

POLIMEX-MOSTOSTAL S.A.

MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2015



Warsaw, 18 March 2016

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1. Business operations of Polimex-Mostostal S.A.

Polimex-Mostostal S.A. (henceforth: the "Issuer", the "Company", the "Company/Parent") is an engineering and construction company operating since 1945. In the reporting period, the Issuer along with companies included in the Polimex-Mostostal Capital Group (henceforth: The "Group", the "Capital Group", "Polimex-Mostostal Group") continued its business operations. As a general contractor and a consortium member it provided engineering and construction services for the following sectors: power engineering, chemical, refinery and petrochemical, environment protection and industrial construction. Thanks to its production capacity and modern tooling, the Group has maintained its position of a renowned manufacturer and exporter of steel structures and products, to include grids. In the reporting period, the Issuer provided also services involving modern anti-corrosion protection, in particular using the hot-dip galvanizing method.

The Capital Group has been active in Poland and on foreign markets, mostly in the EU member states, where it has sold a substantial share of its products and steel structures, provided assembly and construction services.

The Company has operated in the following segments: Power Engineering, Petroleum Industry (crude oil, natural gas, chemicals), Manufacturing, Industry, Infrastructure Construction and Other Activities.

In the energy sector, the offer of the Company and Capital Group has included comprehensive construction of facilities for power generation and transmission to industrial and municipal users, as well as construction of auxiliary facilities, such as combustion gas treatment installation, water treatment facilities, fuel supply and slag collection installation. Further, the Group has provided services including overhaul, improvement and maintenance of power facilities.

In the petrochemical industry, the Company and Group companies have offered general contractor's services regarding production facilities for chemical plants and refineries, biofuel plants and infrastructure for transmission and storage of gas and liquid fuel. Additionally, they have delivered and assembled specialized production installations and supplied all sorts of tanks, pipelines, furnaces and similar devices. Further, they carried out overhaul of production lines, also without any downtime, which required compliance with specific regime.

The petrochemical sector includes activities of the Issuer and Capital Group companies related to environmental protection, among others construction or extension of sewage treatment, municipal and industrial waste treatment plants, also those used to treat emissions from industrial installations.

Carrying out manufacturing operations makes the Company stand out among construction companies. No competitors operating on the Polish market have manufacturing plants offering such a broad range of steel products for domestic and foreign clients. With respect to manufacturing, the Company has specialized in steel structures for conventional and wind power plants, petrochemical industry and chemical sector. The offer includes a broad range of load-bearing structures and casing for industrial construction, as well as catwalk grids, rack systems, elements of boarding and scaffolding for construction purposes.

In the infrastructure construction, the Company's historical activities included design and construction of roads with full technical infrastructure. Polimex-Mostostal S.A. has suspended this type of activities, having resigned from new contracts in this sector. The Company has withdrawn from the general construction segment, too. Such a strategy is to provide profit in the years to come.

The value of the Company's portfolio of contracts planned to be fulfilled in the upcoming years is high (PLN 3.9 bn).

Since January 2014, Polimex-Mostostal S.A., in the form of a consortium, has carried out a contract for construction of two new power units in Opole Power Plant. The contract is a crucial one in the power engineering sector, which is of strategic importance for the Company. This is historically the largest and most important investment in the Polish power engineering sector. Its gross value amounts to PLN 11.5 bn, out of which approx. 42%, i.e. PLN 4.83 bn is assigned to Polimex-Mostostal S.A. Under the contract, the Company shall provide turbine islands and build a cooling tower with a cooling water system. Further, it will provide electric installations with control and measurement instrumentation and automatic devices. It will also participate in project works. The planned commissioning of unit no. 5 shall take place in the second half of 2018 and of unit no. 6 early in 2019.

Further, Polimex-Mostostal S.A. (in a consortium) is building a new 1,075 MW power unit in Koźnice power plant. The scope of the engagement includes assembly and construction work with the total value of approx. PLN 6.3 bn, out of which 42.7% is assigned to Polimex-Mostostal S.A.

In 2015, operational restructuring of the Capital Group was completed. A new organizational structure was established, centralizing support functions; two segments, namely Petrochemistry and Power Engineering, were separated in the organizational structure of the Group and transferred to commercial companies: Naftoremont – Naftobudowa Sp. z o.o. and Polimex Energetyka Sp. z o.o. The enterprise has become more flexible and competitive due to reduced operating expenses and more transparent organizational structure.

Naftoremont-Naftobudowa Sp. z o.o. operates in the petrochemical sector (chemicals, crude oil and natural gas). Its activities include deliveries, assembly and startup of processing installations, refinery furnaces, steel

structures, warehouse silos, technological pipelines, as well as construction and assembly works, overhaul and maintenance of plants in various industries. The purpose of separating the petrochemical sector to Naftoremont – Naftobudowa Sp. z o.o. was to incorporate an entity that would become a preferred partner in engineering and technological engagements performed for petrochemical and chemical sector entities.

Polimex Energetyka Sp. z o.o. has been operating in the sector of construction, overhaul, assembly and maintenance services provided to power companies. Polimex-Energetyka includes two organizational units that have continued the business operations of the segments, i.e. (1) project performance unit carrying out large power projects involving general contractor's role, assembly, improvement and overhaul for power engineering sector entities and (ii) service unit carrying out smaller scale projects involving assembly, overhaul and servicing of boilers, pipelines and technical devices for power engineering sector entities. The purpose of spinning off Polimex-Energetyka Sp. z o.o. was to incorporate an entity that would become a preferred engineering and technological partner in business projects of power engineering sector entities involving strategy and development.

In July 2015 a new development-focused strategy was adopted by the Group for the years 2016-2020. The key objective of the strategy is to build value of the Polimex-Mostostal Capital Group. New plans assume development of the Group based on two pillars, i.e. power engineering and petrochemical (natural gas, crude oil and chemicals) sectors, supported by industrial construction and manufacturing, performed by a separate production company located in the Siedlce plant.

The objective for 2020 as determined by the Capital Group is to become a leader on the Polish industrial construction market, using full potential of the EPC¹ contractor, balancing the revenue sources and improving the contract performance process. The objective shall be achieved through improved sales efficiency on the existing markets, rebuilding the position on selected markets and with key business partners, entering selected new market segments, returning to foreign Western European markets and maximizing the portfolio share of contracts performed under the EPC model.

Further, the Group shall grow the support activities, to be performed by SPV's providing administrative support (accounting, tax, HR, legal), offering equipment for lease and design services.

According to the Management Board, implementation of the holding structure shall bring a number of benefits, to include: improved ability to obtain guarantees to secure contract performance risk, ability to obtain funding or partners to carry out selected projects, separating risks related to the development of new operations of the segment companies, simplified monitoring of profitability of each business area, implementing tax management structure in the Capital Group, fair and transparent structure of the Group, focused on core competencies only.

Focusing the business of the Polimex-Mostostal Capital Group on the four pillars as defined in the strategy should bring substantial long-term stability and predictability of financial performance, improvement of the average operating margin and further gradual reduction of the debt ratio.

Current and financial assets of the Capital Group that do not qualify to the above categories (i.e. not used in the power engineering, petrochemical, industrial construction or manufacturing) due to their low contribution to the achievement of strategic objectives and Management Board's focus on key business areas, shall be reclassified to assets held for sale and thus improve current liquidity of the Company. The company PRInż-1 qualifies for this kind of treatment since the Capital Group has definitely withdrawn from operation in the road infrastructure segment.

New development plans have been agreed with creditors. An annex to the restructuring agreement that projected the sale of Mostostal Siedlce related to repayment of a portion of the Company's debt has been concluded, and Mostostal Siedlce has remained a part of the Capital Group.

On the whole, despite a tense situation as regards liquidity, in 2015 the Company continued its operating activities by fulfilling major contracts, e.g. in the demanding power engineering industry.

Improving liquidity, which will result in gradual regaining of trust with investors, debtors, clients and sub-contractors, remains the priority.

1.1. Revenue and its structure

In 2015, Polimex-Mostostal S.A. generated sales revenue of PLN 2,300,269,000 (up by 35.1% year-on-year). Sales revenue for 2015 was mostly affected by works performed under Opole and Kozienice strategic projects and a growth in revenue generated by the Production segment.

¹ EPC (engineering, procurement, construction).

The share of the **operating segments** of Polimex-Mostostal S.A. in sales generated in 2015:

Segment	Change 2015 / 2014	2015		2014		PLN'000
		Value	Share	Value	Share	
		Manufacturing	23.7%	378 678	16.5%	
Industry	(66.6)%	41 585	1.8%	124 461	7.3%	
Power engineering	87.7%	1 760 039	76.5%	937 667	55.1%	
Petrochemistry (crude oil, natural gas, chemicals)	(70.4)%	31 626	1.4%	106 979	6.3%	
Infrastructure construction	(90.4)%	21 169	0.9%	221 333	13.0%	
Other	940.5%	67 172	2.9%	6 456	0.3%	
Total sales revenue	35.1%	2 300 269	100.0%	1 702 959	100.0%	

The Power Engineering segment has had the largest share in sales: 76.5% (a 87.7% increase in the sales value year on year), followed by Production: 16.5% (a 23.7% increase in the sales value year on year), Other Activities: 2.9% (a 940.5% increase in the sales value year on year), Industry: 1.8% (a 66.6% decrease in the sales value year on year), Petrochemistry: 1.4% (a 70.4% decrease in the sales value year on year) and Infrastructure Construction: 0.9% (a 90.4% decrease in the sales value year on year).

1.2. Core products and services

The scope of business carried out by Polimex-Mostostal S.A. in 2015 (key products and services):

- Preparing pre-project studies and analyses, as well as initial and detailed design documentation;
- Comprehensive support of the investment process, assembly of deliveries of equipment and industrial installations;
- Acting as general contractor providing industrial and public utility facilities;
- Assembly of specialist devices, in particular for petrochemical and power engineering sectors;
- Services involving continuous and comprehensive support for industrial plants;
- Manufacturing of steel structures for industrial construction, mainly power engineering and petrochemical sectors;
- Manufacturing, supplies and assembly of steel structures used for construction of shopping centers, storehouses, sports and public utility facilities, gas stations and storage terminals; the Company's contracts are fulfilled using proprietary, customized technical solutions or those tailored to specific needs of clients;
- Manufacturing and supply of bridges, viaducts, catwalks and overpasses for road construction;
- Manufacturing and supply of pressure-welded and pressed MOSTOSTAL type catwalk grids with fastening elements ensuring fast and safe assembly; the grids are used in manufacturing plants as a component of catwalks serving production lines and passageways along pipelines and tanks. Further, they are used as footpaths on catwalks and bridges, duct inlet covering and stair steps;
- Manufacturing and supplies of rack systems, pallets and containers to transport a variety of products, and a broad range of construction accessories, to include construction supports for ceilings;
- Services involving anti-corrosion protection of steel structures through:
 - Hot-dip galvanizing;
 - Duplex system (galvanizing plus painting using a hydrodynamic method);
 - Painting using hydrodynamic method.

