POLIMEX-MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

WITH THE INDEPENDENT AUDITORS' OPINION

Polimex Mostostal

GRUPA KAPITAŁOWA

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

	Note	*Year ended 31 December 2008*	*Year ended 31 December 2007 (restated)*
Continuing Operations			
Sales of goods		1 068 888	934 197
Rendering of services		3 222 897	2 789 942
Rental income		9 908	3 483
Revenue	12	**4 301 693**	**3 727 622**
Cost of sales	13.5	(3 870 651)	(3 402 681)
Gross profit		**431 042**	**324 941**
Other operating income	13.1	36 179	26 194
Distribution costs		(32 324)	(28 322)
Administrative expenses		(185 299)	(137 115)
Other operating expenses	13.2	(21 454)	(25 304)
Revenue from continuing operations		**228 144**	**160 394**
Finance income	13.3	64 647	19 532
Finance costs	13.4	(136 705)	(34 893)
Share of associate's profit	23	2 821	4 385
Profit before tax		**158 907**	**149 418**
Income tax	14	(18 468)	(32 734)
Profit for the year		**140 439**	**116 684**
Attributable to:			
Equity holders of the parent		120 134	100 073
Minority interest		20 305	16 611
		140 439	116 684
Earnings per share (in PLN)	17		
– number of shares		464 355 625	464 355 625
– basic, for profit for the year attributable to equity holders of the parent		0.26	0.22
Diluted earnings per share (in PLN)			
– number of shares		464 355 625	464 355 625
– diluting potential ordinary shares		12 378 196	12 378 196
– diluted, for profit for the year attributable to equity holders of the parent		0.25	0.21

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	Note	31 December 2008	31 December 2007 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	19	710 849	431 549
Investment properties	20	43 257	39 445
Goodwill on consolidation	21	486 139	427 529
Intangible assets	22	23 211	11 047
Investments in associates accounted for using the equity method	23	20 566	19 989
Financial assets	24	4 578	8 508
Non-current receivables		27 462	29 860
Non-current prepayments		1 250	36
Deferred tax assets	14.3	64 342	18 242
		1 381 654	**986 205**
Current assets			
Inventories	25	395 139	348 926
Trade and other receivables	26	1 342 205	1 272 108
Income tax receivables		5 320	7 547
Prepayments	27	11 134	9 779
Cash and cash equivalents	28	295 241	143 071
Financial assets	24	7 836	31 675
		2 056 875	**1 813 106**
Available for sale non-current assets		35	-
TOTAL ASSETS		**3 438 564**	**2 799 311**
EQUITY AND LIABILITIES			
Equity (attributable to equity holders of the parent)	29	1 053 910	972 981
Issued capital	29.1	18 574	18 574
Share premium		513 466	513 466
Treasury shares		(6 884)	(6 884)
Foreign currency translation		5 087	(1 703)
Supplementary capital	29.2	295 905	242 548
Reserve capital	29.3	18 016	12 091
Revaluation reserve		(44 838)	-
Retained earnings / Accumulated losses		254 584	194 889
Minority interest	**29.4**	**114 886**	**102 585**
Total equity		**1 168 796**	**1 075 566**
Non-current liabilities			
Interest bearing bank loans and borrowings	30	118 734	12 363
Long-term debentures	31	317 168	317 500
Provisions	33	78 667	73 267
Other liabilities	32	93 247	37 983
Deferred tax liability	14.3	22 389	19 330
Accruals and deferred income		210	642
		630 415	**461 085**
Creditors' arrangement liabilities to be written off		**4 049**	**4 049**
Current liabilities			
Trade and other payables	34	1 178 472	855 545
Short-term debentures	31	40 629	37 292
Current portion of interest-bearing bank loans and borrowings	30	276 905	192 151
Income tax payable		11 634	7 491
Provisions	33	50 273	39 546
Accruals and deferred income	34	77 391	126 586
		1 635 304	**1 258 611**
Total liabilities		**2 269 768**	**1 723 745**
TOTAL EQUITY AND LIABILITIES		**3 438 564**	**2 799 311**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	*Year ended 31 December 2008*	*Year ended 31 December 2007*
Cash flows from operating activities			
Profit before tax		**158 907**	**149 418**
Adjustments for:		**196 592**	**(333 674)**
Share of profit of associate accounted for using the equity method	23	(2 821)	(4 385)
Depreciation / Amortisation	13.6	70 390	45 048
Interests and dividends, net		40 125	11 495
Gain/(loss) from investing activities		(12 271)	(2 806)
Increase/ (decrease) in receivables	28	567	(321 282)
Increase/ (decrease) in inventories	28	(8 089)	(143 811)
Increase/ (decrease) in payables except bank loans and borrowings	28	200 639	2 079
Change in accruals and prepayments	28	(62 999)	63 961
Movements in provisions	28	8 458	36 344
Income tax paid		(44 622)	(29 848)
Other		7 215	9 531
Net cash flows from operating activities		**355 499**	**(184 256)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		13 647	4 275
Purchase of property, plant and equipment and intangibles		(240 102)	(148 003)
Proceeds from sale of investment property		389	-
Purchase of investment property		-	(1 318)
Proceeds from sale of financial assets		16 835	47 512
Purchase of financial assets		(1 107)	(644)
Acquisition of a subsidiary, net of cash acquired		(97 848)	737
Dividends and interests received		5 683	4 531
Repayment of loans granted		-	329
Loans granted		(200)	(241)
Other		(719)	(4 231)
Net cash flows from investing activities		**(303 422)**	**(97 053)**
Cash flows from financing activities			
Proceeds from issue of debentures		189 644	313 497
Debenture redemption expenses		(186 493)	(136 897)
Payment of finance lease liabilities		(9 594)	(6 470)
Proceeds from loans and borrowings		245 199	232 714
Repayment of loans and borrowings		(95 734)	(104 749)
Dividends paid to equity holders of the parent		(4 643)	(8 544)
Interest paid		(40 399)	(16 179)
Other		2 113	2 730
Net cash flows from financing activities		**100 093**	**276 102**
Net increase/(decrease) in cash and cash equivalents		152 170	(5 207)
Net foreign exchange difference		(5 494)	(2 606)
Cash and cash equivalents at the beginning of the period	28	**143 071**	**148 278**
Cash and cash equivalents at the end of the period, of which	28	**295 241**	**143 071**

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

	31 December 2008	*31 December 2007*
Cash at bank and in hand	295 241	143 071
Cash and cash equivalents recognised in the consolidated cash flow statement	**295 241**	**143 071**

(in PLN thousands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008

	Note	*Attributable to equity holders of the parent*										
		Issued capital	*Share premium*	*Treasury shares*	*Foreign currency translation*	*Revaluatio reserve*	*Reserve capital*	*Supplemen ary capital*	*Retained earnings/ Accumulated (losses)*	*Total*	*Minority interes*	*Total equit*
At 1 January 2008	**29**	**18 574**	**513 466**	**(6 884)**	**(1 703)**	**-**	**12 091**	**242 548**	**204 879**	**982 971**	**102 585**	**1 085 556**
Adjustments of errors	-	-	-	-	-	-	-	-	(9 990)	(9 990)	-	(9 990)
At 1 January 2008 after the adjustment	**29**	**18 574**	**513 466**	**(6 884)**	**(1 703)**	**-**	**12 091**	**242 548**	**194 889**	**972 981**	**102 585**	**1 075 566**
Net valuation of cash flow hedges	37.2	-	-	-	-	(55 355)	-	-	-	(55 355)	(9 074)	(64 429)
Deferred tax		-	-	-	-	10 517	-	-	-	10 517	1 724	12 241
Revaluation of executive options	29.3	-	-	-	-		5 925	-	-	5 925	-	5 925
Foreign exchange differences on consolidation		-	-	-	6 790		-	-	-	6 790	1 067	7 857
Gains/ losses for the year recognized directly in equity after taking into account deferred tax		**-**	**-**	**-**	**6 790**	**(44 838)**	**5 925**	**-**	**-**	**(32 123)**	**(6 283)**	**(38 406)**
Profit/(loss) for the year		-	-	-	-		-	-	120 134	120 134	20 305	140 439
Total income /expense for the year		**-**	**-**	**-**	**6 790**	**(44 838)**	**5 925**	**-**	**120 134**	**88 011**	**14 022**	**102 033**
Consolidation adjustments due to the change of share in control over a subsidiary		-	-	-	-	-	-	-	83	83	(3 031)	(2 948)
Issue of shares in a subsidiary		-	-	-	-	-	-	-	(1 078)	(1 078)	1 134	56
Dividends paid	18	-	-	-	-	-	-	-	(4 644)	(4 644)	-	(4 644)
Profit distribution		-	-	-	-	-	-	53 357	(53 357)	-	-	-
Other adjustments in capital in subsidiaries		-	-	-	-	-	-	-	(1 443)	(1 443)	176	(1 267)
At 31 December 2008		**18 574**	**513 466**	**(6 884)**	**5 087**	**(44 838)**	**18 016**	**295 905**	**254 584**	**1 053 910**	**114 886**	**1 168 796**

(in PLN thousands)

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

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 2007	**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	-	-	-	(1 425)	-	-	-	(1 425)	(384)	(1 809)
Gains/ losses for the year recognized directly in equity	**-**	**-**	**-**	**(1 425)**	**6 014**	**-**	**-**	**4 589**	**(384)**	**4 205**
Profit 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 due to combination with ZREW S.A.	1 033	132 212	-	-	-	-	-	133 245	-	133 245
Adjustments due to combination with ZREW S.A.	-	(92 619)	-	-	-	8 993	10 555	(73 071)	(60 174)	(133 245)
Share issue due to obtaining control over Energomontaż-Północ S.A.	2 293	460 859	-	-	-	-	-	463 152	-	463 152
Consolidation adjustments due 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)
Distrubution of profit	-	-	-	-	-	34 815	(34 815)	-	-	-
Dividends paid	-	-	-	-	-	-	(8 544)	(8 544)	-	(8 544)
Acquisition of a minority interest in a Group's subsidiary	-	-	-	-	-	-	(24)	(24)	100	76
Change in shareholders structure	-	-	-	-	-	-	-	-	1 615	1 615
Other adjustments in capital in subsidiaries	-	-	-	-	-	-	681	681	(985)	(304)
At 31 December 2007	**18 574**	**513 466**	**(6 884)**	**(1 703)**	**12 091**	**242 548**	**194 889**	**972 981**	**102 585**	**1 075 566**

(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 consolidated financial statements of the Group cover the year ended 31 December 2008 and contain comparative data for the year ended 31 December 2007 and as at 31 December 2007.

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

The parent company was granted REGON statistical number 710252031.

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

Polimex-Mostostal group operates in the following segments:

Manufacturing,

Construction,

Power engineering,

Chemistry,

Roads and railroads,

Other activities.

The parent company of the whole 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 2008 (%)	**31 December 2007 (%)**
	2.1. Subsidiaries				
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	89.20	84.10
4	Naftobudowa S.A. (*) (Capital Group)	Cracow	Comprehensive execution of construction and erection works	49.99	49.99
5	B. S. P. i R.I. Biprokwas Sp. z o.o.(*)	Gliwice	Preparing analyses, conceptions, studies and offers	96.33	96.33
6	Polimex-Development – Kraków Sp. z o.o. (*) (Capital Group)	Cracow	Execution of construction works	100.00	100.00

(in PLN thousands)

7	Naftoremont Sp. z o.o. (*) (Capital Group)	Płock	Execution of construction and erection works	71.40	71.40
8	Stalfa Sp. z o.o.(*)	Sokołów Podlaski	Metal products manufacturing	100.00	100.00
9	Zakład Transportu Grupa Kapitałowa Polimex-Mostostal Sp. z o.o. (*)	Siedlce	Transport services	100.00	100.00
10	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Technical services	100.00	100.00
11	Polimex-Mostostal Ukraina SAZ (*)	Kiev	Housing development	100.00	100.00
12	SPB Przembud Sp. z o.o. (***) in liquidation	Szczecin	Special and general construction	75.54	75.54
13	Czerwonograd ZKM - Ukraine (*)	Tchervonograd- Ukraine	Metal structure manufacturing	99.50	98.94
14	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Housing development	100.00	100.00
15	Polimex-Mostostal Development Sp. z o.o. (*)	Warsaw	Housing development	100.00	100.00
16	Torpol Sp. z o.o. (*) (Capital Group)	Poznań	Comprehensive execution of transport facilities	100.00	100.00
17	Energomontaż Północ S.A. (*) (Capital Group)	Warsaw	Execution of construction systems, manufacturing of metal structures, road transport of goods	65.55	65.55
18	Energotechnika – Projekt Sp. z o.o.(*)	Knurów	Construction, urban and engineering design	100.00	100.00
19	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.(*)	Płock	Housing development, industrial building and rehabilitation	100.00	100.00
20	EPE Rybnik Sp. z o.o.(*)	Rybnik	Overhaul services of power engineering equipment	100.00	100.00
21	Zarząd Majątkiem Górczewska Sp. z o.o.(*)	Warsaw	Real estate lease, tenancy and administration	100.00	100.00
22	Zakłady Remontowe Energetyki Kraków Sp. z o.o.(*)	Cracow	Engine, turbine and steam generator installation, repair and maintenance services	97.56	-

23	PxM Projekt Południe Sp. z o.o. (*)	Cracow	Design in construction sector	100.00	-
24	Coifer Capital Group (*)	Romania	Steel structure manufacturing	100.00	-
25	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design services	99.90	94.64
26	ZRE Lublin S.A. (*)	Lublin	Steam generator installation, repair and maintenance services	69.76	21.60
27	PRInż – 1 Sp. z o.o.(*)	Katowice	Railroad construction	direct share 25.77%, indirect share 47.35% (Torpol)	-
	2.2. Associates				
28	PORTY S.A. (**)	Gdańsk	Construction, trade, transport, machine rental	40.00	40.00
29	Polimex-Sices Sp. z o.o. (**)	Warsaw	Execution of erection works	50.00	50.00
30	Valmont Polska Sp. z o.o. (**)	Siedlce	Manufacturing	30.00	30.00
31	Energomontaż – Północ Bełchatów Sp. z o.o. (**)	Bełchatów	Specialist construction and erection services	32.82	32.82
*	Entity consolidated using the full method				
**	Entity accounted for using the equity method				
***	on 11 July 2008 an application for liquidation of SPBP Przembud Sp. z o.o. was filed at the National Court Register (KRS)				

As at 31 December 2008 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., which is a company listed on the Warsaw Stock Exchange, the parent company exercises control by holding 49.99% of shares and having the Supervisory Board composed mostly of Polimex-Mostostal S.A.'s 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 the recent years.

Polimex – Sices Sp. z o.o. is accounted for 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. Composition of the management board of the parent company

As at 31 December 2008, 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.

4. Approval of consolidated financial statements

These consolidated financial statements were authorised for issue by Management Board on 30 April 2009.

5. Significant values based on accounting judgements and estimates

5.1. Accounting judgements

In the process of applying the Group's 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 formalized 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). 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 balance sheet 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.

5.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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 and goodwill which arose on the acquisition of subsidiaries. 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 33.3.

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 38.1.

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 60,936 thousand and the same time the related costs would have increased by PLN 56,509 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 recognised, 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.

6. 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, except for the following companies:

- Naftotechnika Sp. z o.o. in liquidation. The company was put into liquidation over the 2008 reporting period. The undertaken actions were due to the fact that the company reduced its operations in the recent years. Its liquidation will not influence the Group financial results.
- Montonaft Sp. z o.o.- on 1 October 2008 an Extraordinary Shareholders Meeting of Montonaft Sp. z o.o. made a decision to commence Company liquidation proceedings. The aim of the above mentioned action is to consolidate business operations of Montonaft Sp. z o.o. within the structure of a parent company i.e. Naftobudowa S.A. The consolidation process is part of an implemented strategy of consolidation of resources and performance capacity in Naftobudowa S.A., which is aimed at increasing the efficiency and market share of Naftobudowa Capital Group.
- Przembud Sp. z o.o. in liquidation

6.1. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), in particular in accordance with International Accounting Standard 34and 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 IFRSs applied by the Group 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 their books of accounts in accordance with accounting policies specified in the Accounting Act of 29 September 1994 („the Act") with further amendments and the regulations issued based on that Act ("Polish accounting standards") or according to accounting regulations in force in the countries where the companies have their registered offices. 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.

6.2. 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 Czerwonograd ZKM –(Tchervonograd Metal Structure Plant) Ukraine, Polimex-Mostostal Ukraine, Depolma GmbH Germany and Coifer Capital Group, Romania.

7. 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 Group, except for some additional disclosures.

<u>IFRIC 11 IFRS 2 – Group and Treasury Share Transactions</u>

IFRIC 11 includes guidelines if transactions in which the Group issues equity instruments as payment for received goods and services, or equity instruments issued by the Group entity constitute the payment, should be treated as settled in equity instruments or in cash. The interpretation indicates measures to be taken in situations when an entity uses treasury shares it holds to settle the liabilities in treasury share transactions.

<u>Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure: - *Reclassification of financial instruments*</u>

These amendments allow reclassifications of certain financial instruments held for trading to either the held to maturity, loans and receivables or available for sale categories. The amendments also allow, in certain circumstances, the transfer of instruments from available for sale to loans and receivables. The amendments are applicable to reclassifications made on or after 1 July 2008. The Group did not reclassify any instruments out of the held for trading category nor from available for sale one.

