)		1 041		1 041	
Cash and cash equivalents	LaR	143 071	148 278	143 071	148 278

*the value of shares of listed companies was converted in accordance with stock exchange quotations at the balance sheet date.

(in PLN thousands)

Financial liabilities		919 725	768 334	919 725	768 334
Bank overdraft		84 276	38 805	84 276	38 805
Interest-bearing bank loans and borrowings, of which:	FLaAC	120 238	37 744	120 238	37 744
- long-term with floating interest rate*	FLaAC	6 595	25 997	6 595	25 997
- short-term with floating interest rate*		110 212	9 950	110 212	9 950
- long-term with fixed interest rate	FLaAC	756	-	756	-
- short-term with floating interest rate*		58	230	58	230
- other - short-term	FLaAC	2 617	1 568	2 617	1 568
Other liabilities (non-current), of which:	FLaAC	34 983	60 598	34 983	60 598
- Finance lease and hire purchase contracts liabilities .	FLaAC	12 716	4 593	12 716	4 593
- Guarantee payments and deposits		17 017	51 585	17 017	51 585
- Other	FLaAC	5 250	4 420	5 250	4 420
Trade payables	FLaAC	680 228	631 187	680 228	631 187

Abbreviations used:

HtM – Financial assets held to maturity,
FVtPoL – Financial assets/ financial liabilities at fair value through profit or loss,
LaR – Loans granted and receivables,
AFS – Available-for-sale assets,
FLaAC – Other financial liabilities at amortised cost.

39.2. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2007

Fixed rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Obligations under finance leases and hire purchase contracts recognised in the balance sheet item of long-term interest-bearing bank loans and borrowings	640	449	295	13	-	-	1 397
Total	640	449	295	13	-	-	1 397

Floating rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	142 582	489	-	-	-	-	143 071
Bank overdrafts	79 264	-	5 011	-	-	-	84 275
Working capital facility	97 632	104	105	308	264	-	98 413
Other credit facilities	13 631	1 691	679	-	-	1 499	17 500
Leases	5 344	4 203	5 126	734	576	2 077	18 060
Debentures	37 292	-	144 500	-	173 000	-	354 792
Secured bank loan	-	1 945	-	-	-	-	1 945
Borrowings	984	-	-	-	-	-	984
Total	376 729	8 432	155 421	1 042	173 840	3 576	719 040

(in PLN thousands)

Year ended 31 December 2006

Fixed rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Obligations under finance leases and hire purchase contracts	2 555	3 837	-	-	-	-	6 392
Obligations under finance leases and hire purchase contracts recognised in the balance sheet interest-bearing items	412	281	234	40	-	-	967
Bank loan	230						230
Total	3 197	4 118	234	40	-	-	7 589

Floating rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	147 789	489	-	-	-	-	148 278
Bank overdrafts	38 805	-	-	-	-	-	38 805
Working capital facility	5 213	-	-	-	-	-	5 213
Other credit facilities	3 342	22 759	3 615	462	-	-	27 178
Debentures	34 048	-	-	143 888	-	-	177 936
Secured bank loan	-	-	3 000	-	-	-	3 000
Borrowings	1 156	-	-	-	-	-	1 156
Total	230 353	23 248	6 615	144 350	-	-	401 566

40. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Within net debt the Group includes interest bearing bank loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes convertible preference shares, equity attributable to the equity holders of the parent less the net unrealised gains reserve.

	31 December 2007	*31 December 2006*
Interest-bearing bank loans, borrowings and debentures	559 306	254 485
Trade and other payables	850 676	743 675
Less cash and cash equivalents	143 071	148 278
Net debts	1 266 911	849 882
Equity	1 081 609	448 795
Total capital	1 084 368	448 795
Capital and net debt	**2 348 520**	**1 298 677**
Gearing ratio (net debts/capital and net debts)	54%	65%

(in PLN thousands)

41. Incentive plan for the directors and officers of the Parent company and major subsidiaries

Under Resolution No 2 of an Extraordinary Shareholder Meeting of 31 January 2006 the share capital of the Parent company may be conditionally increased by amount not higher than PLN 762,417 by issuing not more than 19,060,425 bearer shares at a value of PLN 0.04 each. The aim of increasing the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries. As at 31 December 2007 the balance of provision for this plan recognised as Group's administrative expenses amounts to PLN 12,091 thousand. The above mentioned provision is recorded correspondingly as reserve capital. **For details of the plan see note 30.3.**

42. Long-term construction contracts

The amount of recognised receivables and liabilities arising from the valuation of long-term construction services contracts in the parent company was as follows:

	31 December 2007	*31 December 2006*
Rendering of services		
- revenue accounted for using the method of contract completion for a given period	1 023 386	397 357
-other revenue from rendering services related to main operating activities	1 812 081	1 448 843
Total	**2 835 467**	**1 846 200**
Total amount of incurred expenses and recognised gains (less recognised losses)	2 456 110	1 778 789
Advance payments received	85 692	92 553
Retained amounts	68 378	47 762
Gross amount owed by employers for works under the contract (asset)	1 146 176	858 585
Gross amount owed to employers for works under the contract (liability)	962 168	648 839