1.3. Sales and supply markets

Value and geographical structure of sales of Polimex-Mostostal S.A. in 2015:

Market	Change 2015 / 2014	2015		2014		PLN'000
		Value	Share	Value	Share	
		Country	45.4%	2 068 249	89.9%	
Export sales	(17.2)%	232 020	10.1%	280 112	16.4%	
Total sales revenue	35.1%	2 300 269	100.0%	1 702 959	100.0%	

Domestic sales increased as compared to 2014 (by 45.4%). The Polish market representing 89.9% of total sales revenue remained the key market in 2015. The share of export sales in total sales went slightly down from 16.4% in 2014 to 10.1% in 2015.

Key clients in 2015 included: PGE Górnictwo i Energetyka Konwencjonalna S.A., ENEA Wytwarzanie Sp. z o.o., PKN Orlen S.A., Generalna Dyrekcja Dróg Krajowych i Autostrad, Polimex Energetyka Sp. z o.o., Molina Sp. z o.o. 1, Wartsila Finland Oy Power Plants, Mitsubishi Hitachi Power Systems Ltd. S.A. Oddział w Polsce, Peri

GmbH, TULCON S.A. Sales revenue exceeded the threshold of 10% of the total sales revenue generated by Polimex-Mostostal S.A. in transactions with ENEA Wytwarzanie S.A. and PGE Górnictwo i Energetyka.

Key suppliers in 2015 included: Polimex Opole Sp. z o.o. Sp.k., Polimex Energetyka Sp. z o.o., Przedsiębiorstwo Modernizacji Urządzeń Energetycznych REMAK S.A., INSTAL-WARSZAWA S.A., Przedsiębiorstwo Robót Inżynieryjnych PRInż-1 Sp. z o.o., Famur Famak S.A., Naftoremont-Naftobudowa Sp. z o.o., ZK-Termochem, Przedsiębiorstwo Remontowo-Handlowe BOBREK Sp. j., Centrala Zaopatrzenia Hutnictwa S.A., Huta Cynku „Miasteczko Śląskie” S.A., ABB Sp. z o.o. The value of purchases exceeded the threshold of 10% of the Company's total sales revenue only in transactions with Polimex Projekt Opole Sp. z o.o.

1.4. Material related party transactions concluded by the Issuer or its subsidiary on non-arm's length terms

According to the Issuer's knowledge, in 2015 by Issuer and its subsidiaries related party transactions were concluded on arm's length terms, their nature and conditions resulting from operating activities.

1.5. Investments: property, plant and equipment and intangible assets

Investment outlays of Polimex-Mostostal S.A. for property, plant and equipment and intangible assets in 2015 amounted to PLN 1,860,000 with depreciation/amortization of PLN 28,944,000.

Structure of capital expenditure incurred by Polimex-Mostostal on property, plant and equipment and intangible assets in 2015:

		PLN'000	
	Change 2015/ 2014	2015	2014
Investments in property, plant and equipment			
Land and buildings	(49.5)%	106	210
Equipment and machines	(87.1)%	626	4 839
Other fixed assets	(91.6)%	567	6 759
Fixed assets under construction, including advance payments	-	70	(1 801)
Total	(86.3)%	1 369	10 007
Investments in intangible assets	882.0%	491	50
Total property, plant and equipment and intangible assets	(81.5)%	1 860	10 057

In 2015, improvement and replacement of machinery and equipment accounted for most investment outlays in Polimex-Mostostal S.A. The total value of the investment outlays has decreased substantially compared to 2014. The reduction in investment outlays arises among others from a significant mitigation of investment programs.

1.6. Capital investments

1.6.1. Changes in the investment portfolio

In 2015, the Company carried out works under the Kozienice project, as well as power engineering and petrochemical assignments won by the segments before separation of the Segment Companies. The Opole project is carried out by Polimex Projekt Opole Sp. z o.o. Sp.k., a subsidiary.

In 2015, the Capital Group has operated based on a holding structure, with the Issuer acting as the shared services center for the Capital Group companies, providing HR, accounting, tax and legal services, along with performance of the above construction contract. On 1 July 2015, the shared services center was separated in the form of an enterprise (human resources) and transferred to Polimex Centrum Usług Wspólnych Sp. z o.o. (formerly: Polimex Hotele Sp. z o.o.).

Polimex-Mostostal S.A. plans to dispose of the following companies: Grande Meccanica SpA, Stalfa Sp. z o.o., Czerwonograd ZKM, Polimex-Mostostal ZUT Sp. z o.o., Polimex - Mostostal Ukraina SAZ and Polimex-Mostostal Wschód Sp. z o.o. and PRInż-1 Sp. z o.o., as well as assets and liabilities of an organized part of the enterprise, i.e. the Rudnik plant.

In the current financial year, on 1 July 2015, the company WBP Zabrze Sp. z o.o. was put into liquidation. Following the losing of control over this company, financial data of WBP Zabrze Sp. z o.o. were deconsolidated as at 1 July 2015. The loss of control is a result of the Parent losing power over the entity, which has discontinued its operations and therefore its performance does not affect the Parent.

On 22 October 2015 Polimex-Mostostal S.A. acquired 100% of shares in Polimex Development Katowice Sp. z o.o. from Polimex Energetyka Sp. z o.o., its subsidiary.

Name changes of the existing companies and new companies incorporated in the current financial year:

- On 18 June 2015 Polimex-Hotele Sp. z o.o. changed its name to Polimex Centrum Usług Wspólnych Sp. z o.o.
- On 28 July 2015 Polimex Projekt Kozienice Sp. z o.o. purchased one share in the increased share capital of Polimex Projekt Opole spółka z ograniczoną odpowiedzialnością. On 19 August 2015 Polimex Projekt Kozienice Sp. z o.o. changed its name to Polimex Opole Sp. z o.o.
- On 10 September 2015 reorganization of Polimex Projekt Opole spółka z ograniczoną odpowiedzialnością into Polimex Opole spółka z ograniczoną odpowiedzialnością spółka komandytowa, which was assigned the number KRS 0000574703. Polimex-Mostostal S.A. is a majority shareholders in the transformed company, entitled to 99.9% of its profits, according to the adopted parity, was registered.
- On 22 October 2015 a deed of incorporation of Infrastruktura Drogowa Sp. z o.o. was signed, with the core business defined as construction of roads and motorways, residential and non-residential buildings and other facilities. The new company was entered in the National Court Register on 13 January 2016.
- On 22 October 2015 a deed of incorporation of Polimex CUW Sp. z o.o. was signed, with the core business including business and management consulting, legal and accounting services. The new company was entered in the National Court Register on 13 January 2016.
- On 22 October 2015 a deed of partnership of Mostostal Siedlce Sp. z o.o. Sp.k. was signed, with the core business defined as manufacturing of metal construction, and Mostostal Siedlce Sp. z o.o. as the general partner, Polimex-Mostostal S.A. as a limited partner and Polimex Development Katowice Sp. z o.o. as a limited partner. The partnership was entered in the National Court Register on 27 November 2015.
- On 27 November 2015 the change of name of Polimex Venture Development Sp. z o.o. to Polimex Budownictwo Sp. z o.o. was registered.
- On 1 December 2015 notarized deeds were signed for Polimex Budownictwo Sp. z o.o. Sp.k.; (partnership deed) and Polimex Operator Sp. z o.o. (incorporation deed). The new company was entered in the National Court Register on 17 December 2015.
- On 3 December 2015 the change of name of Polimex Development Katowice Sp. z o.o. to Polimex SPV 1 Sp. z o.o. was registered.

In 2015, no other changes in the investment portfolio occurred.

1.6.2. Investment plans

Major investment projects concerning the Production segment include installation of new components of production lines, replacement and improvement works, if the replacement is necessary in order to maintain high quality of manufactured products. Capital expenditure planned for 2016-2017 and potential development projects to be performed in future amount to PLN 45.5 M.

In other segments, investment plans for 2016 have been limited to the necessary minimum and include mostly improvement and replacement. Their amount is lower than the planned depreciation.

As regards equity investments, no new acquisitions are planned. The Issuer intends to continue the divestment of selected companies and assets which are not closely related to its core business.

1.6.3. Assessing ability to fulfil investment plans, including capital investments, compared to the funds available, to include possible changes in the funding structure

In line with the Financial Debt Service Agreement signed with the creditors, Polimex-Mostostal S.A. is carrying out a restructuring and reorganization project at the level of the Company. It includes divestment activities regarding redundant real property and defined entities in which the Company holds interests, but which do not match the core business profile.

In 2015, the Company adopted the Sustainable Development Strategy of Polimex-Mostostal Group for 2016-2020, which determines the path to achieve the position of a leader on the Polish industrial construction market, using its full EPC potential, balancing revenue streams and improving contract delivery procedures. The Company focuses on rapid growth on the power engineering and petrochemical market. Improved efficiency of the production segment and regaining a good position on the industrial market are among its objectives, too.

Company's plans for the coming 12 months do not include any new capital investments. Performance of strategic contracts and development of segment companies' operations will enable the Group to generate surplus funds to be used for increase of working capital and debt repayment according to the schedule agreed with the Creditors.

1.7. Major R&D achievements

The core business of Polimex-Mostostal S.A. does not necessitate carrying out of basic R&D works.

1.8. Agreements with material effects on the Group's operations

Financing agreements

On 10 July 2015 an agreement establishing a registered pledge on bank accounts of the Company was concluded. The registered pledge secures all debts arising from the Financial Debt Service Agreement concluded by the Company. As at 2 July 2015, the total value of secured debt amounted to PLN 5,146,434.47 and EUR 455,783.49. The aforesaid registered pledge has been set up to the maximum value of the collateral, i.e. PLN 6,400,000,000. The Company was obliged to set up registered pledges on its bank accounts opened after the date of the Agreement.

On 16 November 2015 the Company and its creditors being parties to the Financial Debt Service Agreement of 21 December 2012 with Agencja Rozwoju Przemysłu S.A. as the holder of the New Bonds signed an Initial Agreement on New Strategy for the Polimex-Mostostal Capital Group.

The conclusion of the Initial Agreement was the condition precedent of further implementation of Sustainable Development Strategy and further restructuring with the direct objective to improve the stability of operations and value of the Mostostal-Polimex Capital Group.