<u>IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</u>

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

In relation to accounting policies described in interim consolidated financial statements for the period of 6 months ended on 30 June 2008 there was a change effective from 1 July 2008 in a subsidiary and from 1 October 2008 in the parent company and two subsidiaries resulting in implementation and application of hedge accounting of exchange rate derivatives. To minimise the negative effect of exchange rate risk on the performance, the Company actively uses exchange rate derivative instruments available on the market thus applying the exchange rate risk management strategy adopted by the Company. Active derivative instrument transactions are subject to current revaluation and its results are included in Company books of accounts.

Application of hedge accounting policies allows for symmetric recognition of a compensating influence of changes in fair value of a hedging instrument and a corresponding hedged item on the profit/loss of the current period. Derivative instruments hedging cash flows are recognised at fair value, taking into account a change in this value:

- in portion recognised as an effective hedge – directly in equity,

- in portion recognised as ineffective – in the income statement.

Derivative financial instruments owned by the Group serve as hedging for future net cash flows arising from concluded or feasible contracts. Therefore they are of hedging and not of a speculative nature.

Book records and presentation are according to the accounting policies adopted by the Group and certain Group companies and regulations in force which are based on the following IFRS, IAS:

IFRS 7 – Financial Instruments: Disclosure,

IAS 39 – Financial Instruments: Disclosure and Measurement,

IAS 32 – Financial Instruments: Disclosure and Presentation,

8. New standards and interpretations published but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or 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,
- IAS 23 *Borrowing costs* (amended in March 2007) - effective for financial years beginning on or after 1 January 2009,
- 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: Vesting conditions and Cancellations* (amended in January 2008) - effective for financial years beginning on or after 1 January 2009,
- Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on (company) Liquidation* (amendments issued in February 2008) – effective for financial years beginning on or after 1 January 2009,
- IFRIC 13 *Loyalty Programmes* - effective for financial years beginning on or after 1 July 2008,
- Amendments arising from IFRSs annual review – effective for financial years beginning on or after 1 January 2009,
- Amendments to IFRS 1 and IAS 27 *Cost of an investment in a subsidiary, jointly-controlled entity or associate* - effective for financial years beginning on or after 1 January 2009,
- IFRIC 15 *Agreements for the Construction of Real Estate* - effective for financial years beginning on or after 1 January 2009 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 16 *Hedges of a Net Investment In a Foreign Operation* - effective for financial years beginning on or after 1 October 2008 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IAS 39 *Financial Instruments*: *Recognition and Measurement: Eligible Hedged Items* (amendments issued in July 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 1 *First-time Adoption of International Financial Reporting Standards* (revised in November 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,
- IFRIC 17 *Distributions of Non-cash Assets to Owners* - 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,
- Amendments to IAS 39 and IFRS 7 - *Reclassification of Financial Assets: Effective Date and Transition* (amendments issued in November 2008) – effective on or after 1 July 2008 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 18 *Transfer of Assets from Customers* – effective from 1 July 2009 – it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IFRS 7 *Financial Instruments: Disclosure* - effective for financial years beginning on or after 1 January 2009 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Embedded derivatives - Amendments to IFRIC 9 and IAS 39 - effective for financial years ending on or after 30 June 2009 - it has not been endorsed by the EU till the day of approval of these financial statements,

- Amendments resulting from IFRS review (published in April 2009) – part of the amendments is effective for financial years beginning on 1 July 2009, and part of them for financial years beginning on 2 January 2010 – they have not been endorsed by the EU till the day of approval of these financial statements.
- IFRIC 12 Service Concession Agreements – effective for financial years beginning on or after 1 January 2008 – the interpretation has been endorsed for use by the EU, however according to the EU regulation entities are obliged to apply it not later than from the start of the first financial year beginning after March 2009. The Management of the Company intends to apply IFRIC 12 from 1 January 2010.

9. Adjustments of errors

In the reporting period an adjustment of error was made as to the presentation of data in the consolidated financial statements of Polimex-Mostostal Group for the year 2007. The erroneous presentation referred to the investment in a subsidiary for the amount of PLN 9,990 thousand and to the net presentation of currency options.

Additionally, the Company has amended the presentation of provisions for impairment of receivables shifting the above mentioned provisions from other operating activities to operating activities as well as the presentation of cash in a consolidated cash flow statement. Before the adjustment the cash balance in the consolidated cash flow statement was presented together with bank overdrafts. After the adjustment the cash balance recognised in the consolidated cash flow statement corresponds to the cash balance in the balance sheet.

The adjustment of the error as to the elimination of unregistered equity of a subsidiary is presented below:

(in PLN thousands)	**Net profit/(loss)**	**Equity**
Total equity –according to the authorised consolidated financial statements for the year 2007:	-	1 085 556
Effect of adjustment of error (non-elimination of unregistered equity of the subsidiary)	-	(9 990)
Total equity after the adjustment:	-	1 075 566

The adjustment of the error as to the presentation of currency options is presented below:

(in PLN thousands)	
Current financial assets	26 806
Adjustment effect	4 869
Total current financial assets after the adjustment:	31 675
Trade and other current payables	850 676
Adjustment effect	4 869
Trade and other current payables after the adjustment:	855 545

10. Changes in estimates

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

(in PLN thousands)

11. Significant accounting policies

11.1. Basis of consolidation

These consolidated financial statements comprise the interim financial statements of Polimex-Mostostal S.A. and financial statements of subsidiaries each time prepared for the year ended 31 December 2008. 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.

Certain subsidiaries prepare their financial statements according to the Accounting Act or according to the regulations in force in countries of their registered offices. 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 or operating policy of an entity.

11.2. 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 are 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.

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.

11.3. Interest in 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.

11.4. 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 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 re-measurement to fair value.

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

	31 December 2008	31 December 2007
USD	2.9618	2.4350
EUR	4.1724	3.5820

(in PLN thousands)

CHF	2.8014	2.1614
LTL	1.2084	1.0374
XPF	-	3.0236/100
CNY	0.4344	0.3410
CZK	0.1566	0.1348
GBP	4.2913	4.8688
LYD	2.3380	2.0621
SEK	0.3821	0.3805
DKK	0.5599	0.4803
NOK	0.4238	0.4497
RUB	0.1008	0.0995
UAH	-	0.4814
EEK	0.2667	0.2289
BYR	0.1345/100	0.1164/100
RSD	-	0.0462
JPY	3.2812/100	2.1728/100
KWD	10.7342	9.1454
LVL	5.8907	5.1399
SAR	-	0.6685
CSD	0.0465	-

Functional currencies for foreign subsidiaries are UAH, EURO and RON. 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 2008	Year ended 31 December 2007
UAH	0.4525	0.5456
EUR	3.5321	3.7768
RON	0.9542	-

11.5. 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. 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 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 constructions	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 recognised at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

11.6. 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.

11.7. 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	Assets with an indefinite useful life are not amortised or revalued. Other are amortised using the straight line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment testing	For assets with an indefinite useful life - annually and where an indication of impairment exists. For other assets – annual assessment to determine whether there is any indication that an asset may be impaired.	Annual assessment (when items have not been brought into use) and when there is any evidence indicating an impairment loss.	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.

11.7.1 *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 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.

11.8. 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.

11.9. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that any non-financial 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 amortisation) 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 (if any), on a systematic basis over its remaining useful life.

11.10. 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.

11.11. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

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.

A financial asset measured at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. a financial asset is classified as held for trading if it is:
   - acquired principally for the purpose of selling it in the near term;
   - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
   - a derivative, except for a derivative that is a designated and effective hedging instrument or financial guarantee contract,

b) upon initial recognition it is designated as at fair value through profit or loss according to IAS 39.

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. When a contract contains one or more embedded derivatives, the entire contract may be designated as a financial asset at fair value through profit or loss. Except where the embedded derivative does not significantly modify the cash flows from the contract or it is clear that separation of the embedded derivative is prohibited. Financial assets 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 assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans 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 and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. 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 recognised at the transaction date. Initially, financial assets are recognised 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 derecognised 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.

11.12. Impairment of financial assets

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

11.12.1 *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 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 profit or loss.

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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in a profit or loss account, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

11.12.2 *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.

11.12.3 *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 (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.

11.13. 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 gains and losses are not taken to profit or loss.

Embedded derivatives are recognised 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.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecast transaction, or
- hedges of a net investment in a foreign operation.

Hedges of foreign currency risk in a firm future commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a regular basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

11.14.1 *Fair value hedge*

Group's fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm future commitment, or an identified portion of such an asset, liability or firm future commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item, the hedging instrument is re-measured to fair value and the gains and losses on the hedging instrument and hedged item are recognised in profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying amount is amortised through the income statement over the remaining term to the maturity of the instrument.

When an unrecognised firm future commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm future commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and the amortisation expenses are recognised in the income statement. Amortisation may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

11.14.2 *Cash flow hedges*

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and that could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognised directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability or the forecast transaction associated with the non-financial asset or non-financial liability becomes a firm future commitment for which a fair value hedge is applied, the associated gains or losses that were recognised directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting applied to it. In this case any cumulative gain or loss on the hedging instrument that has been recognised initially in equity remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected by the Group to occur, the net cumulative gain or loss recognised in equity is taken to net profit or loss for the period.

11.14.3 *Hedges of a net investment in a foreign operation*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss. On disposal of the foreign operation, the net cumulative gain or loss that has been recognised directly in equity is taken to profit or loss.

11.15. Inventories

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

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

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 completion and the estimated costs necessary to make the sale.

11.16. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate 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 recognised 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.

11.16.1 *Cash Pool receivables*

CASH POOL – a consolidated bank account - balance consolidation – is a solution which optimises the management of current and supplementary account balances through automated consolidation of these balances at a bank account chosen by the Company. A few subsidiaries in the Group use Cash Pool i.e. at the end of the day the bank account balances of subsidiaries participating in Cash Pool are transferred to a separated bank account. Cash Pool total balance should be positive. A negative balance of certain companies is covered with deposits from other Group companies. A bank calculates interest on positive and negative balances in Cash Pool account daily according to a floating interest rate. The interest rate for Cash Pool operations agent is 0.05% higher than the interest rate for other companies. Cash Poll account balances are presented in companies’ balance sheets as current receivables or liabilities.

11.17. 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.

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

All bank loans, borrowings and debt securities are initially recognized at purchase price which corresponds to the fair value of received cash, net of transaction costs associated with the 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 settlement using the effective interest rate method.

11.19. Prepayments and accruals

Prepayments are recognized at the amount of incurred expenses, which relate to financial years following the balance sheet date. The expenses are recognized at the nominal value after previously making sure that the expenses will bring the entity future profits. Prepayments include mainly the following:

- insurance,
- subscriptions,
- rents paid in advance.

Accruals are recognized taking into account the prudence concept. They include mostly the equivalents of amounts received and due for performances, which will be executed in future reporting periods. The amounts included in accruals gradually increase operating income .

11.20. Creditors' arrangement liabilities to be written off

The amount equal to arrangement liabilities to be written off in the arrangement with creditors concluded by one of the Group subsidiaries is recognised as a separate liability item . Arrangement payments are settled on time on quarterly basis. These liabilities will be written off after settling the last arrangement payment.

11.21. 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 2008, no financial liabilities have been designated as at fair value through profit and loss (as at 31 December 2007: 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 derecognised 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.

11.22. 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 expense relating to any provision is 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.

11.23. 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 Group’s liabilities resulting from those 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 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.

11.24. Share-based payment transactions

The parent company makes a valuation of executive options as at the day of granting the rights i.e. the day when an entity or authorised persons accept the agreed terms and conditions of 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 records a corresponding increase in reserve capital recognised 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 executed. Nevertheless, the Parent company transfers the amounts recognised in reserve capital to the item of reserve capital upon subscription and payment for the shares acquired by entitled persons as a result of execution of the Incentive Plan.

11.24.1 *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 award ('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 17).

11.25. Appropriation of profit for employee purposes and social funds

In accordance with a Polish business practice, shareholders may appropriate profits for employee purposes by making a transfer to the social fund and other special funds. In the consolidated financial statements, which is in line with IFRS, this portion of profit appropriation is recognised as operating costs of the period to which the profit appropriation relates.

11.26. 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) and excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognised:

11.26.1 *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.

11.26.2 *Rendering of services*

Revenue from provision of 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 balance sheet date on pro rata basis to the stage of completion of the service if the revenue can be reliably measured. Stage of completion is measured as percentage of costs incurred from the date of concluding the contract to the date of recognition as estimated total costs of providing the service or as percentage of labour costs incurred to date to total labour costs.

Where at the balance sheet 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 higher 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 recognised.

Production costs of the service which is not completed include costs incurred from the date of concluding the contract to the balance sheet date. Costs of manufacturing incurred before the date of concluding the contract and relating to the execution of the contact subject matter are recognised as assets if it is probable that these costs will be cover 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 form the above mentioned difference is 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 estimates 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.

11.26.3 *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.

11.26.4 *Dividends*

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

11.26.5 *Rental income (operating lease)*

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

11.26.6 *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.

11.27. Taxes

11.27.1 *Current income tax*

Current income 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.

11.27.2 *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 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 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 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.

11.27.3 *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 the cost of acquisition 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.

11.28. Earnings per share

Basic earnings per share for each reporting period is calculated as quotient of the net profit for the given attributed to parent entity’s shareholders for an accounting period and the weighted average of shares in that 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.

12. 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.

(in PLN thousands)

12.1.1 *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 2008 and 31 December 2007 or respectively as at 31 December 2008 and 31 December 2007.

Year ended 31 December 2008 or as at 31 December 2008	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Roads and railroads*	*Other activities*	*Eliminations*	*Total Operations*
Revenue								
Sales to external customers	835 367	1 062 297	1 109 395	518 254	687 529	88 851	-	4 301 693
Inter-segment sales	193 800	109 368	68 302	70 785	34 439	60 033	(536 727)	-
Total segment revenue	1 029 167	1 171 665	1 177 697	589 039	721 968	148 884	(536 727)	4 301 693
Result								
Segment profit	182 285	63 908	35 701	82 486	48 035	18 627	-	431 042
Unallocated expenses	-	-	-	-	-	-	-	202 898
Profit from continuing operations before tax and finance costs	-	-	-	-	-	-	-	228 144
Net finance costs	-	-	-	-	-	-	-	72 058
Share of associate's profit	(975)	1 297	2 499	-	-	-	-	2 821
Profit before tax	-	-	-	-	-	-	-	158 907
Income tax	-	-	-	-	-	-	-	18 468
Profit for the year	-	-	-	-	-	-	-	140 439
Assets and liabilities								
Segment assets	432 243	730 829	545 989	353 104	318 146	119 072	-	2 499 383
Investment in an associate	5 607	4 705	-	-	-	10 254	-	20 566
Unallocated assets	-	-	-	-	-	-	-	918 615
Total assets	437 850	735 534	545 989	353 104	318 146	129 326	-	3 438 564
Segment liabilities	76 134	445 808	260 101	253 138	201 235	42 341	-	1 278 757
Unallocated liabilities	-	-	-	-	-	-	-	991 011
Equity	-	-	-	-	-	-	-	1 168 796
Total equity and liabilities	76 134	445 808	260 101	253 138	201 235	42 341	-	3 438 564

Year ended 31 December 2008 or as at 31 December 2008	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Roads and railroads*	*Other activities*	*Eliminations*	*Total Operations*
Other segment information								
Capital expenditure:	87 232	31 250	76 841	27 753	33 153	32 749	-	288 978
- property, plant and equipment	86 691	29 475	76 319	26 604	30 743	27 279	-	277 111
- intangible assets	541	1 775	522	983	2 410	5 470	-	11 701
- investment properties	-	-	-	166	-	-	-	166
Depreciation of property, plant and equipment	18 878	11 150	12 398	8 236	7 698	7 605	-	65 965
Amortisation of intangible assets	959	638	998	529	133	1 110	-	4 367
Impairment losses on property, plant and equipment	-	-	-	(58)	-	-	-	(58)
Impairment losses on intangible assets	-	-	-	-	-	-	-	-
Other non-monetary expenditures, of which:	-	-	-	-	-	-	-	-
-guarantee provision	-	-	-	-	-	-	-	-

Year ended 31 December 2007 or as at 31 December 2007	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Roads and railroads*	*Other activities*	Eliminations	Total Operations
Revenue								
Sales to external customers	779 413	861 492	1 044 885	559 005	441 000	41 827		3 727 622
Inter-segment sales	179 272	49 372	54 729	91 266	34 039	45 692	(454 370)	-
Total segment revenue	958 685	910 864	1 099 614	650 271	472 039	87 519	(454 370)	3 727 622
Result								
Segment profit	148 447	43 304	47 661	69 222	4 585	11 722	-	324 941
Unallocated expenses	-	-	-	-	-	-	-	164 547
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	516 109	539 434	361 291	269 179	280 557	73 709	-	2 040 279
Investment in an associate	2 722	4 909	3 860	-	-	8 498	-	19 989
Unallocated assets	-	-	-	-	-	-	-	739 043
Total assets	518 831	544 343	365 151	269 179	280 557	82 207	-	2 799 311
Segment liabilities	109 608	231 737	282 463	159 160	176 820	22 020	-	981 808
Unallocated liabilities	-	-	-	-	-	-		741 937
Equity	-	-	-	-	-	-		1 075 566
Total equity and liabilities	109 608	231 737	282 463	159 160	176 820	22 020	-	2 799 311

Year ended 31 December 2007 or as at 31 December 2007	*Manufacturing*	*Construction*	*Power Engineering*	*Chemistry*	*Roads and railroads*	*Other activities*	Eliminations	Total Operations
Other segment information								
Capital expenditure:	84 450	23 183	23 315	13 451	9 705	28 532	-	182 636
- property, plant and equipment	83 575	20 290	21 930	12 844	9 371	24 412	-	172 422
- intangible assets	875	2 893	1 385	596	222	4 120	-	10 091
- investment properties	-	-	-	11	112	-	-	123
Depreciation of property, plant and equipment	12 966	7 373	8 670	5 647	1 520	5 795	-	41 971
Amortisation of intangible assets	526	392	773	279	62	500	-	2 532
Impairment losses on property, plant and equipment	-	132	37	-	-	1 678	-	1 847
Other non-monetary expenditures, of which:	-	-	-	-	-	22	-	22
-guarantee provision	-	-	-	-	-	22	-	22

(in PLN thousands)

12.1.2 *Geographical segments*

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2008 and 31 December 2007 or respectively as at 31 December 2008 and 31 December 2007.