Retained amounts presented above refer to rehabilitation contracts as well as construction and erection contracts and represent a portion of total balance of settlements recognised in the balance sheet. The maturity structure of total retained amounts is presented in the table below:

	31 December 2007	*31 December 2006*
To settle within:		
- over 12 months	43 762	28 016
- up to 12 months	24 616	19 746
Total	**68 378**	**47 762**

43. Employment structure

The average employment in the Group in the years ended 31 December 2007 and 31 December 2006 was as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
The Management Board of the Parent Company	4	4
The Boards of Directors of Group companies	51	29
Administration department	1 111	1 124
Sales department	414	850
Production department	8 573	5 614
Other	1 434	923
Total	11 587	8 544

(in PLN thousands)

44. Assets pledged as security

	31 December 2007	*31 December 2009*
Property, plant and equipment	89 422	77 238
Inventories	151 012	102 500
Other	112	-
Total	**240 546**	**179 738**

45. Events after the statement of financial position date

After the balance sheet date, at which the financial statements were prepared, the Company acquired shares/interest in the following companies:
The Company acquired 69.35 % interest in Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków for the amount of PLN 8,546 thousand. The company executes projects in the power engineering sector, provides mainly services in the scope of installations, repairs and maintenance of engines, turbines and steam generators.
100% interest was acquired in Projekt Południe Sp. z o.o. with the registered office in Kraków for the amount of PLN 4,670 thousand. The core activity of the company is design services for the construction sector.
94.64% interest in Wojewódzkie Biuro Projektowe Sp. z o.o. with the registered office in Zabrze was acquired for the amount of PLN 890 thousand, the core activity of the company is design.
Additional interest was acquired in Tchervonograd Metal Structure Plant (Czerwonogradzki Zakład Konstrukcji Metalowych) with the registered office in Ukraine for PLN 761 thousand increasing the interest by 0.56%. The company deals with metal structure manufacturing.
75 % interest was acquired in Coifer (Capital Group) with the registered office in Romania.
Taking control over Coifer Capital Group was divided into two stages. In the first stage Polimex-Mostostal S.A. acquired 75% of interest in SC Coifer Impex SRL for the amount of EUR 18,750,000 (eighteen million seven hundred and fifty thousand euros) payable in two instalments. In the second stage Polimex-Mostostal S.A. will acquire 25% of interest in SC Coifer Impex SRL for the amount not lower than EUR 2,500,000 (two million five hundred thousand euros) and not higher than EUR 6,250,000 (six million two hundred and fifty thousand euros). The amount Polimex-Mostostal S.A. will pay for the interest sold in the second stage depends on company's achieving in the years 2008-2010 the financial results specified in the contract.
The Coifer Group companies deal with the execution of investments in a form of general contracting, manufacturing of steel structures, designing and manufacturing of pressure equipment, design, architecture and engineering works as well as technical consulting. Polimex-Mostostal S.A. plans to continue within the acquired enterprise current activity of Coifer capital group.
The share in votes held by the Group in subsidiaries which were acquired after the balance sheet date equals to the Group's share in capital of these entities.

The events listed below are complementary to those relating to companies of Polimex-Mostostal Capital Group:

Naftobudowa S.A.

On 25 January 2008 the Supervisory Board made a change in the composition of the Mangement Board of Naftobudowa S.A. The changes consisted in appointing Kazimierz Wronkowski, acting as the President of the Management Board, the President of the Management Board of Naftobudowa S.A.

At the same time Paweł Dyląg was appointed the Vice President of the Management Board of Naftobudowa S.A.

In March 2008 an application was filed with the District Court for Kraków-Śródmieście, 11th Economic Department to open the liquidation of Naftotechnika Sp. z o.o. with the registered office in Kraków (the company 100% dependent on Naftobudowa S.A.). The resolution on dissolution of the company after conducting liquidation proceedings was adopted by the Extraordinary Meeting of Shareholders of the Company, which also appointed Agaty Ruchałowska the liquidator.

Naftobudowa 2 Sp. z o.o.in liquidation was deleted from the National Court Register.

Energomontaż Północ S.A.

On 29.05.2008 an Ordinary Meeting of Shareholders took place. The contents of the adopted resolutions can be found in the company's current report no. 20/2008 of 29.05.2008. Due to the expiry of the sixth term in office of the Supervisory Board of Energomontaż-Północ S.A., the Ordinary Meeting of Shareholders decided that the Supervisory Board of the seventh term, covering financial years from 2008 to 2010, will comprise five Members. The following persons were appointed to the Supervisory Board: Konrad Jaskóła, Wojciech Wilomski, Marian Bogucki, Zygmunt Artwik and Adam Dyląg.

The Management Board of Polimex-Mostostal S.A.

Konrad Jaskóła
President of the Board

Aleksander Jonek
Vice President of the Board

Grzegorz Szkopek
Vice President of the Board

Zygmunt Artwik
Vice President of the Board

The person who was entrusted with keeping accounting books:

Ewa Kaczorek
Chief Accountant