Under the Initial Agreement, the Creditors agreed to keep Mostostal Siedlce production plant within the structure of the Capital Group. Pursuant to the Agreement, Mostostal Siedlce plant is to be spun off by the Company and contributed or sold to a new business named Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, which is to become a joint and several debtor in the existing loan agreements signed by Bank PKO BP S.A. (of approx. PLN 100 M) and Bank Pekao S.A. (of approx. PLN 50 M), secured on the assets of Mostostal Siedlce. According to the Initial Agreement, the existing debt can be refinanced with a new loan intended for the repayment of the existing loan liabilities, to be originated to Mostostal Siedlce Spółka komandytowa by Bank PKO BP S.A. and Bank Pekao S.A. Further, the Initial Agreement determines principles, terms and financial conditions on which Mostostal Siedlce Spółka komandytowa shall service the debt arising from these loans or from the refinancing loan, terms of refinancing, collateral and principles of transferring possible cash surplus to the Company.

The Initial Agreement was not binding, and the Parties shall be obliged to conclude the above transactions only when the relevant documentation is agreed and signed. The Parties are obliged, though, to keep due care in order to continue with negotiations regarding the issues described in the Initial Agreement.

The Company has resigned from the sale of Mostostal Siedlce Plant since its Management Board expects that as a result of the adopted Strategy, maintaining the entity within the Polimex-Mostostal Capital Group shall bring more long-term benefits than disposing of it.

Contracts concluded after the end of the reporting period

On 29 January 2016, the Company and its creditors being parties to the Financial Debt Service Agreement of 21 December 2012, parties to the Creditors' Agreement of 12 September 2014 (including Agencja Rozwoju Przemysłu S.A. as the holder of New Bonds) signed documentation implementing decisions included in the Initial Agreement on the New Strategy for the Polimex-Mostostal Capital Group of 16 November 2015.

In the process of implementing the Initial Agreement, the Company and its Creditors concluded an annex to FDSA, pursuant to which the organized part of the enterprise called Mostostal Siedlce would remain within the Polimex-Mostostal Capital Group. Pursuant to the amended FDSA, Mostostal Siedlce plant is to be spun off by the Company and contributed to Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Spółka komandytowa ("Mostostal Siedlce"). Along with the assets, Mostostal Siedlce shall assume the Company's debt arising from loans originated by PKO BP S.A. (in the amount of PLN 100 M) and Pekao S.A. (in the amount of PLN 50 M), secured on the assets of Mostostal Siedlce ("Existing Loans"). At the same time, Mostostal Siedlce, PKO BP S.A. and Pekao S.A. concluded a term loan agreement to be used to refinance the Existing Loans ("Mostostal Loan Agreement") and an agreement determining terms, deadlines and financial conditions on which Mostostal Siedlce is to repay the debt arising from the Existing Loans until the time of their refinancing ("Financing Agreement"). Further, the amended FDSA, Financing Agreement and Mostostal Loan Agreement determine the principles of transferring possible cash surplus from Mostostal Siedlce to the Company.

Following the conclusion of the Annex to FDSA, Financing Agreement and Mostostal Loan Agreement, the existing collateral structure will change; assets contributed by the Company under the organized part of the enterprise to Mostostal Siedlce shall be released from the encumbrance arising from FDSA to the extent not related to the Existing Loans. The loans included in the FDSA shall be secured with registered and financial pledges on all shares in Mostostal Siedlce Sp. z o.o. (i.e. the general partner of Mostostal Siedlce) and on all shares in Polimex SPV1 (i.e. the limited partner of Mostostal Siedlce) and with a registered pledge on the titles the Company holds as a limited partner of Mostostal Siedlce. These pledges shall be established in favor of Agencja Rozwoju Przemysłu S.A. acting as the security agent representing creditors whose assets are included in the FDSA and shall collateralize FDSA receivables.

On 12 February 2016, an agreement was concluded to contribute ("In-kind Contribution") an organized part of the Company's enterprise ("OPE", "Agreement") pursuant to which OPE was disposed of and transferred to Mostostal Siedlce Sp. z o.o. Sp. k. ("Mostostal Siedlce"), a subsidiary of the Company, as a form of increasing the partner's In-kind Contribution in Mostostal Siedlce by PLN 165,057,742.93.

OPE is the organized part of the Company's enterprise located in Siedlce and includes an organized group of property, plant and equipment and intangible assets intended to be used for business purposes including production of support structures and casing for industrial construction, grids, rack systems and shoring system components, as well as works preventing corrosion.

OPE includes functions, departments and units performing tasks necessary to carry out the above business activities (including in particular Steel Structures Acquisition Department, Pallet Section, Grid Export Section, Domestic Grid Section, Galvanizing Service Acquisition Department, Offering and Calculation Section, Purchase Department, Preparation and Material Management Section, Inventory Warehouse Section, Railway Siding, Forwarding Department, Finished Products Warehouse Section, Production Function, Steel Structure Production Department, Operational Planning Department, Cooperation Section, Technology Department, Steel Structure Production Department, Grid Production Department, Operational Planning Department, Construction Department, Grid Production Unit, Anti-Corrosion Department, Operational Planning Department, Engineering Department, Galvanizing Department, Painting Department, Maintenance and Investment Department) organizationally, financially and functionally separated from the internal organizational structure, a group of tangible and intangible assets, liabilities, titles and obligations arising from concluded contracts, as well as employees of the Production and Service Function, including:

- a) intangible assets, property, plant and equipment;
- b) goods and materials;
- c) tools;
- d) office equipment;
- e) receivables and liabilities arising from OPE;
- f) intangible assets not recognized in intangible asset records;

- g) contracts related to business operations carried out;
- h) contractual liabilities;
- i) cash.

Further, OPE includes machinery and equipment, inventories, receivables, cash, trade liabilities and employees.

As at the date of the Agreement the value of OPE was estimated at PLN 165,057,742.93 (the In-kind Contribution value). If composition or value of individual OPE components or assumed liabilities determined in the course of revaluation carried out after the date of the Agreement differs from relevant contractual items, the Agreement shall be amended in terms of the number of OPE components and value, as well as assumed liabilities in accordance with the revaluation and the finally determined closing balance.

On 12 February 2016:

(a) Following the In-kind Contribution made by the Company, Mostostal Siedlce and Bank Polska Kasa Opieki S.A. ("Bank Pekao S.A."), acting as a mortgage administrator, concluded a blanket mortgage agreement to secure receivables of Bank Pekao S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. ("Bank PKO BP") arising from a term loan of PLN 150,000,000 originated to Mostostal Siedlce based on a loan agreement concluded on 29 January 2016 ("Term Loan") to be used for refinancing of the Existing Loans.

Pursuant to the Agreement, Mostostal Siedlce established a blanket mortgage up to PLN 225,000,000 on ownership titles to the developed plot of land, other plots of land, perpetual usufruct of land (including the title to buildings, structures and devices located thereon) and shares in these titles located in Siedlce and acquired by Mostostal Siedlce in the form of In-kind Contribution ("Real Property of Mostostal Siedlce"). The total value of the key amounts receivable by banks and secured with the mortgage is PLN 150 M.

(b) Once the In-kind Contribution is made to Mostostal Siedlce, a registered pledge on assets and rights of Mostostal Siedlce arising from a registered pledge agreement of 11 February 2016, concluded by Mostostal Siedlce as a pledgor and Bank Pekao S.A. as the pledge administrator, shall be extended to include movables and titles included in the In-kind Contribution as a collateral of receivables of Bank Pekao S.A. and Bank PKO BP from Mostostal Siedlce resulting from the Term Loan. The total value of the key amounts receivable by banks and secured with the mortgage is PLN 150 M.

(c) After making the In-kind Contribution, Mostostal Siedlce assumed the following credit liabilities of the Company:

- (i) a portion of receivables of Bank Pekao S.A. amounting to PLN 50,000,000.00 arising from a loan originated to the Company pursuant to a Loan Agreement of 26 July 2011 (as amended) ("Pekao Loan");
- (ii) a portion of receivables of Bank Pekao S.A. amounting to PLN 6,557,746.06 arising from a loan originated to the Company pursuant to a Loan Agreement of 16 December 2011 (as amended) ("PKO BP 1 Loan");
- (iii) a portion of receivables of Bank PKO BP amounting to PLN 93,442,253.94 arising from a loan originated to the Company pursuant to a Loan Agreement of 26 September 2008 (as amended) ("PKO BP 2 Loan" and jointly with Pekao Loan and PKO BP 1 Loan – "Existing Loans").

(d) Following the assumption of liabilities arising from the Existing Loans by Mostostal Siedlce and the Company making In-kind Contribution, Mostostal Siedlce concluded relevant agreements with Bank Pekao SA and Bank PKO BP, amending the mortgages established on the Real Property of Mostostal Siedlce so that the mortgages secure only receivables of Bank Pekao SA and Bank PKO BP arising from the Existing Loans assumed by Mostostal. Further, on 12 February 2016 Mostostal Siedlce and Bank Pekao SA concluded a blanket mortgage agreement regarding a portion of the Real Property of Mostostal Siedlce, formerly unencumbered in favor of

Pekao S.A., in order to secure the amounts receivable by Bank Pekao from Mostostal Siedlce due to the Pekao Loan. The mortgage is equivalent to the existing mortgage securing receivables of Bank PKO BP arising from PKO BP 1 Loan and PKO BP 2 Loan. The total value of the key amounts receivable by the banks and secured with the mortgage is PLN 150 M.

(e) Following the assumption of liabilities arising from the Existing Loans by Mostostal Siedlce as at the date of making In-Kind Contribution, a registered pledge on assets and rights of Mostostal Siedlce arising from a registered pledge agreement of 11 February 2016 concluded by Mostostal Siedlce as a pledgor and Bank Pekao S.A. as the pledge administrator, shall be extended to include movables and titles included in the In-kind Contribution as a collateral of receivables of Bank Pekao S.A. and Bank PKO BP from Mostostal Siedlce resulting from the Existing Loans, liabilities related to which were assumed by Mostostal Siedlce as at the date of making In-Kind Contribution. The total value of the key amounts receivable by the banks and secured with the mortgage is PLN 150 M.

(f) Further, following the In-Kind Contribution, Mostostal Siedlce has established other collateral forms commonly used to secure financial debt, such as assignment of contractual receivables, authorization to debit bank account, registered pledge and financial pledge on bank accounts as collateral of amounts receivable by the banks arising from Mostostal Loan Agreement and the Existing Loans.

The total book value of assets owned by Mostostal Siedlce and thus encumbered is PLN 309 M.