Year ended 31 December 2008 or as at 31 December 2008	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	3 059 679	1 242 014	-	4 301 693
Revenue from continuing operations	3 059 679	1 242 014	-	4 301 693
Inter-segment sales	528 714	8 013	(536 727)	-
Segment revenue	3 588 394	1 250 027	(536 727)	4 301 693
Other segment information				
Segment assets	1 283 171	320 816	-	1 603 987
Unallocated assets	-	-	-	1 814 011
Investment in an associate	20 566	-	-	20 566
Total assets	1 303 737	320 816		3 438 564
Capital expenditure:	263 355	25 623	-	288 978
- property, plant and equipment	252 742	24 369	-	277 111
- intangible assets	10 447	1 254	-	11 701
- investment properties	166	-	-	166

Year ended 31 December 2007 or as at 31 December 2007	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	2 470 629	1 256 993	-	3 727 622
Revenue from continuing operations	2 470 629	1 256 993	-	3 727 622
Inter-segment sales	451 588	2 782	(454 370)	-
Total segment revenue	2 922 217	1 259 775	(454 370)	3 727 622
Other segment information				
Segment assets	1 206 697	288 952	-	1 495 649
Unallocated assets	-	-	-	1 283 673
Investment in an associate	19 989	-	-	19 989
Total assets	1 226 686	288 952	-	2 799 311
Capital expenditure:	181 530	1 106	-	182 636
- property, plant and equipment	171 321	1 101	-	172 422
- intangible assets	10 086	5	-	10 091
- investment properties	123			123

The parent company and certain subsidiaries recognise revenue on the basis of contracts concluded with consortium members. If the Parent company and subsidiaries are consortium leaders, the amount of revenue recognised by the Group is determined based on the revenue of the whole consortium. According to estimates by the Management, if the Group recognised only the revenue from the share of the parent company and subsidiaries in the consortium, the revenue recognised in income statements for the year ended 31 December 2008 would be PLN 239,772 thousand lower and respectively PLN 207,882 thousand lower for the year ended 31 December 2007.

While settling construction contracts the Group applies the rules presented in International Accounting Standard 11 (IAS 11) which requires estimating the stage of completion of individual contracts at each balance sheet date and making revenue and cost schedules. As at 31.12.2008 in the revenue schedule for some contracts, including ones being executed on consortium basis, the Group partly recognises such revenue („valorisation”) which final realisation and amount has not been confirmed yet by contractors. The above mentioned revenue amounted to PLN 62.3 m, of which, after eliminating revenues of consortium members, PLN 44.6 m was related to the Group. Potential threat for Group net profit/ loss resulting from the total lack of valorisation of the above mentioned contracts is estimated at about PLN - 36.1 m. The negotiations with the employer for one of the above mentioned contracts are still open, and it is the Group intention to settle the dispute amicably In the scope of two contracts legal action has been taken. In the opinion of legal firms representing the Issuer and in the opinion of Polimex-Mostostal Management it is highly probable that in these cases Courts should find actual circumstances of proceedings as justifying the increase in contractual consideration payable to the Group.

(in PLN thousands)

13. Revenues and expenses

13.1. Other operating income

	Year ended 31 December 2008	*Year ended 31 December 2007*
Reversed provisions for expenses	7 060	5 065
Gain on disposal of property, plant and equipment	12 083	954
Gain on re-measurement of investment properties to fair value	3 434	5 950
Write-off of negative goodwill	-	24
Recovered damages payments and fines	3 932	1 600
Accrued contractual penalties	4	59
Court settlement	1 267	4 729
Reduction on arrangement	465	3 134
Result from subsidiary liquidation	1 719	1 001
Trade payables write-off	1 007	959
Other	5 208	2 719
	36 179	**26 194**

(in PLN thousands)

13.2. Other operating expenses

	Year ended 31 December 2008	*Year ended 31 December 2007*
Provision for disputable claims	4 994	4 273
Provision created for costs of contracts	-	10 424
Loss on disposal of property, plant and equipment	915	142
Impairment loss on property, plant and equipment	763	2 078
Damages and fines	1 866	1 227
Court expenses	1 134	812
Donations	869	767
Post-accident repairs	350	442
Costs of completed contracts	-	740
Inventory write-down	440	-
Profit/ (loss) on sale of debt	1 021	103
Other	9 102	4 296
	21 454	**25 304**

13.3. Finance income

	Year ended 31 December 2008	*Year ended 31 December 2007*
Revenue from measurement and execution of derivative instruments	23 268	6 870
Revenue from execution of derivative instruments	3 424	-
Revenue from bank interests and borrowings	6 692	3 811
Revenue from interest for delay in payment	336	1 340
Guarantee payment discount	2 050	794
Gain on sale of financial assets	1 491	388
Revaluation of financial assets	34	1 180
Reversal of provision for interests	-	821
Dividend income	486	379
Foreign exchange gains	26 080	1 372
Other	786	2 577
Total finance income	**64 647**	**19 532**

13.4. Finance costs

	Year ended 31 December 2008	*Year ended 31 December 2007*
Measurement of derivative instruments	62 930	230
Execution of derivative instruments	3 482	-
Interest on bank loans borrowings	23 314	7 425
Debenture interest	25 441	13 424
Interest on other liabilities	1 648	1 204
Finance charges payable under finance lease agreements	1 771	1 027
Foreign exchange losses	12 327	6 702
Revaluation of financial assets	134	529
Adjustment related to discounting of settlements	468	751
Bank charges on guarantees and loans	1 481	636
Other	3 709	2 965
Total finance costs	**136 705**	**34 893**

(in PLN thousands)

13.5. Costs by type

	Note	*Year ended 31 December 2008*	*Year ended 31 December 2007*
Depreciation / Amortisation	12.6	70 390	45 048
Materials and energy		1 067 401	1 003 763
External services		1 975 372	1 585 375
Taxes and charges		25 816	21 684
Employee benefits expenses	12.7	852 241	745 929
Other costs by type		172 533	246 580
Total costs by type		**4 163 753**	**3 648 379**
Items included in selling and distribution expenses		(32 324)	(28 322)
Items included in administrative expenses		(185 299)	(137 115)
Cost of goods for resale and raw materials sold		60 112	71 585
Change in the stock of finished goods		(79 020)	(123 655)
Cost of goods produced for the entity's own use		(56 571)	(32 577)
Cost of sales		**3 870 651**	**3 398 295**

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

	Year ended 31 December 2008	*Year ended 31 December 2007*
Items included in cost of sales	**56 598**	**38 622**
Depreciation	53 460	36 894
Amortisation	3 138	1 728
Items included in selling and distribution expenses	**390**	**332**
Depreciation	370	319
Amortisation	20	13
Items included in administrative expenses	**13 387**	**5 549**
Depreciation	12 135	4 758
Amortisation	1 252	791
Total depreciation/ amortisation	**70 375**	**44 503**

13.7. Employee benefits expenses

	Year ended 31 December 2008	*Year ended 31 December 2007*
Wages and salaries	678 841	587 879
Social security costs	113 158	103 431
Share-based payments expense (provision)	5 502	6 015
Retirement benefits	2 698	1 669
Jubilee bonuses	5 699	5 554
Other post-employment benefits	276	675
Transfers to Social Fund	12 384	9 193
Others (of which: working clothes, cleansing agents)	33 683	31 513
Total employee benefits expenses	**852 241**	**745 929**

(in PLN thousands)

14. Income tax

14.1. Tax burdens

Major components of income tax burdens for the year ended 31 December 2008 and 31 December 2007 are as follows:

	Year ended 31 December 2008	*Year ended 31 December 2007*
Consolidated income statement		
Current income tax	*54 778*	*32 185*
Current income tax charge	*54 060*	31 338
Adjustments in respect of current income tax from previous years	718	847
Deferred income tax	*(36 310)*	*549*
Relating to origination and reversal of temporary differences	(*36 310*)	549
An income tax burden reported in consolidated income statement	18 468	32 734

14.2. 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 2008 and 31 December 2007 is as follows:

	Year ended 31 December 2008	*Year ended 31 December 2007*
Accounting profit from continuing operations before income tax	158 907	149 418
Accounting profit before income tax	**158 907**	**149 418**
Income tax at statutory income tax rate of 19% effective in Poland (2008:19%)	**30 192**	**28 389**
Adjustments in respect of current income tax from previous years	718	461
Unrecognised tax losses	(2 152)	(33)
Utilisation of previously unrecognised tax losses	(2 858)	2
Tax investment relief	(14 915)	-
Expenditure not allowable for income tax purposes	11 845	14 774
Expenditure allowable for income tax purposes and not recognised in profit/loss	(1 681)	(200)
Not taxable incomes	(3 447)	(10 659)
Other	766	-
Income tax at effective income tax rate which is 11.62% for the year ended 31 December 2008 and 21.90% for the year ended 31 December 2007.	18 468	32 734
Income tax (burden) reported in the consolidated income statement	18 468	32 734

(in PLN thousands)

14.3. Deferred income tax

Deferred income tax relates to the following:

	Consolidated balance sheet		*Consolidated income statement for the year ended*	
	31 December 2008	*31 December 2007*	*31 December 2008*	*31 December 2007*
Deferred tax liability				
Accelerated depreciation for tax purposes	3 485	3 333	152	(7 634)
Revaluation of investment property to fair value	7 111	6 458	653	3 560
Measurement of fixed assets to fair value	10 653	5 992	230	(126)
Measurement of long-term contracts	63 739	56 143	7 489	25 612
Deferred gains on foreign exchange contracts	-	-	-	-
Perpetual usefruct right to land	2 415	2 411	4	2 411
Revaluation of available-for-sale financial assets to fair value	196	50	(36)	50
Revaluation of foreign exchange contracts (cash flow hedges) to fair value	-	1 418	(1 418)	339
Lease adjustments	1 578	758	808	642
Revaluation of a hedged loan to fair value		-		-
Foreign exchange gains	21 842	4 369	17 473	(298)
Other	15 498	5 448	2 963	(3 806)
Deferred tax liability	**126 517**	**86 380**	**28 318**	**20 750**
Deferred income tax assets				
Jubilee bonuses and retirement benefits	15 916	15 373	(286)	6 166
Revaluation of an interest rate swap (fair value hedge) to fair value	-	68	(68)	53
Measurement of foreign exchange contracts	6 914	-	8 438	(1 154)
Foreign exchange losses	23 808	5 512	18 296	573
Salaries/wages and employee benefits	17 860	13 857	4 241	6 846
Inventory write-downs	170	587	(417)	(1 727)
Measurement of long-term contracts	46 861	43 897	2 809	14 900
Receivable write-downs	2 196	2 564	(360)	43
Provisions for uninvoiced expenses	6 540	4 227	2 666	1 837
Losses available for offset against future taxable income	3 849	4 927	(1 382)	(641)
Other employee benefits	898	1 803	190	-
Provisions	1 464	-	(313)	-
Reorganisation costs	215	236	(21)	236
Deferred tax relating to Tarnobrzeg Special Economic Zone	15 144	-	15 144	-
Other	13 934	(7 759)	15 231	(6 931)
Deferred income tax assets	**155 769**	**85 292**	**64 168**	**20 201**
Deferred tax assets Lithuania	(460)	-	(460)	-
Deferred income tax burden less total items recognised in the income statement			**(36 310)**	**549**
Measurement of foreign exchange contracts presented in equity	12 241	-	-	-
Net deferred tax liability/asset, of which:	**(41 953)**	**1 088**		
Deferred tax asset presented in the balance sheet	(64 342)	(18 242)		
Deferred tax asset less presented in the balance sheet	22 389	19 330		

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 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.

(in PLN thousands)

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 2008.

15. Changes in the Capital Group

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

- In 2008 the Group acquired 97.56% interest in Zakłady Remontowe Energetyki Kraków Sp. z o.o. for PLN 22,025 thousand. The acquisition price includes discounted value of contingent payment specified in the agreement amounting to PLN 3,775 thousand. Payment of portion of contingent acquisition price is dependent on meeting by the Subsidiary performance criteria specified in the agreement. The Management included a discounted value of the above mentioned contingent payment in the Group balance sheet recognising it as probable.

  Fair value of identifiable assets and liabilities of Zakłady Remontowe Energetyki Kraków Sp. z o.o. in the final settlement of the acquisition is as follows:

1st stage - acquisition of 69.35% interest in January 2008	*Carrying amount at acquisition date*	*Fair value recognised on acquisition*
Property, plant and equipment	9 475	20 253
Intangible assets	2	2
Deferred tax assets	358	1 183
Cash and cash equivalents	1 107	1 107
Inventories	1 429	1 429
Trade receivables	5 498	5 498
Prepayments	11	11
Total	**17 880**	**29 483**
Liabilities and accruals	6 393	11 376
Total	**6 393**	**11 376**
Fair value of net assets		18 107
Polimex Mostostal S.A.'s share in acquired net assets (69.35%)		12 557
Goodwill		(236)
Acquisition price		12 321
Cash payment		8 546

In the next stages the Group made acquisitions which resulted in the increase in interest of 28.21%. All these acquisitions resulted in creating goodwill amounting to PLN 4,064 thousand.

- 100% interest in Projekt Południe Sp. z o.o. was acquired for PLN 4,670 thousand.

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

	Carrying amount at acquisition date	*Fair value recognised on acquisition*
Property, plant and equipment	209	707
Intangible assets	45	45
Investment properties	69	69
Financial assets	35	35
Deferred tax assets	49	49
Cash and cash equivalents	774	774
Inventories	105	105
Trade receivables	2 217	2 217

(in PLN thousands)

Prepayments	58	58
Total	**3 561**	**4 059**
Liabilities and accruals	1 988	1 988
Total	**1 988**	**1 988**
Fair value of net assets		2 071
Goodwill		**2 599**
Acquisition price		4 670
Cash payment		4 670

- The Group acquired 100 % interest in Coifer Impex, Romania paying in February 2008 the first instalment amounting to PLN 33,555 thousand (equal to EUR 9,375 thousand) and in August 2008 the second instalment amounting to PLN 31,392 thousand (equal to EUR 9,375 thousand). The remaining portion of acquisition price specified in the interest acquisition agreement due in 2011 is divided into the fixed part amounting to EUR 2,500 thousand and contingent part amounting to EUR 3,750 thousand. Discounted value of future fixed payment amounting to PLN 7,082 thousand (EUR 2,500 thousand) has been recognised as a liability and an increase of the acquisition price on acquisition of interest. The Company has analysed the probability of paying the contingent part of acquisition price and, taking into consideration currently available information, found that the probability is low. Due to the above mentioned facts the acquisition price has not been increased by this amount.

  Fair value of identifiable assets and liabilities of Coifer Impex in the initial settlement of the acquisition is as follows:

	Carrying amount at acquisition date	*Fair value recognised on acquisition*
Property, plant and equipment	51 355	51 355
Intangible assets	5 345	5 345
Non-current receivables	2 535	2 535
Financial assets	918	918
Deferred tax assets	-	-
Cash and cash equivalents	1 139	1 139
Inventories	33 198	33 198
Trade receivables	56 170	52 840
Prepayments	111	111
Total	**150 771**	**147 441**
Liabilities and accruals	109 278	108 221
Total	**109 278**	**108 221**
Fair value of net assets		39 220
Goodwill		**34 913**
Acquisition price		74 133
Cash payment		64 948

Goodwill created at the date of obtaining control i.e. as at 29 February 2008 has been revalued to the foreign exchange rate at 31 December 2008 and amounts to PLN 37,030 thousand.

- 100% interest in Elmont Sp. z o.o. was acquired for PLN 13,567 thousand.

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

	Carrying amount at acquisition date	*Fair value recognised on acquisition*
Property, plant and equipment	4 309	4 309
Intangible assets	2 170	2 170
Investment properties	-	-

Financial assets	-	-
Deferred tax assets	150	150
Cash and cash equivalents	1 202	1 202
Inventories	3 393	3 393
Trade receivables	5 809	5 809
Prepayments	143	143
Total	**17 176**	**17 176**
Liabilities and accruals	12 117	12 117
Total	**12 117**	**12 117**
Fair value of net assets		5 059
Goodwill		**8 508**
Acquisition price		13 567
Cash payment		10 033

As a result of meeting all criteria which were conditions for transfer of interest title according to a conditional interest sale agreement of 08 November 2007, on 19 March 2008 Torpol Sp. z o.o. become the holder of 100 % interest in Elmont Sp. z o.o. Acquisition price is PLN 13,566,548.79, of which PLN 3,533,333.00 is a contingent liability.