1.9. Effect of legal regulations on operations of the Company

On 28 June 2015 the Act amending Construction Code and certain other acts of 20 February 2015 (Law Journal of 2015 item 443) came into effect and amended the Construction Code (Law Journal of 2014 item 1409 as amended).

The amendment to Article 3.1 of the Construction Code introducing a new definition of a building structure. According to previous legal regulations, a building structure included both a building with installations and technical equipment and a structure constituting a technical and usable whole, along with installations, services and facilities, or a landscape structure. According to the new definition, a building structure includes a building, structure or landscape structure along with installations ensuring its usability in compliance with the intended purpose, erected with the use of construction materials.

Further, the amending Act changed the scope of obligations of construction process participants. Pursuant to Article 20.1 of the Construction Code, a designer is obliged to develop a construction design in a manner consistent with the requirements of the Act, provisions of administrative decisions regarding the intended structure, valid legal regulations and engineering principles. Thus, the lawmakers have resigned from listing administrative decisions for a design to comply with. Further, pursuant to Article 20.1.1c of the Construction Code, a designer is obliged to determine the structure impact zone in the design.

Article 22.3 of the Construction Code has been amended. Under the previous legal status, a construction site manager was obliged to manage the construction of a structure in a manner compliant with the design and construction permit. The amended version allows an alternative: the design or construction permit. Another amendment has been introduced in Article 25.1 with regard to owner's representative services, according to which inspection of the construction works involves a check of its compliance with the design or construction permit.

Pursuant to Article 28, construction works may be commenced based on the construction permit only, without waiting for the final decision.

The Act cancelling the obligation to obtain a construction permit with regard to family houses whose impact zone does not exceed the plot(s) of land included in their design is a significant change.

Pursuant to the amended Article 29.1.19a, construction of power grid with nominal voltage up to 1 kV, as well as water and heat supply network, sewage and telecoms systems, does not require a construction permit. Further, pursuant to Article 42.3, the construction of the above structures does not require the participation of a construction site manager and relevant supervisory bodies.

Pursuant to the amended Article 29.1.27 of the Construction Code, a construction permit is not required for the construction of indoor electric installation, water, sewage and heat supply piping.

Eliminating the obligation to obtain a construction permit in the above cases, the lawmakers extended the obligation to new ones. On the contrary, based on the amended Article 29.2.1, a construction permit is required to perform overhaul services in facilities and structures recorded in the national register of historic places. The newly introduced Article 29.4 directly requires a construction permit to carry out construction works at structures or facilities recorded in the national register of historic places.

Revoking of Article 29.2.13 allows a conclusion that a construction permit is necessary to carry out drawing works aimed at removal of shallows that have grown in the course of using pools, harbors and water courses and altered the technical depth and the underwater slopes. Revoking of Article 29.2.17 results in the obligation to obtain permits for installation of telecom cables in underground conduit systems.

Amended Article 29.2.9 introduces the obligation to obtain construction permits for construction and remodeling of land drainage systems. Pursuant to Article 29.2.10, permits are required to construct surface water intakes below 50 cubic meters of capacity, while Article 29.2.11 requires permits for remodeling of water supply, sewage, heat supply and telecom networks.

Further, the lawmakers have amended Article 30 of the Construction Code, regarding the obligation to notify of construction work. Pursuant to Article 30.1b, competent bodies must be notified of the construction of

the following structures: one-floor buildings up to 35 sq. m, used as support for ongoing maintenance of railways situated on land owned by the State Treasury; parking places for up to ten cars and structures up to 35 sq.m with the construction span up to 4.80 m, intended only for forestry purposes and located on land owned by the State Treasury. Pursuant to Article 30.1.2 a permits are required to perform overhaul of structures whose construction does not require a permit.

Pursuant to the amended Article 30.1.2a and 2b, overhaul of structures, except for those whose construction does not require a permit, remodeling structures used for agricultural production and auxiliary facilities in existing habitats, one-floor transformer station buildings and containers up to 35 sq. m, household sewage treatment plants with capacity up to 7.50 cubic meters per 24 hours, closed sewage tanks up to 10 cubic meters; exits from provincial, county and municipal roads and parking bays at these roads; temporary structures, not permanently attached to land and projected for subsequent demolition or moving; embankments with accumulation height up to 1 m, except of navigable rivers and outside national parks, reservations and landscape parks and their buffer zones; family swimming pools and garden pools up to 50 sq.m, bridges with the total length up to 25 m and height up to 2.50 m; seawalls and other surface reinforcement of riverbanks, streams and seashore; internal seashore and not classified as retaining structures; liquid gas installations with a single tank up to 7 sq.m, used to run gas installations in family houses; electric power grids with nominal voltage up to 1 kV, water, sewage, heating or telecom networks; underground conduit systems; structures used directly to carry out operations regulated by the Mining and Geological Law with regard to exploration of hydrocarbon deposits, require a construction notification. Such a notification is required for remodeling of gas and electric power grids other than listed in item 1.19a.a, while in accordance with the new item 2c of the said Article, for additional insulation of buildings from 12 to 25 m in height.

The lawmakers changed the deadline for investors to commence construction works, determining in Article 30.5b that a new notification is required after three years of the work commencement deadline indicated in the notification, if no works have been commenced since its submission.

Introducing an obligation to have a construction design stamped by a competent body immediately after the deadline for objection as specified in Article 30.5e is a new solution. Additionally, pursuant to the new Article 30.6a, the date of making an objection by a competent body shall be considered the date of posting a relevant decision in a post office run by a determined operator or entering it into an ICT system. Pursuant to the amended Article 30.7 of the Construction Code, a competent body may oblige the investor submitting a notification to obtain a construction permit also in cases when the performance of works included in the notification may breach a relevant planning permission.

On 11 November 2015 the Act of 25 September 2015 amending the Act on spatial planning and development (Journal of Laws of 2015 item 1713) came into effect, pursuant to which:

- it has been decided that if trade facilities with the selling floor over 2,000 sq.m are to be located in a municipality, the local spatial planning and development study must indicate the approved locations;
- it has been indicated that location of trade facilities with selling floor above 2,000 sq.m may be based only on local spatial plans;
- a principle has been adopted that local spatial plans indicating the location of the above facilities shall be prepared at least for the area whose functional and spatial structure will change as a result of construction of such facility.

Taxes

Polish tax regulations are subject to frequent changes. In 2015, such changes included Tax Ordinance, VAT Act and CIT Act. Some changes impose a number of new obligations on taxpayers, and their fulfilment will involve additional costs, also to be incurred by the Capital Group companies. Along with being frequently amended, tax regulations are unclear and hard to understand, which makes their practical application difficult and gives rise to a number of doubts and disputes, usually settled by administrative courts. Additionally, tax authorities lack uniform practices regarding application of the current regulations, and decisions issued by administrative courts with regard to tax law lack uniformity. Therefore, tax authorities may interpret tax regulations applicable to the Capital Group in a different manner than the Company, which may result in potential disputes with these authorities, and their questioning the correctness of tax settlements of the Capital Group with regard to current tax obligations. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.

2. Operational and financial standing

2.1. Profit/ (loss)

In 2015, Polimex-Mostostal S.A. generated sales revenue of PLN 2,300,269,000 (up by 35.1% year-on-year). Factors that have affected the sales volume are presented in point 1.1. hereof.

In 2015, the net profit amounted to PLN 2,948,000 (compared to a net loss of PLN 116,008,000 incurred in 2014). The operating profit amounted to PLN 42,079,000 (vs. an operating loss of PLN 416,046,000 incurred in 2014).

In 2015, EBITDA was PLN 71,023,000 vs. PLN (375,753,000) in 2014.

A reduction in general and administrative expenses (from PLN 53,683,000 to PLN 35,294,000, i.e. by 34.3% year-on-year), resulting from operating restructuring measures initiated by the Management Board and involving simplification and substantial reduction of the Company's operating expenses, had a positive effect on

the operating profit. Improved operating performance of the Company in 2015 vs. 2014 was contributed to by the following segments: Production (operating profit of PLN 59,547,000 in 2015 vs. operating loss of PLN 30,677,000 in 2014) and Power Engineering (operating loss of PLN 8,068,000 in 2015 vs. operating loss of PLN 92,215,000). The Infrastructure Construction segment also saw a reduction in operating loss from PLN 182,645,000 to PLN 2,176,000.

The major factors adversely affecting the financial performance and standing of the Company include: difficult relationships, often in the form of disputes or claims filed by/against the Company's key customers in the Infrastructure Construction segment, mainly the Directorate General of National Roads and Motorways. When carrying out road construction contracts, the Company provided a substantial scope of auxiliary work, for which as at the balance sheet date it failed to receive any additional fee, which would be satisfactory or appropriate to the scope of work performed.

Performance of Polimex-Mostostal S.A. in 2015:

PLN'000	2015	2014	Change
Sales revenue	2 300 269	1 702 959	35.1%
Cost of goods sold	(2 248 749)	(1 974 233)	13.9%
Gross profit/(loss) on sales	51 520	(271 274)	-
Cost to sell	(15 960)	(15 059)	6.0%
General and administrative expenses	(35 294)	(53 683)	-34.3%
Other operating revenue	52 988	23 064	129.7%
Other operating expenses	(11 175)	(99 094)	-88.7%
Operating profit/(loss)	42 079	(416 046)	-
Financial revenue	35 007	117 465	-70.2%
Financial revenue from conversion	-	272 039	-100.0%
Financial expenses	(63 620)	(108 966)	-41.6%
Gross profit / (loss)	13 466	(135 508)	-
Income taxes	(10 518)	19 500	-
Net profit/(loss)	2 948	(116 008)	-

In 2015 Polimex-Mostostal generated a net profit compared to a net loss incurred in 2014. Key reasons of the improved performance of the Company include:

- the progressing performance of strategic projects with the positive margin maintained as planned;
- the continuing disinvestment plan involving sales of assets not related to the core business;
- implementation of a remedy program with a view to restoring financial stability of the Company, the economic situation of which is still considered problematic. Reducing of operating expenses is another crucial task;
- the implemented operational restructuring which resulted among others in simplification of the structure and reduction of business expenses, optimization of organizational structures and the contract portfolio;
- headcount reduction to reflect the current economic position of the Company is also of key importance.

The current portfolio of the Capital Group's contracts less sales assigned to consortium members has a value of ca. PLN 3.9 billion and comprises only concluded contracts. The current portfolio of orders per year: PLN 2.3 bn in 2016; PLN 1.1 bn in 2017; PLN 0.4 bn in 2018, PLN 0.1 bn in 2019.