- The Group bought back from Biprokwas Sp. z o.o. 94.64% of interest in Wojewódzkie Biuro Projektowe Sp. z o.o. with the registered office in Zabrze for PLN 890 thousand and additionally 5.22 % of interest for PLN 220 thousand, obtaining 99.86% interest.
- the Group acquired additional interest in Czerwonogradzki Zakład Konstrukcji Metalowych (Tchervonograd Metal Structure Plant) with the registered office in Ukraine for PLN 761 thousand increasing the interest by 0.56 %,
- the Group acquired interest as an increase in the share capital in Energotechnika Sp. z o.o. for PLN 600 thousand keeping 100% interest,
- the Group acquired interest in Prinż 1company for PLN 1,685 thousand. As at balance sheet date the above mentioned interest has not been registered.

The following changes in the composition of the Group took place in the 2007 reporting period:

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

  There have been no changes in the final settlement in comparison with the preliminary settlement presented in the Group financial statements for the year 2007.
- 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 completion of these financial statements Polimex-Mostostal S.A. holds 15,619,693 shares of Energomontaż Północ S.A. The value of Energomotaż Północ S.A. shares in Polimex – Mostostal S.A. books amounts to PLN 503,872 thousand. The goodwill recognised as a result of acquiring by Polimex-Mostostal S.A. the controlling interest in Energomontaż Północ S.A. has been calculated based on book values of Energomontaż Północ S.A. assets and liabilities as at 31 March 2007 and it may potentially change on measuring these assets and liabilities to fair value. The date of obtaining control was 26 March 2007, and acquisition price was calculated as a product of the number of new shares issued and their price at 26 March 2007 taking into consideration previous cost of acquisition.

  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 outside the stock exchange 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 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 next acquiring 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.

(in PLN thousands)

As at 31 December 2008 goodwill recognised on settling the acquisition of Energomontaż-Północ Group was reviewed for impairment. The review is discussed in Note21.

- 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%,
- the Group acquired additional shares in Czerwonograd ZKM Ukraine for PLN 1,250 thousand. Currently Polimex—Mostostal SA holds 98.94 % interest in this Company,
- 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

There have been no changes in the final settlement in comparison with the preliminary settlement presented in the Group financial statements for the year 2007.

- the Group acquired an organised part of „WIBUD" Spółka Jawna with the registered office in Nidzica for PLN 3,500 thousand
- the Group acquired 100% interest in Zakład Budowlano Instalacyjny Turbud Sp. z o.o. with the registered office in Płock .

16. 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 subsidise 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 2008 is PLN 2,081 thousand (as at 31 December 2007 PLN 451 thousand).

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

	31 December 2008	*31 December 2007*
Fixed assets contributed to the fund	-	-
Loans granted to employees	2 195	1 511
Cash	4 842	5 681
Social Fund liability	9 128	7 643
Net balance	(2 091)	(451)

(in PLN thousands)

	Year ended 31 December 2008	*Year ended 31 December 2007*
Transfers made to the Social Fund during the period	12 384	9 193

17. 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 2008	*Year ended 31 December 2007*
Net profit attributable to ordinary equity holders of the parent company	120 134	100 073
Earnings per share (in PLN)		
- number of shares	464 355 625	464 355 625
- basic, from net profit attributable to ordinary equity holders of the parent company for the financial year	0.26	0.22
Diluted net profit attributable to shareholders of the parent company per share (in PLN)		
- number of shares	464 355 625	464 355 625
- diluting potential ordinary shares	12 378 196	12 378 196
- diluted from net profit attributable to ordinary equity holders of the parent company for the financial year	0.25	0.21

18. Dividends paid and proposed

Equity dividends on ordinary shares for 2007, paid by the parent company on 30 September 2008 amounted to PLN 4,644 thousand (for 2006, paid on 28 September 2007: PLN 8,544 thousand).

Value of dividend per share paid for the year 2007 was PLN 0.01 (2006: PLN 0.46 before the share split at 1:25 ratio).

19. Property, plant and equipment

Year ended 31 December 2008	*Land and buildings*	*Plant and equipment*	*Motor vehicles*	*Other fixed assets*	*Fixed assets under construction*	*Advance payments to fixed assets under construction*	*Total*
Net carrying amount at 1 January 2008	191 310	111 448	40 517	12 392	73 058	2 824	431 549
Acquisition of a subsidiary	50 531	21 488	1 841	1 130	726	1 072	76 788
Reclassification	(87)	10 459	(428)	(1 492)	(9 178)	(41)	(767)
Additions	84 407	88 282	20 701	11 748	178 680	18 300	402 118
Disposals	(3 805)	(2 507)	(1 370)	(127)	(118 038)	(6 969)	(132 816)
Revaluation	353	(411)	-	-	-	-	(58)
Amortisation charge for the year	(13 429)	(35 963)	(10 794)	(5 779)	-	-	(65 965)
Net carrying amount at 31 December 2008	309 280	192 796	50 467	17 872	125 248	15 186	710 849

(in PLN thousands)

At *1 January* 2008							
Cost	244 826	257 202	74 526	32 064	73 608	2 824	685 050
Write-off and impairment loss	(53 516)	(145 754)	(34 009)	(19 672)	(550)	-	(253 501)
Net carrying amount	191 310	111 448	40 517	12 392	73 058	2 824	431 549
At 31 December 2008							
Cost	371 069	370 098	89 043	40 842	131 575	15 186	1 017 813
Write-off and impairment loss	(61 789)	(177 302)	(38 576)	(22 970)	(6 327)	-	(306 964)
Net carrying amount	309 280	192 796	50 467	17 872	125 248	15 186	710 849

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	37 856	7 307	1 394	1 860	367	-	48 784
Reclassification	-	(12 269)	9 510	2 759	86	(86)	-
Additions	25 683	58 935	18 719	7 406	104 172	5 513	220 428
Disposals	(9 441)	(761)	(735)	(169)	(44 565)	(3 441)	(59 112)
Revaluation	1 347	-	-	-	500	-	1 847
Elimination from subsidiary consolidation	-	(116)	(5)	(1)	-	-	(122)
Amortisation charge for the year	(6 606)	(22 690)	(9 133)	(3 542)	-	-	(41 971)
Adjustment	-	(32)	-	-	-	-	(32)
Net carrying amount at 31 December 2007	191 310	111 448	40 517	12 392	73 058	2 824	431 549
At *1 January* 2007							
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
At 31 December 2007							
Cost	244 826	257 202	74 526	32 064	73 608	2 824	685 050
Write-off and impairment loss	(53 516)	(145 754)	(34 009)	(19 672)	(550)	-	(253 501)
Net carrying amount	191 310	111 448	40 517	12 392	73 058	2 824	431 549

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 2008 is PLN 8,184 thousand (as at 31 December 2007: PLN 132 thousand).

Ordinary mortgages are established on lands and buildings amounting jointly to PLN 152.9 m and contractual capped mortgages up to the joint amount of PLN 74 m as security to the Company bank loans (as at 31 December 2007 – contractual capped mortgages: PLN 19.5 m, ordinary mortgage: PLN 2.9 m). At the same time as at the date of publishing this report there are applications filed at courts to delete mortgages amounting jointly to PLN 4,450 thousand. Additionally, according to terms and conditions of two bank loan agreements the Company is obliged, on demand of one of the banks, to establish a mortgage on real property in Siedlce and in Warsaw (at 31 December 2007 according to terms and conditions of one of the loan agreements the Company was obliged, at bank's demand, to establish a conditional mortgage on real property amounting to PLN 32.5 m).

Furthermore, at 31 December 2008 as a security to receivables from guarantee limit agreement pledges were established at the joint amount of PLN 8.7 m (at 31 December 2007 – PLN 9.0 m).

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 2008 is PLN 5,523 thousand (as at 31 December 2007: PLN 4,727 thousand). Leased assets and

assets under hire purchase contracts are not pledged as security for the related finance lease and hire purchase contract liabilities. Blank promissory notes were issued as a security.
As at 31 December 2008 a mortgage is established on Naftobudowa Group's real property amounting up to EUR 250 thousand (as at 31 December 2007: PLN 2,809 thousand).

Energomontaż Group
The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2008 is PLN 3,953 thousand (as at 31 December 2007: PLN 4,159 thousand).
As at 31 December 2008 the mortgages are established on Energomontaż Group's real property at the amount of PLN 71,319 thousand and EUR 1,463 thousand (as at 31 December 2007: PLN 40,286 thousand) as a security to granted guarantee limits and bank loans. Furthermore, property, plant and equipment are pledged as security at the amount of PLN 370 thousand (as at 31 December 2007: PLN 370 thousand) as security to bank guarantees.

Naftoremont Group

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2008 is PLN 873 thousand (as at 31 December 2007: PLN 978 thousand)

As at 31 December 2008 lands and buildings at the total carrying amount of PLN 5,045 thousand (31 December 2007 – PLN 6,132 thousand) constitute a security to bank guarantees and loans granted to the Group.

Biprokwas
The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2008 is PLN 110 thousand (as at 31 December 2007: the carrying amount of assets in Biprokwas Group was PLN 206 thousand).

WBP Zabrze
The carrying amount of plant and equipment held under lease agreements at 31 December 2008 was PLN 273 thousand. Blank promissory notes were issued as security.

Stalfa Sp. z o.o.

As at 31 December 2008 mortgages and temporary ownership title transfers were established on plant and equipment at the carrying amount of PLN 11,994 thousand (as at 31 December 2007: PLN 7,547 thousand) as security to 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 2008 is PLN 737 thousand (as at 31 December 2007: PLN 1,388 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 19,799 thousand (as at 31 December 2007: PLN 19,146 thousand) are covered with a mortgage established to secure Group's bank loans amounting jointly to PLN 82,901 thousand and EUR 2,000 thousand (in 2007: PLN 25,601 thousand and EUR 1,500 thousand).

Energotechnika Projekt Sp. z o.o.
As at 31.12.2008 lands at the carrying amount of PLN 107 thousand (as at 31.12.2007: PLN 111 thousand) are covered by a mortgage established to secure company's bank loans.

EPE Rybnik Sp. z o.o.
A building at a carrying amount of PLN 536,080.00 (as at 31 December 2007: 546,040.00) is covered by a mortgage established in the amount of 34,649.67 so as to secure a performance bond for guarantee and statutory guarantee.

Torpol Group Sp. z o.o.
The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2008 is PLN 15,664 thousand (as at 31 December 2007: PLN 6,598 thousand).
As at 31 December 2008 property, plant and equipment at the carrying amount of PLN 3,077 thousand constituted security to bank loan and guarantee liabilities (as at 31 December 2007: PLN 815 thousand)

Coifer Group

As at 31 December 2008 mortgages were established on real property at the amount of PLN 19,885 thousand as security to Company's bank loan agreements.

(in PLN thousands)

ZRE Kraków

As at 31 December 2008 mortgages amounting to PLN 1,344 thousand were established on lands and buildings at the carrying amount of PLN 17,668 thousand as security to Company's liabilities.

19.1. Operating lease commitments – Group as the lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	*31 December 2007*
Within 1 year	2 727	2 304
Within 1 to 5 years	4 300	4 638
	7 027	6 942

19.2. Finance lease and hire purchase commitments

As at 31 December 2008 and 31 December 2007 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 2008		*31 December 2007*	
	Minimum payments	***Payment Present value***	***Minimum payments***	***Payment present value***
Within 1 year	11 852	11 065	5 904	5 344
Within 1 to 5 years	31 217	28 678	12 097	10 639
Over 5 years	6 232	4 993	2 486	2 077
Minimum lease payments, total	49 301	44 736	20 487	18 060
Less amounts representing finance charges	(4 565)	-	(2 427)	-
Present value of minimum lease payments, of which:	44 736	44 736	18 060	18 060
Current	11 065	-	5 344	-
Non-current	33 671	-	12 716	-

20. Investment properties

	31 December 2008	*31 December 2007*
Opening balance as at 1 January	39 445	30 972
Reclassification of property, plant and equipment	762	-
Parking lot rental	67	-
Other	(58)	-
Additions (further expenditures)	166	123
Net profit arising from adjustment to fair value	3 216	6 479
Disposals arising from sale	(382)	-
Changes in Group structure	69	1 765
Reclassification from and to inventories	(28)	106
Closing balance	**43 257**	**39 445**

Key investment property items as at 31 December 2008 are as follows: build-up real property situated at ul.Górczewska in Warsaw at the carrying amount of PLN 37,646 thousand, real property in Nowy Dwór Mazowiecki at the carrying amount of PLN 2,813 thousand. The above mentioned real property was assessed by independent surveyors.

(in PLN thousands)

21. Goodwill on consolidation

	31December 2008	*31 December 2007*	*Adjustment 31 December 2007*	*31 December 2007 after the adjustment*
Prinż-1 Sp. z o.o.- a subsidiary in Torpol Group	4 956	835	-	835
Prinż-9 Sp. z o.o. - a subsidiary in Torpol Group	-	1 406	-	1 406
Elmont Sp. z o.o.- a subsidiary in Torpol Group	8 508	-	-	-
Torpol Group	13 265	7 264	3 000	10 264
Spec - a subsidiary in Sefako Group	237	237	-	237
Energotechnika Projekt Company	2 668	2 668	-	2 668
Energomontaż Północ S.A. Group	409 073	409 073	-	409 073
A subsidiary in Polimex-Development Kraków Group	2 295	2 295	-	2 295
EPE Rybnik Sp. z o.o.	1 018	325	-	325
Zakład Budowlano Instalacyjny Turbud Sp. z o.o.	426	2 445	(2 019)	426
Coifer Capital Group	37 030	-	-	-
Zakłady Remontowe Energetyki Kraków Sp. z o.o.	4 064	-	-	-
Projekt Południe Sp. z o.o.	2 599	-	-	-
Total	**486 139**	**426 548**	**981**	**427 529**
Goodwill as at 1 January 2008	427 529	-	-	-
Increase on consolidation arising from acquisition	43 693	-	-	-
Increase arising from goodwill adjustment in subsidiaries	14 917	-	981	-
Goodwill as at 31 December 2008/ 31 December 2007	**486 139**	**-**	**981**	**-**
Goodwill as at 1 January 2007	-	16 865	-	16 865
Increase on consolidation arising from acquisition.	-	416 806	-	416 806
Decrease arising from goodwill adjustment in subsidiaries	-	(7 123)	981	(6 142)
Goodwill as at 31 December 2007	**-**	**426 548**	**981**	**427 529**

While reviewing the impairment, the fair value of cash flow generating units was compared to goodwill in the consolidated financial statements plus fixed assets and net operating capital. There are no indications to effect impairment loss as for all companies fair value on discounting future cash flows is higher than the goodwill plus fixed assets (without investment properties) and net operating capital.

Company	*Goodwill (DCF)*	*Weighted average cost of capital (WACC) adopted at measurement**	*Weighted average cost of capital (WACC) pre tax***	*Fixed growth rate after the forecasting period*	*Goodwill in consolidated financial statements*	*Fixed assets (without investment properties)*	*Net operating capital*
Energomontaż Group	790 592	10.1%	11.68%	5.0%	409 073	69 354	56 075
Energotechnika Projekt	22 997	9.69%	12.12%	3.0%	2 668	10 228	(1 173)
Torpol	82 555	10.72%	13.68%	3.0%	13 265	28 842	(4 110)

(in PLN thousands)

Turbud	28 942	11.05%	13.82%	3.0%	426	3 534	(2 893)
EPE Rybnik	12 103	10.92%	13.66%	3.0%	1 018	2 721	2 153
ZRE Kraków	17 641	11.05%	13.84%	3.0%	4 064	21 142	4 739
PxM Projekt Południe	8 841	11.05%	13.93%	3.0%	2 599	386	1 203
Coifer	161 785	14.62%	18.15%	2.5%	35 608	61 333	23 659

*after tax

**before tax

According to IAS 36, Management of Polimex-Mostostal S.A. conducted impairment reviews relating to the goodwill created on the investment in COIFER Group, Energomontaż Północ Group, Torpol Group, and the following companies: Energotechnika Projekt, Zakład Budowlano Instalacyjny Turbud Sp. z o.o., Zakłady Remontowe Energetyki Kraków Sp. z o. o., PxM Projekt Południe Sp. z o. o., EPE Rybnik Sp. z o.o.

The reviews revealed that as at completion of these financial statements there is no need to write down the goodwill of these companies.

COIFER Group's goodwill was measures at PLN 161.8 m. The measurement was done with the following assumptions: average annual revenue increase at the level of about 38%, EBIT: 8.8%, weighted average cost of capital (WACC): 14.62%, capital expenditure at the average level of PLN 6.6 m per year for the period from 2009 to 2013, demand for operating capital in the forecasting period will be PLN 38.3 m, growth rate after the forecasting period: 2.5%.

Decrease in average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or increase in EBIT of 10% results in the goodwill increase of 5 to 10 percentage points. Increase in average cost of capital of 0.5% compared to base value or decrease in EBIT of 10% results in goodwill decrease of 5 to 10 percentage points.

Valuation of Energomontaż Północ Group revealed that as at completion of these financial statements there is no need to write down the goodwill created on acquisition. Energomontaż Północ Group's goodwill was measured at PLN 517.8 m. The measurement was done with the following assumptions: average annual revenue increase at the level of about 20%, EBIT: 6.6%-7.8%, weighted average cost of capital (WACC): 10.1%, capital expenditure at the average level of PLN 13.3 m per year for the period from 2009 to 2013, keeping inventory turnover at the level of 5 days, accounts payable ratio at the level of 60 days, shortening average collection period to the level of 76 days, growth rate after the forecasting period: 5%. Adopted long-term cash flow increase ratio, which is the basis for computation of residual value, amounting to 5% per year was based on estimated necessary investment in the power engineering sector in Poland and intellectual and technological potential , experience and industry references of Energomontaż Północ Group. Adopted for the purpose of measurement WACC at the level of 10.1% reflects in a reliable way the risks connected with the investment in Energomontaż Północ S.A due to target structure of debt adopted for calculations, level of costs related to debt service and market risk related to the possibility of realising future cash flows assumed in the measurement.