2.2. Value and structure of assets

As at 31 December 2015 the total assets of Polimex-Mostostal dropped compared to 2014 and amounted to PLN 2,030,826,000 (PLN 2,254,177,000 in 2014). As at 31 December 2015, the non-current assets amounted to PLN 952,784,000 (a 32.1% increase compared to the balance as at 31 December 2014), and the current assets, including assets held for sale, amounted to PLN 1,078,042,000 (a 29.7% decrease compared to the balance as at 31 December 2014).

The structure of the Company's assets as at 31 December 2015 changed compared to 31 December 2014 due to amendments to classification of assets assigned to the organized part of enterprise called Mostostal Siedlce. As at 31 December 2015, these assets are not presented as held for sale (as they were as at 31 December 2014) following a Management Board's decision to retain Mostostal Siedlce within the Capital Group structure. As at 31 December 2015 assets held for sale amounted to PLN 54,804,000 compared to PLN 381,747,000 as at 31 December 2014. Assets held for sale include the ones pertaining to an organized part of the enterprise, the Rudnik plant.

Financial assets are the key item of non-current assets, representing 16.9% of total assets, property, plant and equipment representing 16.0% of total assets and deferred tax assets representing 8.3% of total assets. Current assets include mainly trade and other receivables, which account for 28.8% of total assets, and cash representing 15.2% of total assets.

Value and structure of the assets of Polimex-Mostostal S.A. as at 31 December 2015:

PLN'000	As at 31 December 2015	Percent of assets	As at 31 December 2015	Percent of assets
Non-current assets	952 784	46.9%	721 268	32.0%
Property, plant and equipment	324 518	16.0%	99 098	4.4%
Investment property	29 470	1.5%	–	0.0%
Intangible assets	4 302	0.2%	6 362	0.3%
Financial assets	344 209	16.9%	368 344	16.3%
Long-term receivables	24 979	1.2%	–	0.0%
Performance bonds related to construction contracts	56 404	2.8%	56 974	2.5%
Deferred tax assets	168 405	8.3%	188 841	8.4%
Other non-current assets	497	0.0%	1 649	0.1%
Current assets	1 023 238	50.4%	1 151 162	51.0%
Inventory	40 953	2.0%	3 306	0.1%
Trade and other receivables	585 526	28.8%	526 998	23.4%
Performance bonds related to construction contracts	39 576	1.9%	40 941	1.8%
Receivables arising from measurement of long-term contracts	44 851	2.2%	55 111	2.4%
Financial assets	1 155	0.1%	6 688	0.3%
Cash	308 849	15.2%	514 422	22.8%
Other assets	2 328	0.2%	3 696	0.3%
Assets held for sale	54 804	2.7%	381 747	16.9%
TOTAL ASSETS	2 030 826	100.0%	2 254 177	100.0%

2.3. Equity and liabilities: amount and structure

As at 31 December 2015, equity amounted to PLN 162,928,000 (a 39.0% increase compared to 31 December 2014) and liabilities amounted to PLN 1,867,898,000 (a 12.6% decrease compared to 31 December 2014). Supplementary capital is the largest equity item, accounting for 15.1% of total equity and liabilities. Short-term liabilities are the largest liability item, accounting for 55.6% of the total equity and liabilities.

As at 31 December 2015, the equity structure changed compared to 31 December 2014 since previous year losses have been partly absorbed with a share premium and supplementary capital.

The structure of liabilities as at 31 December 2015 changed compared to 31 December 2014 due to amendments to classification of Mostostal Siedlce, an organized part of the enterprise. As at 31 December 2015 liabilities of Mostostal Siedlce were not classified as held for sale (as they had been on 31 December 2014) following a Management Board's decision to leave Mostostal Siedlce within the Capital Group structure. As at 31 December 2015 liabilities directly related to assets held for sale amounted to PLN 6,882,000 compared to PLN 204,653,000 as at 31 December 2014.

The financing structure of the Polimex-Mostostal S.A. as at 31 December 2015:

PLN'000	As at 31 December 2015	% of equity and liabilities	As at 31 December 2014	% of equity and liabilities
Equity	162 928	8.0%	117 193	5.2%
Share capital	173 238	8.5%	173 238	7.7%
Equity from the share premium	–	0.0%	1 297 118	57.5%
Supplementary capital	306 762	15.1%	618 552	27.4%
Other capitals	(444 924)	-21.9%	(444 924)	-19.7%
Reserve capital	–	0.0%	–	0.0%
Reserve capital – convertible bond premium	29 734	1.5%	29 747	1.3%
Accumulated other comprehensive income	95 170	4.7%	52 370	2.4%
Retained earnings/unabsorbed loss	2 948	0.1%	(1 608 908)	-71.4%
Total equity	162 928	8.0%	117 193	5.2%
Liabilities	1 867 898	92.0%	2 136 984	94.8%
Non-current liabilities	731 015	36.0%	881 160	39.1%
Current liabilities	1 130 001	55.6%	1 051 171	46.6%
Liabilities associated with assets held for sale	6 882	0.4%	204 653	9.1%
TOTAL EQUITY AND LIABILITIES	2 030 826	100.0%	2 254 177	100.0%

2.4. Financial liquidity

In 2015, the net balance of cash and cash equivalents of the Polimex-Mostostal S.A. decreased by PLN 205,573,000. As at 31 December 2015, the balance of net cash and cash equivalents amounted to PLN 308,849,000. The cash balance included advance payments received under "Kozienice" and "Opole" contracts in the form of a performance bond of PLN 255,860,000. It will be used as the contract work progresses.

Net cash from operating activities amounted to PLN (212,429,000). Net cash from investment activities amounted to PLN 11,985,000 and net cash from financing activities to PLN (5,129,000).

2.5. Ratio analysis

The current and quick ratio of Polimex-Mostostal S.A. amounted to 0.95 i and 0.91, respectively, being lower than a year before. An increase in EBITDA and in net return on sales resulted from the positive performance in 2015. Liquidity improvement through continued disinvestment that should result in a material improvement in the entity's liquidity is a priority at the moment.

Ratios	31.12.2015	31.12.2014
Current ratio	0.95	1.22
Quick ratio	0.91	1.22
Liabilities to assets ratio	92.0%	94.8%
Net return on sales	0.1%	-6.8%
EBITDA	3.1%	-22.1%

2.6. Contracted credit facilities and loans; issued bonds

At the end of December 2015, the total debt of Polimex-Mostostal S.A. amounted to PLN 396.3 M including PLN 162.4 M from issued bonds (excluding the measurement of the option of converting convertible bonds to shares and the accrued interest). Key creditors of the Group in 2015:

- For the parent: PKO BP S.A., PEKAO S.A., Bank Ochrony Środowiska S.A. and Bank Zachodni WBK S.A.
 - For the Capital Group companies: Bank Ochrony Środowiska S.A., Alior Bank S.A. and Bank Millennium S.A.
- As at 31 December 2015, out of the total loan liabilities, the following loans would mature at the earliest:
- a loan taken out by Pracownia Wodno-Chemiczna „Ekonomia” Sp. z o.o. (PLN 0.15 M, maturing on 23 February 2016 arising from an overdraft facility taken out with Getin Noble Bank S.A.);
 - loans taken out by Stalfa Sp. z o.o. (an overdraft facility of PLN 4.5 M, maturing on 23 April 2016, provided by Alior Bank S.A. and an overdraft facility of PLN 4.2 M, maturing on 29 April 2016, provided by BZ WBK S.A.).

31 December 2015 is the maturity date of the following loans taken out by subsidiaries:

- Grande Meccanica SpA due to credit instruments in the total amount of EUR 2.1 M, provided by Banca Nazionale del Lavoro SpA, Unicredit Banca d'impresa, Cassa Di Risparmio Di Lucca Pisa Livorno and BPS.

By the date of publishing this report, on 2 March 2015 Pracownia Wodno-Chemiczna „Ekonomia” Sp. z o.o. concluded an overdraft facility agreement in the amount of PLN 0.15 M with Getin Noble Bank S.A. to be repaid by 23 February 2016.

Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation has repaid a non-revolving working capital loan of PLN 1.7 M contracted from Raiffeisen Bank Polska S.A. in accordance with the communication from the bank of 16 March 2015.

On 17 April 2015, Stalfa Sp. z o.o. concluded an annex to the overdraft facility agreement with BZ WBK S.A. of PLN 5 M maturing on 29 April 2016. On 8 April 2015, it concluded an annex to the overdraft facility agreement with Alior Bank S.A. of PLN 4.5 M maturing on 23 April 2016.

On 27 April 2015, CZKM Ukraina concluded an overdraft facility agreement with Kredobank of UAH 5 M maturing on 16 April 2017, repaid an overdraft facility of EUR 0.3 M originated by Kredobank, to be repaid by 13 March 2015 and an overdraft facility of EUR 0.2 M originated by Kredobank, to be repaid by 16 September 2015.

As at 30 October 2015 a working capital loan taken out by WBP Zabrze Sp. z o.o. in liquidation in Orzesko-Knurowski Bank Spółdzielczy in the amount of PLN 2.1 M was repaid and therefore the surety granted by Polimex-Mostostal S.A. in relation to the loan expired.

At the end of January 2016, the investment loan taken out by SC Coifer Impex srl in bankruptcy from Intesa Sanpaolo in the amount of EUR 2.3 M was fully repaid (pursuant to an Agreement of 24 February 2015 concluded between the Company and B.C. Intesa Sanpaolo Romania S.A.).

Under the FDSA, Polimex - Mostostal S.A. has been using the following term, non-revolving loans maturing by 1 October 2019:

The above loans (principal excluding accrued interest) originated by the following banks amount to:

- by PKO BP S.A. of PLN 125.08 M (on 12 February 2016 a portion of the loan in the amount of PLN 100 M was assumed by Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Sp. k. pursuant to Annex 9 to FDSA);
- by PKO BP S.A. of PLN 80.89 M (on 12 February 2016 a portion of the loan in the amount of PLN 50 M was assumed by Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Sp. k. pursuant to Annex 9 to FDSA);
- by Bank Ochrony Środowiska S.A. of PLN 12.86 M;
- by Bank Zachodni WBK S.A. of PLN 15.1 M.

Except of cases described in details in FDSA, no payments to the account of the Company or the Bank (to include accounts previously related to the above loans) made before the maturity date determined as 1 October 2019 shall reduce the Company's debt arising from the above loans. The interest on the above loans is equal to WIBOR 3M plus a margin. According to FDSA, repayment of interest accrued after the date of converting a portion of the debt has been postponed to the maturity date.

The total liabilities arising from bonds (including the New Bonds) issued by Polimex-Mostostal S.A. as at 31 December 2015 amounted to PLN 162.4 M (the principal amount excluding interest and the measurement of the conversion option) with the final repayment deadline on 1 October 2019.

Under the Loan Agreement on New Guarantee Facility and the related revolving loan of 21 December 2012 with subsequent amendments (NGF) new guarantees were extended to Polimex-Mostostal S.A. for the amount of PLN 8.2 M and a working capital loan availed of PLN 8.3 M to be used for security deposits for the financing banks (the share of the banks in NGF is as follows: PKO BP S.A. – the amount used: PLN 5.6 M, PEKAO S.A.- PLN 0.8M, Bank Millennium S.A. – PLN 1.0 M, Bank Zachodni WBK S.A. – PLN 0.8 M, BOŚ S.A.- PLN 0.1 M).

Pursuant to the Financial Debt Service Agreement of 21 December 2012 with subsequent amendments, concluded by and between Polimex-Mostostal S.A. and its creditors, four banks granted the Segment Companies with a new guarantee facility up to PLN 60M. The facility includes new guarantees for Polimex Energetyka Sp. z o.o. in the amount of PLN 6.0 M and for Naftoremont-Naftobudowa Sp. z o.o. in the amount of PLN 11.5 M. Further, a working capital loan has been extended in the total amount of PLN 19.3 M to be used for security deposits for the financing banks (the share of the banks in the NGF is as follows: PKO BP S.A. – the amount used: PLN 12.7M, PEKAO S.A.- PLN 3.4M, Bank Zachodni WBK S.A. – PLN 1.7M, BOŚ S.A.- PLN 1.5M).

No new factoring agreements were signed in 2015. As at 31 December 2015, no factoring liabilities were presented.

The weighted average mark-up for the loans taken out by Polimex-Mostostal S.A. and the Polimex-Mostostal Group as at 31 December 2015 vs. the comparative period has been presented in the financial statements of Polimex-Mostostal S.A. for the financial year ended 31 December 2015 (Note 21 Credit facilities and loans).

2.7. Information on sureties and loans granted

The loans granted by Polimex-Mostostal S.A. as at 31 December 2015 (excluding accrued interest which is not due and payable) totaled PLN 36.1 M

The balance includes the following loans:

- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation: PLN 2.4 M, due;
- SC Coifer Impex srl in bankruptcy: PLN 8.5 M, due;
- Polimex-Mostostal Ukraine: PLN 18.95 M, four loan agreements maturing on 31 December 2016;
- PRInz-1 Sp. z o.o.: PLN 1.8M maturing on 31 December 2016;
- Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation: PLN 0.9 M, due;
- PPU Elektra Sp. z o.o. in liquidation: PLN 0.03M, due;
- Polimex Engineering Sp. z o.o.: PLN 3.5 M maturing on 31 December 2016.

Pursuant to the Financial Debt Service Agreement, Polimex-Mostostal S.A. may postpone the term of the loans contracted before concluding the above Agreement and originate new ones up to PLN 23.0 M.

Weighted average mark-ups for the loans granted by Polimex-Mostostal S.A. to the Group companies as at the end of December 2015:

- for loans denominated in PLN: WIBOR 1M + 1.95 p.p.;
- for loans denominated in PLN: WIBOR 3M + 1.67 p.p.;
- for loans denominated in foreign currencies: fixed interest rate or EURIBOR 1M + 3.00 p.p.

The loans originated by Polimex-Mostostal S.A., except of those granted to consolidated entities, increase the debt of the Capital Group companies arising from loans and borrowings as described in point 2.6.

As at 31 December 2015, sureties given by Polimex-Mostostal S.A. amounted to PLN 642.8 million, while the exposure arising from guaranteed credit instruments totaled PLN 380.6 million. Polimex Opole Sp. z o.o. Sp. k. is the largest beneficiary of the sureties. This surety was granted pursuant to an agreement of 23 January 2014 regarding a surety for Polimex Projekt Opole Sp. z o.o. (current name: Polimex Opole Sp. z o.o. Sp. k.) up to PLN 597.5 M with the surety period to 31 March 2024 and secures an agreement on granting of bank guarantees concluded by Polimex Opole Sp. z o.o. Sp. k. regarding the contract on construction of power units no. 5 and 6 in PGE Elektrownia Opole S.A. (Current report no. 10/2014 of 24 January 2014). Off-balance sheet liability arising from the surety was PLN 344.1 M as at the balance sheet date.

Naftoremont-Naftobudowa Sp. z o.o. is the second largest beneficiary of the sureties. Polimex-Mostostal S.A. and Polimex Energetyka Sp. z o.o. (pursuant to Article 18 of the Loan Agreement on New Guarantee Facility of 21 December 2012 as amended on subsidiary liability of guarantors) granted it a surety totaling up to PLN 17.2 M as a guarantee of refunding an advance payment and a performance bond of EUR 1.3 M each.

Polimex Energetyka Sp. z o.o. is the third largest beneficiary of the sureties. Polimex-Mostostal S.A. and Naftoremont-Naftobudowa Sp. z o.o. (pursuant to Article 18 of the Loan Agreement on New Guarantee Facility of 21 December 2012 as amended on subsidiary liability of guarantors) granted it a surety totaling up to PLN 9.0 M in relation to three guarantees granted under the New Guarantee Facility. Apart from the above companies, Polimex-Mostostal S.A. guaranteed repayment of loans and/or liabilities arising from granted guarantees / bill of exchange liabilities / payment liabilities contracted by: WBP Zabrze Sp. z o.o. (up to PLN 0.1 M with the same

use); Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (up to PLN 1.5 M; the surety expires as of 27 January 2016); Polimex Engineering Sp. z o.o. (up to PLN 0.04 M with the same use); Stalfa Sp. z o.o. (up to PLN 7.1 M, the amount used PLN 5.3 M); Czerwonogradzki Zakład Konstrukcji Stalowych (up to PLN 0.2 M with the same use); PPU Elektra Sp. z o.o. in bankruptcy (up to PLN 0.5 M; the amount used PLN 0.1 M); Grzegorz Wereszczyński PIU "Wereszczyński" (up to PLN 0.7 M with the same use); Grande Meccanica SpA (up to PLN 9.0 M; the amount used PLN 3.8 M).

Pursuant to the Financial Debt Service Agreement, Polimex-Mostostal S.A. may postpone the term of the sureties granted to the Capital Group companies without increasing its liability amount. For Companies included in the disposal plan, the surety term may be postponed only up to the date of their disposal.

2.8. Contract and tender bonds

As at 31 December 2015, the guarantees given at the request of the Company totaled PLN 599.1 M and included bank guarantees of PLN 558.8 M and insurance guarantees of PLN 40.3 M. In the same period, the value of guarantees issued per order of the Capital Group companies (including Polimex-Mostostal S.A.) was PLN 969.7 M with bank guarantees of PLN 928.8 M and insurance guarantees of PLN 40.9M, respectively. In 2015, among the Group companies (except for Polimex-Mostostal S.A.) the highest exposure arising from bank guarantees issued regarded: Polimex Projekt Opole sp. z o.o. (PLN 344.1 M) and Naftoremont-Naftobudowa Sp. z o.o. (PLN 11.5 M).

Key banks serving the Capital Group with guarantees include: PKO BP S.A. (PLN 758.0 M) and PEKAO S.A. (PLN 98.5 M). As regards insurance guarantees, the exposure of TUIR WARTA S.A. (PLN 21.1 M) and STU Ergo Hestia S.A. (PLN 9.0 M) is the highest.

In the analyzed period, the Company was informed about claims under bank guarantees issued per its order. Relevant information was included in the current reports. Pursuant to the provisions of the Financial Debt Service Agreement of 12 December 2012 as amended, the banks committed to divide the repayment of the originated amounts into 12 equal instalments beginning from the first day of the calendar month following the month in which the guarantor bank informed the Company about a claim. As at 31 December 2015, Company's liabilities arising from recourse claims amounted to PLN 46.8 M. Balances of recourse claims by bank, pending as at 31 December 2015:

- Bank Ochrony Środowiska S.A. – PLN 6.6 M;
- Bank Zachodni WBK S.A. – PLN 1 M;
- PKO BP S.A. – PLN 13.4 M;
- BGŻ BNP Paribas S.A. – PLN 16.5 M;
- RBS Bank (Polska) S.A. – PLN 1.1 M;
- Credit Agricole Bank Polska S.A. – PLN 2.4 M;
- Bank Millennium S.A. – PLN 5.0M;
- B.C. INTESA SANPAOLO Romania S.A. – PLN 0.8 M.

In the reporting period, the subsidiaries in the Polimex-Mostostal Group continued to use the guarantee limits made available by banks and insurance companies before 1 January 2015.

Material changes in guarantee limits of subsidiaries in 2015:

- Pursuant to Annex 2 to the Loan Agreement concerning the New Guarantee Facility and the related Revolving Loan was concluded on 11 September 2014. Pursuant to the Annex, four Banks (PKO BP S.A., PEKAO S.A., Bank Zachodni WBK S.A., BOŚ S.A.) granted the limit of up to PLN 60 M to the Segment Companies. The facility includes new guarantees for Polimex Energetyka Sp. z o.o. in the amount of PLN 6.0 M and for Naftoremont-Naftobudowa Sp. z o.o. in the amount of PLN 11.5 M granted in 2015.
- Pracownia Wodno-Chemiczna "Ekonomia" Sp. z o.o. concluded a guarantee agreement with Bank Gospodarstwa Krajowego for the amount up to PLN 0.09 M, valid until 23 May 2016, securing the repayment of a loan contracted from Getin Noble Bank S.A.
- On 31 July 2015, guarantee facility agreements concluded between Polimex Engineering Sp. z o.o. and PEKAO S.A. as well as between Grande Meccanica SpA and Cinfiditalia expired.
- Guarantee limits granted to WBP Zabrze Sp. z o.o. by Gothaer TU S.A. (PLN 0.2 M), to ZUT Sp. z o.o. by Uniqa TU S.A. (PLN 0.09 M), and to Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation (PLN 0.07 M granted by UNIQUA TU S.A.) have not been extended and shall be binding until the expiry date of the last valid guarantee included in the limits.

Key banks and insurance firms serving the Group companies (except for Polimex-Mostostal S.A.) with guarantees: PKO BP S.A. (Polimex Opole Sp. z o.o. Sp.k., Polimex Energetyka Sp. z o.o., Naftoremont-Naftobudowa Sp. z o.o.), BOŚ S.A. (PRInż-1 Sp. z o.o.) and Gothaer TU S.A. (WBP Zabrze Sp. z o.o.), TU InterRisk S.A. (Polimex Engineering Sp. z o.o.).