Decrease in average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or increase in EBIT of 10% results in the goodwill increase of about 10 percentage points. Increase in average cost of capital of 0.5% compared to base value or decrease in EBIT of 10% results in goodwill decrease of about 10 percentage points.

The market value of shares owned by Polimex Mostostal S.A., measured based on Energomontaż - Północ S.A. stock exchange price as at 29 April 2009 which was PLN 12.45/share, is PLN 194.5 m.

(in PLN thousands)

22. Intangible assets

Year ended 31 December 2008	*Development Costs*	*Patents and Licenses*	*Software*	*Goodwill*	*Other*	*Total*
Net carrying amount at 1 January 2008	175	2 237	6 114	2 385	136	11 047
Acquisition of a subsidiary	-	5 458	53	-	-	5 511
Additions	-	1 871	6 772	130	2 928	11 701
Disposals	(175)	(168)	(115)	-	(228)	(686)
Reclassification	-	(5 519)	1 623	-	3 901	5
Amortisation charge for the year	-	(1 619)	(2 672)	-	(76)	(4 367)
At 31 December 2008	-	2 260	11 775	2 515	6 661	23 211
At *1 January* 2008						
Cost	345	5 080	13 174	2 385	520	21 504
Write-off and impairment loss	(170)	(2 843)	(7 060)	-	(384)	(10 457)
Net carrying amount	175	2 237	6 114	2 385	136	11 047
At 31 December 2008						
Cost	145	6 430	20 565	5 694	7 006	39 840
Write-off and impairment loss	(145)	(4 170)	(8 790)	(3 179)	(345)	(16 629)
Net carrying amount	-	2 260	11 775	2 515	6 661	23 211

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
Additions	200	1 671	5 537	2 385	298	10 091
Disposals	-	(2)	(94)	-	-	(96)
Acquisition of a subsidiary	-	650	153	-	-	803
Adjustment	-	-	31	-	-	31
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						
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
At 31 December 2007						
Cost	345	5 080	13 174	2 385	520	21 504
Write-off and impairment loss	(170)	(2 843)	(7 060)	-	(384)	(10 457)
Net carrying amount	175	2 237	6 114	2 385	136	11 047

(in PLN thousands)

23. 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 2008	*31 December 2007*
Current assets	19 365	18 578
Non-current assets	-	6
Current liabilities	7 873	9 314
Non-current liabilities and provisions	4 454	6 371
Net assets	7 038	2 899
Share of associate's loss	1 655	(1 403)

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 erecting facilities. The following table presents summarised information on the investment in Polimex-Sices Polska Sp. z o.o.

	31 December 2008	*31 December 2007*
Current assets	21 762	15 680
Non-current assets	348	66
Current liabilities	17 537	7 836
Non-current liabilities and provisions	732	592
Net assets	3 841	7 318
Share of associate's loss	(358)	2 931

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 2008	*31 December 2007*
Current assets	23 448	20 651
Non-current assets	12 521	7 672
Current liabilities and provisions	17 390	6 494
Net assets	18 579	21 829
Share of associate's profit	(976)	952

(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.

	31 December 2008	*31 December 2007*
Current assets	48 820	48 592
Non-current assets	14 784	11 892
Current liabilities and provisions	32 355	34 592
Net assets	31 249	25 892
Share of associate's profit	2 500	2 229

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.

24. Financial assets

24.1. Financial assets

	31 December 2008	*31 December 2007*
Non-current financial assets		
Shares and interests	3 015	1 663
Financial assets held to maturity,	1 453	1 974
Other financial assets	110	4 871
Total	**4 578**	**8 508**

	31 December 2008	*31 December 2007*
Current financial assets		
Available-for-sale financial assets	-	14 972
Financial assets at fair value	-	1 134
Derivatives	159	12 334
Other financial assets	7 677	3 235
Total	**7 836**	**31 675**

(in PLN thousands)

24.1.1 Financial assets

	31 December 2008	*31 December 2007*
Shares and interests		
Shares - companies listed on the stock exchange	37	302
Shares and interests – companies not listed on the stock exchange	2 978	1 361
Total	**3 015**	**1 663**

24.1.2 Other non-current assets

	31 December 2008	*31 December 2007*
Other non-current assets		
Deposits	886	1 974
Commercial debentures	567	-
Bank guarantee deposits	31	4 871
Other	79	-
Total	**1 563**	**6 845**

24.1.3 Change in financial assets

	31 December 2008	*31 December 2007*
At the beginning of the period	**1 663**	**42 734**
Increase	**1 824**	**302**
Acquisition of shares, interests	1 810	302
Other	**14**	**-**
Decrease	**(472)**	**(41 373)**
Interest write-downs	(399)	(529)
Changes in the composition of the Group	(45)	(40 753)
Other	(28)	(91)
At the end of the period	**3 015**	**1 663**

24.1.4 Change in non-current financial assets held to maturity

	31 December 2008	*31December 2007*
At the beginning of the period	1 974	1 127
Opening a deposit	1 449	847
Settling a deposit	(1 970)	–
At the end of the period	**1 453**	**1 974**

(in PLN thousands)

24.1.5 Current financial assets at fair value

	31 December 2008	*31 December 2007*
Derivatives	-	1 134

24.1.6 Derivatives

	31 December 2008	*31 December 2007*
Foreign currency forward contracts	-	1 311
Foreign currency options	159	9 982
Interest rate swaps (IRS)	-	1 041
Total	**159**	**12 334**

24.2. Other financial assets

	31 December 2008	*31 December 2007*
Other non-current financial assets	**110**	**4 871**
Bank guarantee deposits	31	4 871
Other	79	-
Other current financial assets	**7 677**	**3 235**
Loans granted	1 018	245
Bank guarantee deposits	6 659	2 990
	7 787	**8 106**

25. Inventories

	30 June 2008	*31 December 2007*
Raw materials (at cost)	93 418	85 924
Goods for resale	3 706	9 095
Raw materials advance payments	38	15
Work-in-progress (at cost)	281 237	235 645
Finished goods:	16 740	18 247
At cost	16 740	18 247
At net realisable value	16 740	18 247
Total inventories, at the lower of cost and net realisable value	395 139	348 926

At 31 December 2008 and at 31 December 2007 there were pledges established on smelting products at the joint amount of PLN 100,000 thousand as security to bank loan agreements.

In Stalfa company at 31 December 2008 there were pledges establishes on inventories at the carrying amount of PLN 10,000 thousand as security to company’s liabilities.

At 31 December 2008 there were mortgages established on inventories of Polimex – Development Kraków up to the joint amount of PLN 51,012 thousand (at 31 December 2007: PLN 51,012 thousand) as security to Company’s bank loan liabilities.

In Sefako Group at the balance sheet date 31.12.2008 there were securities established on inventories amounting jointly to PLN 2,600 thousand.

The Group has about PLN 176 m worth production inventories and about PLN 219 m worth developer’s inventories namely flats and lands owned mainly by Polimex-Development Kraków Sp. z o. o., Polimex-Mostostal Development Sp. z o. o. and Polimex-Mostostal. The group has commissioned the valuations of the above mentioned developer’s inventories to independent property surveyors. The valuations did not reveal the necessity to effect any write-downs on this real property.

(in PLN thousands)

26. Trade and other receivables

	31 December 2008	*31 December 2007*
Trade receivables	1 281 457	1 200 207
of which: trade receivables from related parties	9 391	10 461
Receivables from public authorities	34 180	26 066
Other receivables from third parties	26 568	35 215
Other receivables from related parties	-	10 620
Total receivables, net	1 342 205	1 272 108
Doubtful debts allowance	67 299	69 090
Total receivables, gross	1 409 504	1 341 198

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 36.1.

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.

26.1. Trade receivables (gross) with remaining payment period from the balance sheet date

	31 December 2008	*31 December 2007*
Up to one month	818 281	822 968
Over 1 month to 3 months	149 849	181 161
Over 3 months to 6 months	29 140	7 849
Over 6 months to 1 year	47 108	18 563
Past due receivables	292 047	227 865
Gross trade receivables	1 336 425	1 258 406
Impairment of trade receivables	54 968	58 199
Net trade receivables	**1 281 457**	**1 200 207**

26.2. Aging analysis of trade receivables

	31 December 2008	*31 December 2007*
Up to one month past due	84 706	90 886
Over 1 month to 3 months past due	82 748	30 995
Over 3 months to 6 months past due	36 021	25 363
Over 6 months to 1 year past due	17 513	16 337
Over 1 year past due	71 059	64 284
Gross past due trade receivables	292 047	227 865
Impairment of trade receivables*	42 625	57 479
Total	**249 422**	**170 386**

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

Movements in provision for impairment of receivables were as follows:

	31 December 2008	*31 December 2007*
Provisions for impairment at the beginning of the period	58 199	46 120
Increase, of which:	**22 234**	**29 882**
- provision for impairment of receivables	18 304	10 601
- changes in Group structure	3 930	19 281
Decrease, of which:	**25 465**	**17 803**
- utilisation	10 132	8 694
- receivables pay-off	8 887	7 692

(in PLN thousands)

- changes in Group structure	3 569	1 417
-receivables reclassification	2 303	-
- other	574	-
Provisions for impairment at the end of the period	**54 968**	**58 199**

27. Prepayments

	31 December 2008	*31 December 2007*
Insurance costs	4 869	2 996
Subscription	160	-
Costs of starting production	138	575
Costs of uncompleted works	1 240	1 094
Settlement of patent fee	60	52
Commission on debentures	-	6
Deposit to real property lease	432	681
Perpetual usefruct charge	-	40
Advance payment to real property purchase	-	2 006
Obtaining a quality certificate	72	-
IT support, electric power	587	-
Other	3 576	2 329
Total	**11 134**	**9 779**

28. Cash and cash equivalents

	31 December 2008	*31 December 2007*
Cash at bank and in hand	178 141	143 071
Bank overdrafts	27 573	
Other	3 407	
Deposits	86 120	
Total cash	**295 241**	**143 071**

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 2008 is PLN 295,241 thousand (31 December 2007: PLN 143,071 thousand).

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

(in PLN thousands)

	Year ended 31 December 2008
Change in receivables in the balance sheet	(67 699)
Receivables of Coifer Group acquired company	56 169
Receivables of Projekt Południe Sp. z o.o. acquired company	2 216
Receivables of ZRE Kraków acquired company	5 499
Receivables of Elmont Sp. z o.o. (Torpol Group) acquired company	5 808
Receivables of Przembud Sp. z o.o. company in liquidation	(864)
Adjustment for receivables from the disposal of fixed assets	(562)
Change in receivables in cash flow statement	567

	Year ended 31 December 2008
Change in receivables in the balance sheet	(46 213)
Inventories of Coifer Group acquired company	33 198
Inventories of PxM Projekt Południe Sp. z o.o. acquired company	105
Inventories of ZRE Kraków Sp. z o.o. acquired company	1 428
Inventories of Elmont Sp. z o.o. (Torpol Group) acquired company	3 393
Change in inventories in the cash flow statement	**(8 089)**

	Year ended 31 December 2008
Change in liabilities in the balance sheet	378 191
Liabilities of Coifer Group acquired company	(57 161)
Liabilities of PxM Projekt Południe Sp. z o.o. acquired company	(1 747)
Liabilities of ZRE Kraków Sp. z o.o. acquired company	(4 599)
Liabilities of Elmont Sp. z o.o. (Torpol Group) acquired company	(6 440)
Liabilities of Przembud Sp. zo.o. liquidated company	827
Adjustment for lease liabilities	(33 703)
Adjustment for investment purchase liabilities	(939)
Adjustment for liabilities from acquisition of interest in subsidiaries	(18 435)
Adjustment for liabilities from currency option measurement	(55 355)
Change in liabilities in the cash flow statement	200 639

	Year ended 31 December 2008
Change in accruals and prepayments in the balance sheet	(52 196)
Accruals and prepayments of Coifer Group acquired company	(10 500)
Accruals and prepayments of Projekt Południe Sp. z o.o. acquired company	59
Accruals and prepayments of ZRE Kraków Sp. z o.o. acquired company	(652)
Accruals and prepayments of Elmont Sp. z o.o. (Torpol Group) acquired company	155
Accruals and prepayments of Przmbud Sp. z o.o. liquidated company	135
Change in accruals and prepayments in the cash flow statement	(62 999)

(in PLN thousands)

	Year ended 31 December 2008
Movement in provisions in the balance sheet	16 127
Provisions of Coifer Group acquired company	(2 801)
Provisions of PxM Projekt Południe Sp. z o.o. acquired company	(193)
Provisions of ZRE Kraków Sp. z o.o. acquired company	(4 931)
Provisoons of Elmont Sp. z o.o. (Torpol Group) acquired company	(44)
Provisions of Przembud Sp. z o.o. liquidated company	300
Movement in provisions in the cash flow statement	8 458

Acquisition of a subsidiary, net of cash acquired

	Year ended 31 December 2008
Acquisition of Coifer Group by Polimex-Mostostal S.A.	(64 948)
Cash of Coifer Group at acquisition date	1 138
Acquisition of Coifer Group, net of cash acquired	**(63 810)**
Acquisition of Projekt Południe Sp. z o.o. by Polimex-Mostostal S.A.	(4 670)
Cash of Projekt Południe Sp. z o.o. at acquisition date	774
Acquisition of Projekt Południe Sp. z o.o., net of cash acquired	**(3 896)**
Acquisition of ZRE Kraków Sp. z o.o. by Polimex-Mostostal S.A.	(18 250)
Cash of ZRE Kraków Sp. z o.o. at the acquisition date	1 107
Acquisition of ZRE Kraków Sp. z o.o., net of cash acquired	**(17 143)**
Acquisition of Emont company by Torpol Sp. z o .o.	**(10 033)**
Cash of Elmont Sp. o.o. at the acquisition date	**1 201**
Acquisition of Elmont Sp. o.o., net of cash acquired	**(8 832)**
Total acquisition of subsidiaries, net of cash acquired	**(93 681)**

The „Other" item in operating activities of consolidated cash flow statement for the year ended 31 December 2008 comprise in particular of: valuation of foreign currency options amounting to PLN (33.0) m, valuation of executive options amounting to PLN 5.9 m, valuation of investment properties amounting to PLN (2.0) m.

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*
Change in receivables in the balance sheet	(409 368)
Receivables of Turbud Sp. z o.o. acquired company	1 679
Receivables of EPE ZRE Rybnik acquired company	3 559
Receivables of Energotechnika Projekt Sp. z o.o. acquired company	1 345
Receivables of Energomontaż Północ acquired company	65 280
Receivables of WIBUD Spółka Jawna acquired business	11 943
Receivables of BR Development Kraków acquired company	6
Receivables of L.P.B.P. Lubelska Przemysłówka company in liquidation	(175)

(in PLN thousands)

Receivables from disposal of fixed assets	459
Receivables for equity - Torpol Sp. z o.o.	3 990
Change in receivables in the cash flow statement	(321 282)

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

	Year ended *31 December 2007*
Change in liabilities in the balance sheet	85 435
Liabilities of Turbud Sp. z o.o. acquired company	(2 856)
Liabilities of EPE ZRE Rybnik acquired company	(2 808)
Liabilities of Energotechnika Projekt Sp. z o.o. acquired company	(775)
Liabilities of Energomontaż Północ company	(50 969)
Liabilities of WIBUD Spółka Jawna acquired business	(12 242)
Liabilities of BR Development Kraków acquired company	(13)
Change arising from liquidation of L.P.B.P. Lubelska Przemysłówka	768
Adjustment for change in finance lease liabilities	4 786
Investment Purchase liabilities	(8 393)
Adjustment of transfer to share capital in 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 EPE ZRE Rybnik acquired company	36
Accruals and prepayments of Energotechnika Projekt Sp. z o.o.acquired company	93
Accruals and prepayments of Energomontaż Północ acquired company	(17 463)
Accruals and prepayments of WIBUD Spółka Jawna acquired company	93
Accruals and prepayments of BR Development Kraków acquired company	(671)
Accruals and prepayments of L.P.B.P. Lubelska Przemysłówka liquidated company	(9)
Change in accruals and prepayments in the cash flow statement	63 961

(in PLN thousands)

	Year ended 31 December 2007
Movement in provisions in the balance sheet	48 135
Provisions of EPE ZRE Rybnik acquired company	(642)
Provisions of Energotechnika Projekt Sp. z o.o. acquired company	(300)
Provisions of Energomontaż Północ acquired company	(11 341)
Provisions of L.P.B.P. Lubelska Przemysłówka liquidated company	492
Movement in provisions in the 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 at the acquisition date	512
Acquisition of EPE ZRE Rybnik, net of cash acquired	**(2 988)**
Acquisition of Energotechnika Projekt Sp. z o.o. by Polimex-Mostostal S.A.	(3 500)
Cash of Energotechnika Projekt Sp. z o.o. at the acquisition date	302
Acquisition of Energotechnika Projekt 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. at the acquisition date	117
Acquisition of Turbud Sp. z o.o., net of cash acquired	**(1 973)**
Cash of Energomontaż Północ at the acquisition date	28 080
Acquisition of BR Development by Polimex-Development Kraków Sp. z o.o.	**(19 201)**
Cash of BR Development company at the acquisition date	**17**
Acquisition of BR Development company, net of cash acquired	**(19 184)**
Total acquisition of subsidiaries, net of cash acquired	**737**

29. Issued capital and supplementary/ reserve capital

29.1. Issued capital

Equity capital (data in share thousands)	*31 December 2008*	*31 December 2007*
Series A ordinary shares	55 375	55 375
Series B ordinary shares	36 550	36 550
Series C ordinary shares	8 600	8 600
Series D ordinary shares	13 476	13 476
Series E ordinary shares	43 476	43 476
Series F ordinary shares	223 726	223 726
Series H ordinary shares	25 826	25 826
Series I ordinary shares	57 326	57 326
Total	**464 355**	**464 355**

All issued shares are at nominal value of PLN 0.04 as at 31 December 2008 and as at 31 December 2007. Shares have been fully paid.