2.9. Company's use of proceeds from the issue of securities by the date of this report

In first half of 2015 the Company did not issue any shares or debt securities.

2.10. External and internal factors affecting the development of the Company, including growth prospects and market strategy objectives

According to the Management Board of the Company, the following factors and market trends had a considerable effect on the Company's performance in the reporting period or are expected to have such an effect in the future:

- macro-economic standing of Poland;
- investment outlays on the Polish market and on other EU markets;
- regulatory environment;
- exchange rate fluctuations;
- seasonality;
- participating in large investment projects implemented in the Polish power engineering sector;
- value of the order portfolio held;
- restructuring of operations;
- disinvestment activities;
- manufacturing activities.

Macro-economic standing of Poland

Polimex-Mostostal S.A. operates mainly in Poland, where the major part of revenue is earned on construction contracts as well as activities carried out in the power engineering, petrochemical and production segments (manufacturing steel structures and provision of hot-dip zinc coating services). As the activities in each sector of the Company's operations are correlated strongly with the economic cycle, the operations of the Company are considerably affected by the macroeconomic conditions in Poland, in particular:

- an increase in real GDP that is a key economic measure reflecting the business activity level and the economic cycle;
- volume and speed of industrial production, illustrating the economic standing of manufacturers;
- consumption speed, illustrating end-user demand in the economy; ;
- unemployment rate illustrating the standing of the labor market, which translates directly into consumer demand trends;
- real wages measuring the purchasing power of households;
- interest rates that decide on the cost of money and impact the level of and growth in prices of goods and services;
- economic standing of EU countries (key importers of the services offered by the Company) and absorption of EU funds;
- changes in market prices of raw materials and consumables.

According to estimates by Research Institute for Market Economy (the "Institute")², in Q4 2015 GDP growth rate was 3.8% year on year. This means the highest quarterly growth rate recorded in 2012-2015. According to initial estimates by Main Statistical Office, in the entire 2015 the economic growth rate reached 3.6% and was the highest in the four-year period.

Domestic demand was the key increase factor. Its growth rate in 2015 reached 3.4% and 4.2% in Q4 year-on-year. The total consumption increase by 3.7% (3.2% in 2015) and a growth in investment outlays by 4.8% (6.1% in 2015) were the key factors contributing to the growth in domestic demand. A relatively high speed of growth in capital expenditure is a clear sign of good macroeconomic standing and an optimistic indication for projections of economic growth regarding the nearest quarters.

In 2016, GDP growth in Poland shall reach 3.6%, being the same as in 2015. According to the Institute, the market standing in H1 will be more favorable, with GDP growth of 3.9% in Q1 and 3.6% in Q2. In H2, the growth should slow down to 3.3% in Q4. In 2017, the economic standing will further deteriorate; the projected GDP growth rate is 3.1%.

In 2016, domestic demand growth rate shall be the same as in 2015, i.e. 3.4%. According to the Institute, individual consumption shall grow by 3.0%, while gross capital outlays shall increase by 6.0%. European funds supporting infrastructural projects will contribute to the growth in investment outlays. In the enterprise sector, risk aversion is expected to increase and investment outlays will be curtailed. In 2017, domestic demand growth will slow down considerably to 2.7% and gross capital outlays to 5.3%.

² Based on: *Stan i prognoza koniunktury gospodarczej*, Market Economy Research Institute, January 2016

Industry was the fastest-growing sector in 2015. In Q4 industrial added value growth rate was 6.8% vs. 5.4% in the entire 2015, while production sold increased by 6.0% in Q4 vs. 4.9% in the entire 2015. In Q4 the highest growth rates were seen in construction and market services as well. The added value growth rates amounted to 5.2% for construction and 3.6% for market services, while in the entire 2015 these figures increased by 4.4% and 3.14%, respectively.

The Research Institute for Market Economy estimates that in 2016 the industrial added value shall increase by 5.5%, and by 5.6% in the construction sector. In the market services sector, whose contribution to GDP is the highest, the added value growth in 2016 shall reach 3.5%. In 2017, the slowdown will be particularly visible in the industrial sector, whose added value will increase by 4.2% and in market services, with the projected growth of 3.0%. In the construction sector, the growth will be lower than in 2016 (i.e. 5.1%). The sector will be supported by investments in roads and railroads.

In 2015 export growth rate was higher than that of import. According to the Institute, during the period export increased by 5.7% while import by 5.1%, which denotes an improvement in the foreign trade balance of Poland. In 2015, Polish trade was supported by stable PLN/EUR exchange rate and an increase in PLN/USD rate. In Q4 import increased by 6.0% and export by 5.5%. The average PLN/EUR exchange rate in Q4 increased by 1.8% vs. Q3, while the average USD/PLN rate increased by 3.4%.

According to the Institute, in 2016 the growth rate for export will reach 6.1% and for import, 5.6%, while in 2017 they will amount to 5.8% and 5.1%, respectively. The foreign trade shall depend mostly on the standing of the EU market.

According to the Institute, in 2016-2017, EUR/PLN and USD/PLN rates shall stabilize and remain relatively high. The low PLN exchange rate shall result mostly from high uncertainty regarding the Polish market, controversies related to the key elements of economic policy pursued by the government and negative opinions regarding the situation in Poland issued by international opinion makers. The Institute estimates that in 2016 the average EUR/PLN rate shall amount to 4.3 while USD/PLN rate to 4.0. In 2017, these rates shall amount to 4.2 and 3.9, respectively.

At the end of 2015, the unemployment rate was 9.8%, being 1.6 p.p. lower than a year before. The decrease in unemployment was accompanied with an increase in employment. According to estimates by the Institute, in Q4 average employment in the national economy increased by 1.3% and by 1.0% in the entire 2015. Average actual gross pay increased by 3.8% in Q4 and by 3.6% in 2015 as a whole, marking a positive trend.

In 2016 the labor market standing will further improve as a result of the relatively high economic growth in the first half of the year. A decrease in unemployment, though, will be smaller than last year; the unemployment rate shall amount to 8.8% at year-end. This will change in 2017, when, due to a drop in the GDP growth rate and probable layoffs in the trading sector (important for the labor market perspective), unemployment will grow again to reach 9.5% at the end of 2017. The deterioration of the labor market shall contribute to the significant slowdown in individual consumption in 2017.

In Q4 2015, the average growth in prices of consumer goods and services, i.e. inflation, was -0.6% and reached -0.5% YTD at year-end. This means deflation observed the sixth subsequent quarter, i.e. a reduction in the average consumer price level. In 2015, the average annual inflation rate was -0.9% and was the lowest average price change ratio observed after introduction of market economy in Poland.

According to the Institute, the deflation of -0.3% shall be observed in Q1 2016 but in subsequent quarters prices of consumer goods will increase and the annual inflation rate will reach 0.7% while in December it will reach 1.8%. The average inflation projected for 2017 is 2.2%. New tax charges introduced by the government in the commercial and banking sector shall contribute to price increase in 2016-2017.

The following table presents a real GDP increase in Poland and selected macroeconomic data for the years ended 31 December 2011, 2012, 2013 and 2014.

	As at 31 December			
	2015	2014	2013	2012
Real GDP growth	3.6%	3.3%	1.7%	1.8%
Inflation growth	(0.9)%	0.00%	0.9%	3.7%
Unemployment rate	9.8%	11.5%	13.4%	13.4%
Total industrial production sold (y/y)	99.1	103.1	101.8	100.5
Sales of construction and assembly products (y/y)	no data	102.6	94.1	93.7

Source: Main Statistical Office

The Management Board of the Company believes that the GDP growth in Poland forecast for 2016-2017 and the overall growth of the Polish economy will translate into a higher demand for construction and assembly services in Poland, which in turn will have a positive effect on the Group's operations and performance. In particular, investments in the power engineering industry, which will offset downward trends in other construction segments, are seen as a growth opportunity for the Company. However, a considerable slowdown in the GDP

growth in Poland and the Polish economy in general could have a negative effect on the Group's operations and performance.

Regulatory environment

The Group's operations have been and, according to the Management Board, will be impacted by the Construction Code of 7 July 1994 (Law Journal of 1994 no. 89, item 414), Public Procurement Law of 29 January 2004 (Law Journal of 2004, no. 19, item 177), Act on repayment of certain unpaid trade receivables (Law Journal of 2012, item 891) arising from public tenders, European law and international conventions. Further, the Company's operations have been and, according to the Board, will be influenced with tax law, tax rulings and recommendations issued by public administration bodies, as well as individual administrative decisions, both already issued and to be issued in future, with regard to the Group and its activities.

Investment outlays on the Polish market and on other EU markets

Power engineering

The estimated total value of investments to be made in Poland over the nearest five years is to exceed PLN 100 bn in four key areas: conventional power engineering, renewable energy sources, power transmission and distribution grids and heating.

According to the draft Energy Policy for Poland 2020-2050, a stable growth in demand for power is expected. In light of the current structure of power generation sources, additional investments will be necessary. The value of investments in construction, overhaul and improvement to be made by power engineering concerns in the coming years is PLN 50 bn. In conventional power engineering, investment outlays include pending or prepared investments in new power units. Overhaul and improvement of the existing power units (including environment protection installations) shall constitute a significant portion of the capital outlays. No other similar investments are projected for the nearest ten years. Stricter emission standards (to include BAT and IED regulations) resulting in growing attractiveness of alternative energy sources in terms of costs may provide an additional opportunity.

The value of power transmission and distribution investments projected for the years 2015-2020 is estimated at PLN 45 bn. Heating networks will also require additional investments and replacement, which may provide an opportunity to generate additional revenue; moreover, no significant barriers preclude the market entrance, unlike in the power generation segment, which is limited to large power engineering concerns.

Petrochemistry (crude oil, natural gas, chemicals)

Investment outlays projected for 2015-2020 shall exceed PLN 40 bn and will be used for overhaul and improvement, as well as for new investments, to include gas transmission. Following completion of most large and costly investments in the Polish crude oil sector most outlays shall be used to overhaul and improve the existing infrastructure, to invest in crude oil storage facilities (the amount of overhaul and improvement investments is estimated at PLN 14 bn). Investments in fuel storage facilities and terminals are planned in Europe, too. The plan of optimized utilization of the LNG terminal in Świnoujście assumes spending of approx. PLN 6.7 bn on the construction of **gas** transmission networks. In 2009 a special legal act was passed regulating construction of gas pipelines. It has considerably reduced the time of reaching agreement with owners of plots on which the pipeline is to be located. Large outlays (approx. PLN 6.6 bn) are planned in relation to construction and improvement of storage facilities. Taking into account differences in development of Poland and Western European countries, Polish **chemical sector** is planning to use considerable funds for development; total investment outlays of the largest chemical companies shall reach PLN 12 bn in 2015-2020.