(in PLN thousands)

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. 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) (1) of the Code of Commercial Companies i.e. 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.

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. The applied method consisted in summing up individual items of separate financial statements of Polimex Mostostal S.A. and ZREW S.A. in book values.

On 28 June 2007 Ordinary General Meeting of Polimex - Mostostal S.A.'s shareholders passed Resolution No 38 on the change in the 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 was 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. 70,050 (say: seventy thousand and fifty) series A inscribed ordinary shares and 464,285,575 (say: four hundred and 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 18,574,225 (say: eighteen million five hundred and seventy-four thousand two hundred and twenty-five) PLN.

29.1.1 *Shareholders rights*

Each share has a right to 1 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:

29.1.2 *Shareholders with significant shareholding*

	31 December 2008	*31 December 2007*
Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK S.A. (Commercial Union Open Pension Fund BPH CU WBK S.A.)		
share in equity	5.92%	9.58%
share in votes	5.92%	9.58%
Otwarty Fundusz Emerytalny PZU „Złota Jesień" (PZU „Złota Jesień" Open Pension Fund)__		
share in equity	8.61%	6.99%
share in votes	8.61%	6.99%
Gloria S.a.r.l. Luxemburg __		
share in equity	6.18%	6.18%
share in votes	6.18%	6.18%
Sices International B.V. Holland		
share in equity	6.16%	6.16%

(in PLN thousands)

share in votes	6.16%	6.16%
ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund) __		
share in equity	8.70%	5.14%
share in votes	8.70%	5.14%
Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pioneer Pekao S.A. Investment Fund Company)_		
share in equity	5.56%	-
share in votes	5.56%	-
Polimex-Cekop Development Sp. z o.o. *) (Polimex-Mostostal S.A.'s subsidiary)		
share in equity	2.83%	2.83%
share in votes	2.83%	2.83%

Polimex-Cekop Development sp. z o.o. holds 13,152,500 shares of Polimex-Mostostal S.A. whose fair value at 31 December 2008 is PLN 39.2 million and at 31 December 2007 PLN 112.6 million.

29.2. 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 created in this way is not subject to distribution.

29.3. 10.3 Reserve capital

Reserve capital resulted from 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 19,060,425 bearer shares a the 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 management of the Company and major subsidiaries. The plan is for three years and issuing warrants will take place 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: reaching required difference between the change in the simple average of Company shares closing quotation (calculated for the last three months of the calendar year) and a change in the simple average of WIG Warsaw Stock Exchange index (calculated for the last three months of the calendar year).

Additional allocation criterion is employment criterion that is the requirement for being employed by the Company for at least 9 months for 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 executed 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 2008 the balance of provision recognised as administrative expenses of the above mentioned plan is PLN 5,925 thousand (cumulative PLN 18,016 thousand) and as at 31 December 2007 it was PLN 12,091 thousand. The execution of the ratios for the period 2006-2008 being the requirement for making provisions was as follows:

(in PLN thousands)

		Growth rate	
		According to plan	*Execution in '08*
Criterion 1	EBITDA/Comapany share	> 11%	43%
Criterion 2	net profit/Company share	> 11%	18%
Criterion 3	market condition	> 8%	not met
		Growth rate	
		According to plan	*Execution in '07*
Criterion 1	EBITDA/Comapany share	> 12%	30%
Criterion 2	net profit/Company share	> 12%	31%
Criterion 3	market condition	> 8%	38%
		According to plan	*Execution in '06*
Criterion 1	EBITDA/Comapany share	> 14%	28%
Criterion 2	net profit/Company share	> 14%	46%
Criterion 3	market condition	> 8%	150%

29.4. Minority interest

	Year ended 31 December 2008	*Year ended 31 December 2007*
At the beginning of the period	102 585	93 928
Net valuation of cash flow hedges	(9 074)	-
Deferred tax	1 724	-
Profit for the year	20 305	16 611
Issue of shares in a subsidiary	1 134	-
Consolidation adjustments relating to change of control over a subsidiary	(3 031)	-
Share issue – obtaining control in a subsidiary	-	51 874
Currency translation differences on consolidation	1 067	(384)
Merger with a subsidiary	-	(60 174)
Other adjustments on subsidiaries' equity	176	(985)
Changes in Group structure	-	1 715
At the end of the period	**114 886**	**102 585**

(in PLN thousands)

30. Interest-bearing bank loans and borrowings

At 31 December 2008

Bank / financing entity		**Amount**	**Maturity**
Current	**Parent company**		**161 562**
Polibur Engineering – loan in GBP*		10.04.2009	868
*maturity date has been changed to 30.09.2009.			
Bank Handlowy w Warszawie – bank overdraft in PLN		27.06.2009	12 718
Bank PEKAO S.A. – bank overdraft in PLN		31.07.2009	23 824
BPH S.A. – bank overdraft in PLN/USD/EUR		27.08.2009	39 638
Kredyt Bank S.A. – working capital facility in PLN		31.10.2009	39 582
PKO BP S.A. – working capital facility in EUR		26.12.2009	11 682
PKO BP S.A. – working capital facility in PLN		26.12.2009	9 156
Bank PEKAO S.A. – working capital facility in PLN/USD/EUR		31.12.2009	24 094
	Sefako Group		**14 569**
Fortis Bank Polska S.A. – investment loan in PLN (current portion)		04.07.2010	1 077
Fortis Bank Polska S.A. – bank overdraft in PLN		12.10.2009	2 636
Fortis Bank Polska S.A. – working capital facility in PLN		12.10.2009	4 000
BRE Bank S.A. – investment loan in PLN (current portion)		30.09.2011	1 067
Fortis Bank Polska S.A. – investment loan in PLN (current portion)		29.01.2016	3 772
PKO BP S.A. – revolving working capital facility in PLN		31.03.2009	1 780
Bank Spółdzielczy in Sędziszew – bank overdraft in PLN		16.08.2009	237
	Naftobudowa Group		**7 341**
DZ Bank S.A. – bank overdraft in PLN		31.03.2009*	4 247
*maturity date has been changed to 31.05.2009.			

(in PLN thousands)

BRE Bank S.A. – bank overdraft in PLN		29.04.2009	1 108
BRE Bank S.A. – working capital facility in PLN		31.05.2009	1 000
BRE Bank S.A. – bank overdraft in PLN		31.03.2009*	986
*maturity date has been changed to 31.05.2009.			
	Bioprokwas Sp. z o.o.		**392**
Bank Millennium S.A. – bank overdraft in PLN		27.04.2009*	392
*maturity date has been changed to 27.04.2010.			
	ZUT Sp. z o.o.		**939**
Pekao S.A. – bank overdraft in PLN		31.01.2009*	939
*maturity date has been changed to 31.01.2010.			
	Stalfa Sp. z o.o.		**12 560**
Pekao S.A. – bank overdraft in PLN		31.07.2009	7 500
Fortis Bank Polska S.A. – bank overdraft in PLN		17.08.2009	3 288
Bank PEKAO S.A. – investment loan in PLN		31.12.2009	972
Fortis Bank Polska S.A. – investment loan in PLN (current portion)		31.12.2013	800
	Tchervonograd		**101**
Prominwestbank – credit line in UAH		16.12.2008	101
	Torpol Group		**7 826**
Volkswagen Bank Polska S.A. – investment loan in PLN		31.01.2009	9
BOŚ S.A. – investment loan in PLN (current portion)		30.06.2014	420
Meritum Bank ICB S.A. – revolving credit in PLN		31.08.2009	6 500
Pekao S.A. – bank overdraft in PLN		31.05.2009	849
Fortis Polska – bank overdraft in PLN		13.08.2009	26
Volkswagen Bank Polska S.A. – investment loan in PLN		30.06.2009	22
	Naftoremont Group		**994**
Pekao S.A. – bank overdraft in PLN		31.03.2009	994
	Energomontaż Pólnoc Group		**20**
DnB Nord Polska S.A. – bank overdraft in EUR		31.08.2009	20

(in PLN thousands)

	Energotechnika Projekt Sp. z o.o.		**1 156**
Pekao S.A. – multipurpose line in PLN		27.03.2009*	956
*maturity date has been changed to 31.03.2010.			
BRE Bank S.A. – bank overdraft in PLN		27.08.2009	200
	Polimex-Development Kraków Sp. z o.o.		**32 593**
PKO BP S.A. – investor loan in PLN		31.05.2009	8 115
PKO BP S.A. – investor loan in PLN		31.05.2009	24 478
	Depolma GmbH		**13**
Commerzbank Dusseldorf - debit in EUR bank account		05.01.2009	13
	EPE Rybnik		**127**
DnB Nord Polska S.A. – working capital facility in PLN		19.07.2009	82
Getin Bank S.A. – investment loan in PLN (current portion)		25.02.2013	18
Getin Bank S.A. – investment loan in PLN (current portion)		25.04.2011	27
	Projekt Południe		**5**
ING Bank Śląski – credit card debt in PLN		31.12.2009	5
	Coifer Group		**36 707**
Carispo – loan in EUR (current portion)		30.06.2010	384
Banca Pop. Di Spoleto – working capital facility in EUR		Open maturity	2 404
Monte deu Pachi di Sienna – working capital facility in EUR		Open maturity	2 128
Fortis Bank – working capital facility in EUR		10.2009	16 662
Natural persons (former shareholders) – loans in EUR		31.12.2009	15 129
Non-current			
	Parent company		**33 563**
PKO BP S.A. – bank overdraft in PLN		12.02.2010	4 100

(in PLN thousands)

Bank Millennium S.A. – bank overdraft in PLN		20.03.2010	14 852
Toyota Bank Polska S.A. – investment loan in PLN		28.06.2010	66
PKO BP S.A. – working capital facility in PLN		30.06.2010	1 093
PKO BP S.A. – investment loan in PLN/EUR		31.08.2015	13 452
	Sefako Group		**41 796**
BRE Bank S.A. – working capital facility in PLN		30.09.2011	2 133
Fortis Bank Polska S.A. – investment loan in PLN		29.01.2016	37 012
Wojewódzki Fundusz Ochrony Środowiska (Voivodship Environment Protection Fund) – loan w PLN		31.12.2009	520
Wojewódzki Fundusz Ochrony Środowiska (Voivodship Environment Protection Fund) – loan w PLN		31.12.2009	831
Sędziszów Commune – loan in PLN		20.08.2010	1 300
	Stalfa Sp. zo.o.		**3 200**
Fortis Bank Polska S.A. – investment loan in PLN		31.12.2013	3 200
	Torpol Group		**1 892**
BOŚ Bank S.A. – investment loan in PLN		30.06.2014	1 892
	Energotechnika Projekt Sp. z o.o.		**7 656**
Orzesko knurowski Bank Spółdzielczy – investment loan in PLN		18.12.2023	7 656
	Energomontaż Pólnoc Group		**10 431**
ABN Amro Bank S.A. – investment loan in EUR		15.12.2013	10 431
	EPE Rybnik		**110**
Getin Bank S.A. – investment loan in PLN		25.02.2013	70
Getin Bank S.A. – investment loan in PLN		25.04.2011	40
	Coifer Group		**20 086**
Carispo – loan in EUR		30.06.2010	199
BRD – investment loan in EUR		01.04.2011	597
BRD – investment loans in EUR		01.09.2011	2 601
Sanpaolo – investment loan in EUR		01.11.2017	16 689

(in PLN thousands)

Interest-bearing bank loans and borrowings	**395 639**
Current, of which:	**276 905**
Bank loans	260 524
Borrowings	16 381
Non-current, of which:	**118 734**
Bank loans	115 884
Borrowings	2 850

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 line in PLN		31.10.2008	247

(in PLN thousands)

Bank Spółdzielczy w Sędziszowie – bank overdraft in PLN		open	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		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
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.			

(in PLN thousands)

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		12.10.2010	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

(in PLN thousands)

	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

Comparison of interest rate for the periods	*31 December 2008*	*31 December 2007*
Weighted average for bank loans in PLN	**WIBOR + 0.91011p.p.**	**WIBOR + 0.96556p.p.**
Weighted average for bank loans in EUR	**EUROIBOR + 1.7967p.p.**	-
	LIBOR + 0.9500 p.p.	

31. Debentures

	31 December 2008	*31 December 2007*
Long-term debentures	317 168	317 500
Short-term debentures	40 629	37 292
Total debentures	**357 797**	**354 792**

Polimex Mostostal S.A. has issued long-term debentures under Debenture Issue Plan (with appendixes) as follows:

- at 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100 m and with the maturity at 25.07.2012, and
- at 16.10.2007 another block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 73 m and with the maturity at 25.01.2013, and

(in PLN thousands)

Both blocks of coupon debentures have been consolidated and to 25.07.2012 maturity of half-year interest coupons fall at the same dates.

- at 17.07.2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 114.5 m and with maturity at 18.01.2010;
- at 27.09.2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 15 m and with maturity at 18.01.2010;
- at 17.10.2006 a block of long-term coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 15 m and with maturity at 18.01.2010;

The three above mentioned long-term blocks have been consolidated and the maturity of quarterly interest coupons as well as the redemption date of blocks fall at the same dates.

Polimex Mostostal S.A. has also issued short-term debentures as follows:

- at 28.06.2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 m, which were combined in one block at 07.01.2009 and its present maturity is at 13.03.2009.

The balance of debentures issued by Polimex-Mostostal S.A. as at the completion of these financial statements is PLN 350.0 m, of which short-term debentures PLN 32.5 m, and long-term debentures PLN 317.5 m. Furthermore, at 30 September 2008 appendixes were executed to agreements related to Debenture Issue Plan (Appendix No 2 to Agency Agreement and Appendix No 3 to Dealership Agreement) according to which the amount of the plan was increased to PLN 400 m. Debentures for the amount of increased limit – PLN 50 m – have not been issued yet.

32. Other non-current liabilities

	31 December 2008	*31 December 2007*
Arrangement payments	1 678	5 132
Leases	37 971	12 716
Non-current guarantee payment liabilities	29 955	17 017
Measurement of derivative instruments	6 360	-
Securities	4 051	-
Liabilities arising from acquisition of interest	12 668	3 000
Other	564	118
Total	**93 247**	**37 983**

33. Provisions

33.1. Movements in provisions

	Guarantee provisions	*Restructuring provision*	*Post-employment benefits - note*	*Other provisions*	*Total*
At 1 January 2008	11 725	523	68 181	32 384	112 813
Acquisition of a subsidiary	-	-	1 602	6 155	7 757
Recognised during the year	9 403	1 396	18 095	28 523	57 417
Utilised	(1 889)	(167)	(3 298)	(10 217)	(15 571)
Unused amounts reversed	(4 024)	(1 567)	(9 532)	(18 053)	(33 176)
Reclassifications	-	-	455	(455)	-
Elimination on subsidiary consolidation	-	-	-	(300)	(300)
At 31 December 2008	15 215	185	75 503	38 037	128 940

(in PLN thousands)

Current at 31 December 2008	12 563	185	7 721	29 804	50 273
Non-current at 31 December 2008	2 652	-	67 782	8 233	78 667
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)
Unused amounts reversed	(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

33.2. Guarantee and refund provision

The Group recognised in the balance sheet guarantee provisions at the amount of PLN 15,215 thousand as at 31 December 2008 and at the amount of PLN 11,725 thousand as at 31 December 2007. Assumptions used to calculate the provision for guarantees were based on current sales levels and current information available about the contractual guarantee period for all products sold.

33.3. 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 2008	*31 December 2007*
At the beginning of the period	68 181	45 957
Provision recognized	18 095	21 571
Benefits paid	(3 298)	(763)
Provision released	(9 532)	(559)
Change in the composition of the Group	1 602	2 053
Reclassifications	455	(78)
At the end of the period	**75 503**	**68 181**

33.3.1 *Main assumptions made by an actuary*

	31 December 2008	*31 December 2007*
Discount rate (%)	5.4	5.1
Future inflation index (%)	3.5	2.7
Future salary increases (%)	5.5	2.0

(in PLN thousands)

33.4. 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 amounting to PLN 3,163 thousand .

34. Trade and other payables (current)

	31 December 2008	*31 December 2007*
Trade payables		
To related parties	29 265	17 788
To third parties	836 773	662 440
	866 038	**680 228**
Taxation, customs duty, social security and other payables		
VAT	32 606	16 996
Withholding tax	50	44
Personal income tax	11 625	10 577
Social Insurance Institution (ZUS)	39 117	36 472
National Disabled Persons Rehabilitation Fund (PFRON)	800	964
Other	1 602	2 222
	85 800	**67 275**
Financial liabilities		
Interest payable	-	-
Foreign currency contracts	105 238	5 012
Liabilities arising from acquisition of interest	9 300	-
Leases	13 792	5 344
Other	146	362
	128 476	**10 718**
Other liabilities		
Remuneration payable to employees	40 757	33 032
Payables to entities not included in the consolidation	-	5 981
Fixed asset purchase payables	16 452	15 513
Supply advance payments	20 720	25 930

(in PLN thousands)

Arrangement payment liabilities	4 691	5 195
Social fund	2 091	-
Other liabilities	13 447	11 673
	98 158	**97 324**

Deferred income arising from:		
Unused annual leave	20 073	15 657
Bonuses and rewards	23 340	19 091
Accrued service expenses	25 513	79 834
Other	8 465	12 004
	77 391	**126 586**

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 months.
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.

34.1. Trade receivables with remaining payment period from the balance sheet date

	31 December 2008	*31 December 2007*
Up to one month	623 760	465 360
Over 1 month to 3 months	81 777	61 439
Over 3 months to 6 months	37 746	15 297
Over 6 months to 1 year	28 835	60 814
Past due liabilities	93 920	77 318
Total trade payables	**866 038**	**680 228**

34.2. Past due trade payables

	31 December 2008	*31 December 2007*
Up to one month	62 958	62 554
Over 1 month to 3 months	18 599	10 390
Over 3 months to 6 months	2 389	1 346
Over 6 months to 1 year	6 165	1 327
Over 1 year	3 809	1 701
Total past due liabilities	**93 920**	**77 318**

Past due liabilities include amounts receivable from subcontractors which are dependent on settling the receivables by the investor.

(in PLN thousands)

35. Contingent Liabilities

OFF-BALANCE SHEET ITEMS AND LEGAL CLAIMS	*31 December 2008*	*31 December 2007*
Contingent Liabilities	**1 614 668**	**857 122**
To other entities (arising from)	1 614 668	857 122
- granted guaranties and sureties	1 038 303	662 884
- promissory notes	218 512	83 049
- legal claims	19 997	18 451
- other	-	6 331
- contractual capped mortgage*	308 827	55 200
- conditional agreements	20 684	17 062
- assignment of the debt	8 345	14 145
Other (arising from)	**121 522**	**121 522**
- perpetual usefruct right to land	6 899	6 899
- transferred to off-balance 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 items	**1 736 190**	**978 644**

* mortgage disclosure:

1. An ordinary mortgage on real property in Siedlce Terespolska 12 KW (Land and Mortgage Register) No 49875, creditor Bank PeKaO S.A., secured item : bank guarantee issued under an individual agreement of 26.02.2004.

2. An ordinary and contractual capped mortgage on real property in Siedlce KW No 97087 and 98170, creditor Bank PKO BP, secured item: investment loan, financing in connection with the construction of a new plant in Siedlce in Tarnobrzeg Special Economic Zone subzone Siedlce

3. A contractual capped mortgage on real property in Siedlce KW No 97087 and 98170, creditor Bank PKO BP, secured item: bank loan to finance VAT, financing in connection with the construction of a new plant in Siedlce in Tarnobrzeg Special Economic Zone subzone Siedlce.

4. Obligation to establish a mortgage on bank request, if any, on real property in Siedlce ul.Terespolska KW No 49875 and/or in Warsaw ul.Elektryczna 2a KW WA 4M/00234465/1

** these are the balances on contracts executed by Polimex-Mostostal S.A. in Iraq before 1991

(in PLN thousands)

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, Centrum Commune is entered as the owner. The parent company has filed at the City Office a proposal for an arrangement concerning the above mentioned case. The parent company is in the possession of a protocol specifying financial terms and conditions of transferring the real property by the Commune. The protocol specifies the terms and conditions of transferring the right to perpetual usefruct of land property together with transferring for consideration the ownership title to the building situated on the land. In the opinion of Company Management the real property acquisition transaction will be completed in the coming months. As a result of the agreement reached, the matter of current use of the real property by Polimex-Mostostal S.A. has finally been settled.

The parent company is the party to legal proceedings before administration authorities on motions 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 February 2008 the parent Company acquired 100 % interest in Coifer Company with the registered office in Romania. According to the contract payments for interest are made in instalments, with the first payment being EUR 9,375 thousand , payment made in the month of February 2008, the second payment 9,375 thousand EUR being made in the month of August 2008. The last payment for the acquired interest falls due in 2011 and comprises of the fixed portion amounting to EUR 2,500 thousand and a contingent portion amounting to EUR 3,750 thousand. The Company has analysed the probability of paying the contingent portion of the acquisition price and, taking into consideration currently available information, found that the probability is low.

In January 2008 the Company acquired 100% interest in Polimex Mostostal Projekt Południe Sp. z o.o. (formerly known as Tebodin SAP Projekt Kraków Sp. z o.o.) for the amount of PLN 4,670 thousand. If in the years 2008-2010 the acquired company meets the level of sales and net profitability the acquisition price will be increased by PLN 650 thousand.

<u>Torpol Group</u>

In 2008 the parent company of Torpol Group purchased interest in Elmont Company. The acquisition agreement specified a contingent payment for former owners amounting to PLN 2.7 million, which should be settled after Elmont meets performance targets specified in the agreement. At 31 December 2008 the Management concluded that final amount of the contingent payment is not enough probable to be recognised in the financial statements.

36. Related party disclosures

The table below presents the total values of transactions with related parties entered into during the year ended 31 December 2008 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.	91	-	8 121	23 231
Polimex-Sices Sp. z o.o.	965	5 300	255	5 994
Valmont Sp. z o.o.	4 960	133	980	-
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	-	58	-	19
Polimex-Enero Sp. z o.o.	-	-	33	-
Polimex-Arabia Co.	-	-	-	21

(in PLN thousands)

Terminal LNG S.A.	-	-	2	-
TOTAL:	**6 016**	**5 491**	**9 391**	**29 265**

The following below 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**

36.1. Terms and conditions of transactions with related parties

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

36.2. Director's loan

There were no director’s loans.

36.3. Other directors' interests

There were no other director’s interests.

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

	Year ended 31 December 2008	*Year ended 31 December 2007*
Compensation of the Management Board	4 492	3 575
Compensation of the Supervisory Board	410	308
Total compensation of the Mangement Board and Supervisory Board	**4 902**	**3 883**

Compensation paid to the Management Board by the Issuer over 2008 amounted to PLN 4,763 thousand and over 2007 it amounted to PLN 3,575 thousand, of which:

		Year ended 31 December 2008	*Year ended 31 December 2007*
President of the Management Board	Konrad Jaskóła	1 631	1 300
Vice President of the Management Board	Aleksander Jonek	999	778

(in PLN thousands)

Vice President of the Management Board	Grzegorz Szkopek	939	732
Vice President of the Management Board	Zygmunt Artwik	923	765
Total		**4 492**	**3 575**

As at 31 December 2008 the balance of provisions made for the Management Board's bonuses amounts to PLN 1, 859 thousand and the balance of provisions for options amounts to PLN 2,814 thousand.

Compensation of the Management Board in subsidiaries, of which:

		Year ended 31 December 2008	*Year ended 31 December 2007*
President of the Management Board	Konrad Jaskóła	123	83
Vice President of the Management Board	Grzegorz Szkopek	147	132
Vice President of the Management Board	Zygmunt Artwik	93	58
Vice President of the Management Board	Aleksander Jonek	52	32
Total		**415**	**305**

Compensation of the Management Board in associates, of which:

		Year ended 31 December 2008	*Year ended 31 December 2007*
President of the Management Board	Konrad Jaskóła	97	60

Compensation paid to the Supervisory Board by the Issuer over 2008 amounted to PLN 410 thousand and over 2007 it amounted to PLN 308 thousand, of which:

		Year ended 31 December 2008	*Year ended 31 December 2007*
President of the Supervisory Board	Kazimierz Klęk	93	69
V-ce President of the Supervisory Board	Andrzej Szumański	81	60
Member of the Supervisoru Board	Rozłucki Wiesław	63	24
Member of the Supervisory Board	Dariusz Górski*	36	49
Member of the Supervisory Board	Janusz Lisowski	63	49
Supervisory Board Secretary	Elżbieta Niebisz	74	57
Total		**410**	**308**

*At 3 July 2008 Mr Dariusz Górski submitted a resignation from the position of Member of the Supervisory Board of Polimex-Mostostal S.A.

Disclosure on Polimex Mostostal S.A. shares which are owned by the Management Board and Supervisory Board as at 31 December 2008 and 31 December 2007:

As at 31 December 2008

Position held	**Current number of held shares**
Member of the Management Board	3,820,350 pcs
Member of the Management Board	1,894,575 pcs
Member of the Supervisory Board	77,000 pcs
Total	5,791,925 pcs

As at 31 December 2007

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

(in PLN thousands)

37. 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 board reviews and agrees policies for managing each of these risks and they 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 has various other financial instruments such as trade debtors and trade creditors, 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.

37.1. 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 uses financing from bank loans, debenture issues and to little extent borrowings. Interest rates changes influence the amounts of incurred finance costs. The level of interest rates also influences the amount of interest paid by contractors, who have contracted 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 Group’s profit before tax (through the impact on 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%*
For the year ended 31 December 2008			
Cash in bank accounts	295 241	1 476	(1 476)
Bank loans and borrowings	395 639	(1 978)	1 978
Obligations under finance lease agreements	51 763	(259)	259
Debentures	357 797	(1 789)	1 789
Effect on profit before tax	**-**	**(2 550)**	**2 550**
Deferred tax	-	485	(485)
Total	**-**	**(2 066)**	**2 066**
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**

37.2. 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 applies hedge accounting.

Cash flows of Polimex-Mostostal Capital Group companies are characterised by relatively significant sensitivity to changes in exchange rates which arise from the fact that the revenues are derived in foreign currencies including mainly euro. These entities are, apart from Polimex-Mostostal S.A., in particular: Energomontaż-Północ S.A.; Naftobudowa S.A.; Torpol Sp. z o.o., FK Sefako S.A., StalFa Sp. z o.o., Biprokwas Sp. z o.o. and Naftoremont Sp. z. o.o. To minimise the negative impact of foreign currency risk on the effects of their operations, these companies actively use not only natural hedging methods but also foreign exchange derivative instruments available on the market.

Based on accounting policies applied to the method of recording financial instruments, two groups of companies can be distinguished:

1) companies which have document risk management strategy and implemented hedge accounting policies; this group includes not only Polimex-Mostostal S.A. but also such companies as Energomontaż-Północ S.A.; Naftobudowa S.A. and Torpol Sp. z o.o.

2) companies not applying hedge accounting.

Companies applying hedge accounting present hedge derivative instruments they hold at fair value and taking into account the changes in this value:

- in portion recognised as an effective hedge - directly in equity,
- in portion recognised as ineffective - in the income statement.

Companies not applying hedge accounting recognise changes in fair value of derivative instruments directly in the income statement.

A preferred method of hedging against **foreign exchange risk** applied by Polimex-Mostostal Capital Group companies is natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency. If it is not possible to hedge foreign currency risk with natural hedging, the companies apply foreign exchange hedges based on using derivative instruments related to the foreign currency market. These include in particular the following instruments:

- forward currency contracts
- PUT/CALL currency options (acquired options),
- optional structures constructed with PUT and CALL options, in particular the so called „zero-cost" symmetric currency corridors built with PUT and CALL options.

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the terms of the hedged item so as to maximise hedge effectiveness. The Group companies limit the volatility of future foreign currency cash flows in view of their exposure to foreign currency risk. In each case the hedged item is highly probable future cash flows from export contracts or domestic contracts denominated in a foreign currency.

At 31 December 2008 total maximum nominal value of hedging transactions entered into by the Group companies (including Polimex-Mostostal S.A.) amounted to:

- EUR 145,753 thousand in the scope of limiting the volatility of cash flows in EUR and
- USD 1,300 thousand in the scope of limiting the volatility of cash flows in USD.

The age composition of derivative transactions entered into so as to limit foreign currency risk for PLN/EUR currency pair was as follows (there was only one forward contract for PLN/USD with maturity date at 16 January 2009):

Instrument settlement period	**Maximum nominal amount of hedging instruments to settle** in EUR thousands
1st quarter 2009	31 233
2nd quarter 2009	36 861
3rd quarter 2009	38 959
4th quarter 2009	26 100
Total for 2009	**133 153**
After 31.12.2009	12 600
TOTAL	**145 753**

Some of Group companies execute effectively implemented hedge accounting. In case of these entities (Polimex-Mostostal S.A., Energomontaż-Północ S.A.; Naftobudowa S.A. and Torpol Sp. z o.o.) the fair value of hedging instruments and (its changes) in part recognised as effective hedge is transferred to revaluation reserve. Ineffective part (including the part which is excluded from effectiveness measurement) is recognised directly in the profit and loss. In case of other entities using derivative instruments for foreign currency risk management, the fair value measurement is recognised in the profit and loss.

The table below presents the level and the accounting method of measurement of derivative instruments owned by the Group companies (including the parent company) which was carried out at 31.12.2008.

Detailed list	**Fair value at 31.12.2008** in PLN thousands	**Fair value at 31.12.2008 after taking into consideration deferred tax** in PLN thousands
Recognition in revaluation reserve*	-64 429	-52 188
Recognition in the profit and loss	-44 893	-36 364
Total	**-109 322**	**-88 552**

* refers to the companies which apply hedge accounting i.e.Polimex-Mostostal S.A., Energomontaż-Północ S.A.; Naftobudowa S.A. and Torpol Sp. z o.o.

The derivative instrument measurement carried out through the profit and loss by entity is as follows:

Detailed list	**Fair value at 31.12.2008** in PLN thousands	**Fair value at 31.12.2008 after taking into consideration deferred tax** in PLN thousands
Companies applying hedge accounting (ineffective part of hedges and reclassified part due to a hedged position coming into existence)	-7 582	-6 141
Other companies	-37 313	-30 224
Total	**-44 895**	**-36 365**

Total fair value at 31.12.2008 recognised in revaluation reserve relates in 91% to hedging instruments with maturity dates in 2009. The remaining 9% is for instruments with execution dates after 31.12.2009. The measurement presented above is only of computational nature and does not effect current liquidity or general financial situation of the Group. To supplement the description of the subject matter in Polimex-Mostostal Capital Group it should be added that the associated company of Valmont Polska Sp. z o.o.(consolidated using the equity method) reported in 2008 a net loss arising from negative measurement of foreign currency options serving as a hedge of future cash flows from foreign currency operations (the company does not apply hedge accounting). The effect of the above mentioned loss in the associated company on decreasing financial results of Polimex-Mostostal Capital Group did not exceed 1%.

Fluctuations of the average EUR exchange rate, which increased by more than 20% over the period from 30 September 2008 to 31 December 2008 and continues to show an upward trend, have a significant effect on the amount of expressed in PLN revenues which come from contracts denominated in foreign currencies. Based on contracts which are entered into and contracts which are highly probable to conclude, as at completion of these financial statements the Group exposure to foreign currency risk in 2009 was assessed as follows:

Detailed list	**2009**
Future foreign currency cash flows – equivalent in EUR thousands	445 902
Future foreign currency expenditures – equivalent in EUR thousands	173 073
Business exposure to foreign currency risk in EUR thousands	**272 829**
Hedging transactions entered into to 31.12.2008 in EUR thousands	**133 153**
Open position in foreign currency (after taking into account hedging transactions) in EUR thousands	**139 676**

It should be emphasised that the nominal value of active at 31.12.2008 hedging instruments for execution in 2009 constitutes 82% of foreign currency risk exposure arising from contracts for this period entered into by companies. At the same time the ratio of nominal value of hedging instruments entered into to the total anticipated foreign currency risk exposure in 2009 does not exceed 49% of its value. In case of Group companies which apply hedge accounting the ratio of hedging transactions for 2009 entered into as at 31 December 2008 to anticipated business exposure to foreign currency risk for this period is 46%. The ratio for Group companies which do not apply hedge accounting reaches 56%. PLN/EUR exchange rate, which continues to be high, will have a neutral effect on the Group financial results in part of cash flows from foreign currency contracts covered by hedging instruments. Positive effect of this market parameter will relate to the part of foreign currency transactions (net proceeds) which has not been covered with hedging transactions so far.

Realised actual foreign currency inflows in EUR over the 1st quarter of 2009 exceeded nearly threefold the nominal value of hedging transactions to be settled over this period, which amounted to EUR 31,233 thousand and USD 1,300 thousand. As a result over 1st quarter of 2009 the Group reported a positive effect of domestic currency depreciating trend on the financial results.

One should take a note of the fact that a sudden Polish zloty depreciation in 4th quarter 2008 resulted in creating in Group companies a positive balance of exchange differences amounting to PLN 23,581.00 thousand. At 31.12.2008 the balance sheet foreign currency item, trade settlements item and the item of bank loans in foreign currencies translated into EUR was as follows:

Receivables and foreign exchange assets in EUR thousands	75 356
Payables in EUR thousands	24 259
Surplus of trade receivables over payables in EUR thousands	51 097
Bank loans in EUR thousands	14 800
Net foreign currency balance sheet item in EUR thousands	36 297

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 2008			*31 December 2007*		
	EUR	*USD*	*SEK*	*EUR*	*USD*	*SEK*
Trade receivables	62 790	7 779	8 495	92 437	10 807	12 499
Hedged bank loans	14 800	-	-	3 322	-	-
Trade payables	21 342	493	1 077	33 787	1 628	6 389
Gross carrying amount	26 648	7 286	7 418	55 328	9 179	6 110
Estimated sales forecast	427 360	9 814	-	208 634	7 052	-

(in PLN thousands)

Estimated purchase forecast	160 823	10 999	-	64 600	24 876	-
Gross exposure	266 537	(1 185)	-	144 034	(17 824)	-
Forward currency contracts	(23 100)	(1 300)	-	(19 950)	-	-
Currency option contracts	(110 053)	-	-	(71 800)	-	-
Net exposure	160 032	4 801	7 418	107 612	(8 645)	6 110

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

Foreign currency risk sensitivity analysis at 31.12.2008

	Carrying amount	*EUR/PLN*		*USD/PLN*		*SEK/PLN*	
		exchange rate (10% change)	*exchange rate (-10 % change)*	*exchange rate (10% change)*	*exchange rate (-10% change)*	*exchange rate (10% change)*	*Exchange rate (-10 % change)*
Cash and cash equivalents	43 577	3 930	(3 930)	12	(12)	4	(4)
Trade and other receivables	266 868	26 687	(26 687)	2 896	(2 896)	325	(325)
Derivatives	(47 171)	(4 440)	4 440	-	-	-	-
Trade and other payables	120 270	(8 726)	8 726	(157)	157	(47)	47
Bank loans, borrowings and other sources of finance	61 751	(6 252)	6 252	-	-	-	-
Effect on profit before tax	-	11 199	(11 199)	2 751	(2 751)	282	(282)
Derivatives	(64 427)	(27 320)	25 713	(382)	387	-	-
Effect on equity	**(64 427)**	**(27 320)**	**25 713**	**(382)**	**387**	**-**	**-**

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	43 817	2 041	(2 041)	39	(39)	110	(110)
Trade and other receivables	321 514	14 522	(14 522)	1 316	(1 316)	238	(238)
Derivatives	35 471	(12 162)	14 549	-	-	-	-
Trade and other payables	102 852	(4 823)	4 823	(198)	198	(122)	122
Bank loans, borrowings and other sources of finance	11 901	(595)	595				
Effect on profit before tax	-	(1 017)	3 404	1 157	(1 157)	226	(226)

37.3. 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).

(in PLN thousands)

37.4. 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 Group 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.

37.5. 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;

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted payments.

31 December 2008	*On demand*	*3 months and less*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest bearing bank loans and borrowings	-	1 505	275 400	42 032	76 702	395 639
Debentures	-	-	40 629	317 168	-	357 797
Other non-current liabilities, of which:	-	-	-	88 254	4 993	93 247
- Leases	-	-	-	32 978	4 993	37 971
- Derivative financial instruments	-	-	-	6 360	-	6 360
Trade and other payables	436 860	583 507	158 105	-	-	1 178 472
- Leases	-	806	12 986	-	-	13 792
- Derivative financial instruments		23 926	81 312	-	-	105 238
	436 860	**585 012**	**474 134**	**447 454**	**81 695**	**2 025 155**

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	1 000	191 149	10 540	1 823	204 514
Other non-current liabilities, of which:	-	-	-	36 697	1 286	37 983
- Leases	-	-	-	10 639	2 077	12 716
Trade and other payables	349 305	491 004	15 236	-	-	855 545
- Leases	135	1 039	4 170	-	-	5 344
- Derivative financial instruments	-	-	4 869	-	-	4 869
Debentures	-	-	37 292	317 500	-	354 792

(in PLN thousands)

Arrangement liabilities to write off	-	-	4 049	-	-	4 049
	349 307	**492 004**	**247 726**	**364 737**	**3 109**	**1 456 883**

38. Financial instruments

38.1. Fair values of individual categories of financial instruments

The table below presents comparison by category of carrying amounts and fair values of all of the Group's financial instruments divided by asset and liability categories.

	Category in accordance with IAS 39	***Carrying amount***		***Fair value***	
		31 December 2008	*31 December 2007*	*31 December 2008*	*31 December 2007*
Financial assets		**1 589 112**	**1 383 461**	**1 589 112**	**1 383 461**
Long-term shares and interests*		3 015	1 663	3 015	1 663
Available-for-sale financial assets	AFS	-	14 972	-	14 972
- non-current		-	-	-	-
- current		-	14 972	-	14 972
Financial assets held to maturity,	HtM	1 453	1 974	1 453	1 974
- non-current		1 453	1 974	1 453	1 974
- current		-	-	-	-
Current financial assets at fair value		-	1 134	-	1 134
Other financial assets	LaR	7 787	8 106	7 787	8 106
- non-current		110	4 871	110	4 871
- current		7 677	3 235	7 677	3 235
Trade receivables	LaR	1 281 457	1 200 207	1 281 457	1 200 207
Derivative financial instruments, of which:	FVtPoL	159	12 334	159	12 334
- *forward* foreign currency contracts	FVtPoL	-	1 311	-	1 311
- foreign currency *option* contracts	FVtPoL	159	9 982	159	9 982
- Interest rate options		-	-	-	-
- Interest rate swaps (IRS)		-	1 041	-	1 041
Cash and cash equivalents	FVtPoL	295 241	143 071	295 241	143 071

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

	Category in accordance with IAS 39	***Carrying amount***		***Fair value***	
		31 December 2008	*31 December 2007*	*31 December 2008*	*31 December 2007*
Financial liabilities		**1 473 954**	**927 594**	**1 473 954**	**927 594**
Bank overdraft	FLaAC	116 691	84 276	116 691	84 276
Interest-bearing bank loans and borrowings, of which:	FLaAC	278 948	120 238	278 948	120 238
- long-term with floating interest rate*	FLaAC	99 782	6 595	99 782	6 595
- short-term with floating interest rate*		178 298	111 212	178 298	111 212
- long-term with fixed interest rate	FLaAC	-	756	-	756
- short-term with floating interest rate*		-	58	-	58
- other - short-term	FLaAC	868	1 617	868	1 617
Other liabilities (non-current), of which:	FLaAC	86 887	37 983	86 887	37 983
- finance lease and hire purchase contract liabilities .	FLaAC	37 971	12 716	37 971	12 716
- guarantee payments and deposits		34 006	17 017	34 006	17 017

(in PLN thousands)

- Other	FLaAC	14 910	8 250	14 910	8 250
Trade payables	FLaAC	866 038	680 228	866 038	680 228
Short-term lease		13 792		13 792	
Derivative financial instruments, of which:	FVtPoL	111 598	4 869	111 598	4 869
Recognised in revaluation reserve	FVtPoL	64 427		64 427	
- foreign currency *option* contracts	FVtPoL	53 820		53 820	
- *forward* foreign currency contracts	FVtPoL	10 607		10 607	
Recognised in the profit and loss	FVtPoL	41 171	4 869	41 171	4 869
- foreign currency *option* contracts	FVtPoL	45 012	4 869	45 012	4 869
- *forward* foreign currency contracts	FVtPoL	2 159		2 159	

Abbreviations used:

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

38.2. Items of income, expense, gains and losses recognized in the income statement divided by financial instrument categories

Year ended 31 December 2008

	Category in accordance with IAS 39	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Impairment (write off) / reversal*	*Valuation gains / (losses)*	*Gain / (loss) on disposal*	*Other*	*Total*
Financial assets		***7 003***	***15 855***	***-***	***23 573***	***2 887***	***311***	***49 629***
Shares and interests		-	-	-	(134)	(9)	-	(143)
Available-for-sale financial assets	AFS	-	-	-	-	748	-	748
Financial assets held to maturity,		181	-	-	34	32	-	247
Other financial assets	LaR	215	1 014	-	-	711	-	1 940
Trade and other receivables	LaR	852	4 063	-	-	(1 614)	315	3 616
Derivatives	FVtPoL	-	-	-	23 673	3 019	-	26 692
Cash and cash equivalents	FVtPoL	5 755	10 778	-	-	-	(4)	16 529

	Category in accordance with IAS 39	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Impairment (write off) / reversal*	*Valuation gains / (losses)*	*Gain / (loss) on disposal*	*Other*	*Total*
Financial liabilities		***(52 149)***	***(2 102)***	***-***	***(51 940)***	***(14 472)***	***885***	***(119 778)***
Bank overdrafts		(1 708)	-				(262)	(1 970)
Interest-bearing bank loans and borrowings	FLaAC	(20 851)	8 991	-	-	-	(912)	(12 772)
Debentures	FLaAC	(25 441)	-	-	-	-	-	(25 441)
Other non-current liabilities	FLaAC	(262)	821	-	-	-	-	559
- leases		(262)	(371)	-	-	-	-	(633)
Trade and other payables, of which:	FLaAC	(3 887)	(11 801)	-	-	-	2 059	(13 629)
- leases		(1 616)	(1 863)	-	-	-	-	(3 479)
Derivatives	FVtPoL	-	(113)	-	(51 940)	(14 472)	-	(66 525)
Total		**(45 146)**	**13 753**	**-**	**(28 367)**	**(11 585)**	**1 196**	**(70 149)**

(in PLN thousands)

Year ended 31 December 2007

	Category in accordance with IAS 39	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Impairment (write off) / reversal*	*Valuation gains / (losses)*	*Gain / (loss) on disposal*	*Other*	*Total*
Financial assets		***5 105***	***(6 545)***	***2 221***	***5 434***	***3 004***	***559***	***9 778***
Shares and interests		-	-	(529)	-	-	-	(529)
Available-for-sale financial assets	AFS				52	353		405
Financial assets held to maturity,		548	-	-	-	-	-	548
Financial assets at fair value					1 128			1 128
Other financial assets	LaR	2 815	560	-	-	35	-	3 410
Trade and other receivables	LaR	1 656	(11 024)	2 750	-	-	559	(6 059)
Derivatives	FVtPoL	-	831	-	4 254	2 616	-	7 701
Cash and cash equivalents	FVtPoL	86	3 088	-	-	-	-	3 174

	Category in accordance with IAS 39	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Impairment (write off) / reversal*	*Valuation gains / (losses)*	*Gain / (loss) on disposal*	*Other*	*Total*
Financial liabilities		***(23 034)***	***1 215***	***821***	***(230)***	***-***	***226***	***(20 962)***
Bank overdrafts		(317)					(241)	(558)
Interest-bearing bank loans and borrowings	FLaAC	(6 619)	-	-	-	-	(380)	(6 999)
Debentures	FLaAC	(13 424)	-	-	-	-	-	(13 424)
Other non-current liabilities	FLaAC	(145)						(145)
- leases		(145)						(145)
Trade and other payables, of which:	FLaAC	(2 529)	1 215	821	-	-	887	394
- leases		(882)	307	-	-	-	-	(575)
Derivatives	FVtPoL				(230)			(230)
Total		**(17 929)**	**(5 330)**	**3 042**	**5 204**	**3 004**	**825**	**(11 184)**

Abbreviations used:

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

(in PLN thousands)

38.3. 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 2008

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	525	259	-	-	-	-	784
Liabilities arising from finance leases and hire purchase contracts recognised in the balance sheet as interest-bearing non-current bank loans and borrowings	-	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-	-
Total	525	259	-	-	-	-	784

Floating rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	295 241	-	-	-	-	-	295 241
Bank overdrafts	97 739	18 952	-	-	-	-	116 691
Working capital facility	162 786	1 960	6 169	800	11 301	76 702	259 718
Leases	13 267	6 047	21 802	2 971	1 868	5 024	50 979
Debentures	40 629	144 168	-	-	173 000	-	357 797
Borrowings	16 380	2 850	-	-	-	-	19 230
Total	626 042	173 977	27 971	3 771	186 169	81 726	1 099 656

Year ended 31 December 2007

Fixed rate

	<1 year	*1-2*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Liabilities arising from finance leases and hire purchase contracts recognised in the balance sheet as interest bearing items	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

39. 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.

(in PLN thousands)

	31 December 2008	*31 December 2007*
Interest-bearing bank loans, borrowings and debentures	753 611	559 306
Trade and other payables	1 283 353	901 019
Less cash and cash equivalents	295 241	143 071
Net debts	1 741 548	1 317 254
Equity	1 168 796	1 075 566
Capital and net debt	**2 910 344**	**2 392 820**
Gearing ratio (net debts/capital and net debts)	59,8%	55,1%

40. Incentive plan for the management 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 management of the Company and major subsidiaries. As at 31 December 2008 the balance of provision for this plan recognised as Group's administrative expenses amounts to PLN 18,016 thousand. The above mentioned provision is recorded correspondingly as reserve capital. For details of the plan see note 29.3.

41. 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:

	Year ended 31 December 2008	*Year ended 31 December 2007*
Rendering of services		
- revenue accounted for using the method of contract completion for a given period (invoiced)	3 320 460	2 738 501
-other revenue form rendering services related to main operating activities (adjusted upwards)	33 897	120 197
Total	**3 354 357**	**2 858 698**
Total amount of incurred expenses and recognised gains		
(less recognised losses)	3 311 102	2 806 927
Received advance payments	284 266	97 857
Retained amounts	94 303	74 286
Gross amount owed by employers for works under the contract (asset)	1 507 321	1 105 361
Gross amount owed to employers for works under the contract (liability)	1 272 891	892 635

(in PLN thousands)

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:

To settle when due:	*31 December 2008*	*31 December 2007*
- over 12 months	53 171	46 896
- up to 12 months	41 132	27 389
Total	**94 303**	**74 286**

42. Employment structure

The average employment in the Group over the period of 2008 and over the period of 2007 was as follows:

	31 December 2008	*31 December 2007*
The Board of Directors of the parent company	4	4
The Boards of Directors of Group companies	58	51
Administration department	985	1 111
Sales department	295	414
Production department	10 576	8 573
Other	1 905	1 434
Total	**13 823**	**11 587**

43. Assets pledged as security

	31 December 2007	*31 December 2007*
Property, plant and equipment*	528 625	89 422
Inventories	161 012	151 012
Other	3 528	112
Total	**693 165**	**240 546**

* At 31 December 2008 the carrying amount of real property in the parent company, on which mortgage was established amounted to PLN 15.5 m (at 31 December 2007: PLN 20.3 m).

44. Events after the balance sheet date

In the Management opinion the following events occurred after the balance sheet date which may have an effect on Group's future results:

In the parent company:

- Executing on 29 January 2009 a contact with the Cracow Municipality (Gmina Miejska Kraków) represented by the Office for Communal Infrastructure and Transport in Cracow (Zarząd Infrastruktury Komunalnej i Transportu w Krakowie) (Employer) whose subject matter is execution of construction works - building the eastern stand together with corners, dismantling existing western stand, making a diaphragm wall at the western stand at the „Wisła Kraków" football stadium at ul.Reymonta 22 in Cracow. The total value of the net contract is PLN 118.2 m.
- Concluding on 9 March 2009 a contract with GDDKiA (General Directorate for National Roads and Motorways) for realisation of task titled „Construction of section of A-1 motorway from "Sośnica" junction to "Maciejów" junction (with the junction) under the task: Construction of „Sośnica" junction at the crossing of A-1 and A-4 motorways together with the "Sośnica-Maciejów" section (with the

(in PLN thousands)

junction) of A-1 motorway from km 510+530 to km 518+734.34." The value of the net contract was PLN 899.6 m. The contract was concluded by a consortium of companies: 1. Leader:Polimex-Mostostal S.A., 2. Partner: Doprastav, a.s., Drieňová 27, 826 56 Bratislava , Slovak Republic, 3. Partner: Eurovia Polska S.A., ul. Fabryczna 20B, 53-609 Wrocław, 4. Partner: Przedsiębiorstwo Robót Drogowych i Mostowych S.A., ul. 24 Kwietnia 4; 47-200 Kędzierzyn –Koźle. The financial contribution of Polimex-Mostostal S.A., the Consortium Leader, in the realisation of the Contract was specified at 43.69%. In connection with the above mentioned realisation contract the Issuer entered into a bank guarantee agreement with Kredyt Bank S.A. amounting to PLN 109.7 m.

- Entering into the contract with Cracow Municipality represented by the Management Board of Municipal Infrastructure and Transport in Cracow whose subject matter is carrying out construction works – building the western stand and squares, car parks and access roads – at the "Wisła Kraków" football stadium at ul. Reymonta 22 in Cracow. The total value of the net contract is PLN 125.6 m.

In the Management opinion the following events occurred after the balance sheet date which may have an effect on the future results of Issuer's Group companies :

- Torpol Sp. z o.o.

- Concluding on 09.01.2009 by the Consortium composed of : - "PKP Energetyka" Sp. z o.o. with registered office in Warsaw (Consortium Leader), Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. with registered office in Warsaw, Feroco S.A. with registered office in Poznań, Bombardier Transportation (ZWUS) Polska Sp. z o.o. with registered office in Katowice, Pomorskie Przedsiębiorstwo Mechaniczno - Torowe Sp. z o.o. z siedzibą w Gdańsku, Torpol Sp. z o.o. z PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw the contract for modernisation of E-65 Warsaw-Gdynia railway line at the section from km 287.700 (on Szymankowo – Lisewo line) to km 315.700 (on Pszczółki - Pruszcz Gdański line) covered with the area of Local Steering Center (Lokalne Centrum Sterowania) in Tczew, under the Project No 2005/PL/16/C/PT/001 "Modernisation of E-65 railway line, Warsaw-Gdynia section, Stage 2. The contract net price for the whole Consortium amounted to EUR 250.2 m. The value of works to be completed by TORPOL Sp. z o.o. amounted to EUR 22.0 m net.

- Naftobudowa S.A.:

- Executing on 01.04.2009 a contract with Operator Logistyczny Paliw Płynnych Sp. z o.o for completion of the investment task titled "Construction of 2 x 15,000 m3 (Pb) storage tanks - contracting" in Baza Paliw Nr 1 (Fuel Depot No 1) in Koluszki. For the completion of the works above the consideration for Naftobudowa S.A. was fixed at the amount of PLN 23.2 m.

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