Industrial construction

Increase in the number of industrial plants constructed, located mainly in special economic zones, is important for development of industrial construction. According to estimates, production of construction and assembly elements for the purpose industrial and storage construction in 2016-2020 shall exceed PLN 40 bn. The highest growth is generated by industrial firms that recently have been very active on the construction investment market. Many new production facilities have been built as a result of the decision to extend the operations of Special Economic Zones in Poland.

Due to its location, density and length of railroad network, as well as being underinvested compared to Western Europe, Poland has a large growth potential in terms of construction of logistic and warehousing centers. Outlays for construction of industrial and storage facilities estimated for the years 2016 -2020 shall approximate PLN 25 bn. Outlays for construction of commercial and service facilities estimated for the years 2016 -2020 shall approximate PLN 17 bn. Investments in commercial construction shall concentrate in towns since larger cities are saturated with similar facilities, so there significant funds will be invested in improvement and maintenance of the existing commercial centers.

Exchange rate fluctuations

The Company's performance is affected considerably by the EUR/PLN exchange rate. The key reason is that PLN is the reporting currency of the Company, and:

- A substantial portion of Group's sales revenue (approx. 17%) is denominated in foreign currencies (mainly in EUR). Appreciation of PLN exchange rate against these currencies negatively affects the Group's performance, since the amount of revenue denominated in the reporting currency decreases. Depreciation

of PLN has a positive effect on the Group. Exchange rate fluctuations affect revaluation of settlements related to the above sales, which is reflected in financial revenue/expenses of the Group in the form of forex differences.

- The Company holds shares in foreign entities. Appreciation of PLN negatively affects the Company's performance since the value of these assets expressed in the reporting currency decreases. Depreciation of PLN positively affects the performance of the Company.

Natural hedges, i.e. hedging the currency risk through the entry into transactions that generate costs in the same currency as that in which revenue is earned, is the basic method of currency risk hedging used by the Company.

On 21 December 2012, the Company concluded a Financial Debt Service Agreement whose provisions do not include currency derivatives as available credit products. Since the opportunities to conclude transactions that hedge against forex exposure are limited as a result of the Financial Debt Service Agreement, should material amounts of receivables or liabilities in foreign currencies occur in future, exchange rate fluctuations may negatively impact the Group's operations and financial standing. As at the date of this report, the Group companies did not have open hedging transactions in the form of derivatives.

Seasonality

One of the characteristics of the operations carried out by the Company (which is also the case for other construction and assembly sector entities) is seasonality of sales revenue resulting from: (i) unfavorable weather conditions in winter, disallowing the performance of construction and assembly works; (ii) investment and improvement works of most clients being carried out in spring, summer and autumn; (iii) clients planning their investment cycles in a manner allowing their closure before year-end; (iv) in the power engineering sector, overhaul and improvement works being carried out mostly in summer.

Consequently, the Company's sales are typically the lowest in Q1 to reach the highest level in Q4.

The Company employs measures aimed at reducing the effects of seasonality of sales, which include mostly providing services to industry season-independent sectors and exporting sales services to countries in other climatic zones.

Participating in large investment projects implemented in the Polish power engineering sector

The Issuer is participating in two consortia established to carry out the largest investment projects in the domestic power engineering sector.

On 21 September 2012, it concluded a contract with ENEA to build a 1,075 MWe gross capacity power unit in Koźienice Power Plant. The consortium performing the contracts consists of: Hitachi Power Europe GmbH (the consortium leader) and the Company. The gross contractual fee is PLN 6.3 bn with the Issuer holding a 42.7% share in the amount.

On 15 February 2012 a consortium consisting of Rafako S.A. as the leader, Polimex-Mostostal S.A. and Mostostal Warszawa S.A. concluded a contract to carry out the largest task in the history of the Polish power engineering sector, involving the construction of power units no. 5 and 6 in PGE Elektrownia Opole S.A. The gross value of contracted works is PLN 11.5 bn. The Company has 42% share in the amount. Alstom Power Sp. z o.o. acts as the general designer and project work coordinator at the Opole Project. Under the contract, Polimex-Mostostal shall provide turbine islands and build a cooling tower with a cooling water system, as well as electrical installation with control and measurement apparatus and automatic devices.

On 31 January 2014, the consortium received from the Client a Request to Commence Works under the Opole Project. The works are to be completed within 54 months of the Request date with regard to the power unit no. 5 and within 62 months of the Request date with regard to the power unit no. 6.

The projects are crucial for the financial performance of the Company in the nearest years.

Value of the order portfolio held

The current portfolio of the Company's contracts less sales assigned to consortium members approximates PLN 3.9 bn and includes only concluded contracts. The current portfolio of orders per year: PLN 2.3 bn in 2016; PLN 1.1 bn in 2017; PLN 0.4 bn in 2018, PLN 0.1 bn in 2019. The value of the order portfolio held by the Company includes large improvement projects in the Polish power engineering sector carried out in Opole and Koźienice.

Manufacturing

Economic efficiency of production carried out in the segment depends on raw material prices, mainly steel and zinc composite. Increases in the prices of raw materials not always are offset with a relevant increase in prices paid for products and services offered, which may adversely impact economic performance.

Framework agreements concluded with clients provide for adjusting the prices of services to the changing prices of raw materials. Standard provisions allow renegotiating of each contract if raw material prices change by at least 2%.

Output of the Production segment is sold in Poland and on key EU markets. Changes in the macroeconomic standing in the regions affect the segment growth. GDP growth ratio is decisive, as well as forex rates, changes in interest rates, inflation and labor market standing. These ratios affect the size of markets the Company operates on, since economic standing of the EU countries determines investment outlays in the industrial sector, while domestic funds affect the implementation speed and scope of central and local administration infrastructure development programs.

As far as trade relations are concerned, the macroeconomic standing affects contractual terms, while deteriorated standing of counterparties may result in payment gridlocks.

Growth perspectives of the Company depend also on the activities of its competitors, both domestic and foreign ones. Increased competition results in a drop in margins. Recently, competition of non-EU entities has grown significantly on the steel product market.

Market projections for the years to come with regard to the Production segment allow hoping for gradual improvement of the steel structure market standing. Demand for grids remains satisfactory compared to the capacity of the plant. A substantial share of export and a large number of small clients, representing a variety of industries, allow the segment to diversify revenue sources and stabilize operations.

Domestic demand for anti-corrosion (galvanizing) services can be considered stable, but growing competition necessitates close cost monitoring and search for new orders. In the years to come, as demand for steel product grows, demand for anti-corrosion services should increase as well.

Disinvestment activities

With a view to improving its liquidity, by implementing the operational restructuring program and discharging the Company's obligations set out in the annex to the Financial Debt Service Agreement, the Company made divestments involving a portion of assets which are not closely related to its core business. By the date of this report, the following material disinvestment transactions have been performed:

- On 23 January 2015 a transfer agreement was concluded with Molina Sp. z o.o. 1 S.K.A. to sell real property located in Bielkowo, municipality of Kobylanka, Stargard county, Zachodniopomorskie province, along with family houses. The total net contract price is PLN 10,500,000 (i.e. the gross price is PLN 12,746,250).
- On 23 January 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 1 S.K.A. with the registered office in Warsaw regarding developed land located in Siadło Dolne, municipality of Kołbaskowo, Police county, Zachodniopomorskie province. In addition to the real property, the agreement scope covers the sale and establishment of separate ownership of the premises located on the land. On 31 March 2015, an agreement transferring the object of the agreement was concluded. The net price of the real property under the Agreement is PLN 8,250,000 (i.e. the gross prices is PLN 9,059,625).
- On 23 January 2015 a conditional sale agreement with Molina Sp. z o.o. 1 S.K.A. with the registered office in Warsaw regarding undeveloped land located in Siadło Dolne, municipality of Kołbaskowo, Police county, Zachodniopomorskie province. On 31 March 2015, an agreement transferring the object of the agreement was concluded. The net price of the real property under the Agreement is PLN 6,500,000 (i.e. the gross prices is PLN 7,995,000).
- On 28 January 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 3 S.K.A. with the registered office in Warsaw regarding perpetual usufruct of developed property located in Stalowa Wola, Stalowa Wola county, Podkarpackie province. According to the Agreement, the total net price is PLN 6,600,000, i.e. the total gross price is PLN 8,118,000. The Agreement expired on 30 April 2015 since its conditions were not fulfilled.
- On 2 February 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 5 S.K.A. with the registered office in Warsaw regarding developed property located in Jasło, Jasło county, Podkarpackie province, and the right of perpetual usufruct of this property. The net price for the real property under the conditional agreement is PLN 3,300,000. On 16 June 2015, the ownership transfer agreement and the perpetual usufruct right sale agreement was concluded with regard to the property located in Jasło since the terms of the conditional agreement were fulfilled. Following verification of the property taxation adopted in the conditional agreement, the initial net price of PLN 3,300,000 was revalued to the gross amount of PLN 3,667,989.05.
- On 12 May 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 2 S.K.A. with the registered office in Warsaw regarding real property located in Biała Nowa, municipality of Stara Biała, Płock county, Mazowieckie Province. Pursuant to the conditional agreement, the total net price of

the real property is PLN 900,000 and shall be increased by output VAT at the current rate 23% or exempted from this tax. 16.06.2015 an arrangement transferring the ownership title to the property in Nowa Biąta was concluded.

- On 2 June 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 2 S.K.A. with the registered office in Warsaw regarding developed property located in Płock, Mazowieckie Province. On 30 September 2015, an agreement transferring the object of the agreement was concluded. The total gross price under the agreement is PLN 1,553,149.38.
- On 3 June 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 6 S.K.A. with the registered office in Warsaw regarding perpetual usufruct of real property located in Łódź, Widzew district. The gross price is PLN 2,919,933.54 (the gross price was modified on 22 June 2015). On 31 December 2015, since not all terms included in the conditional sale agreement were fulfilled and the probability of their fulfilment before the expiry date agreed by the parties was low, the parties decided to amend the sale agreement setting the expiry date at 30 June 2016.
- On 30 September 2015 a conditional sale agreement was concluded with Central and Eastern European Compliance Institute Sp. z o.o. with the registered office in Warsaw regarding a plot of land located in Jadwisin, Serock municipality, Mazowieckie Province. Pursuant to the conditional agreement, the total net price of the real property is PLN 85,000 and shall be increased by output VAT at the current rate 23%. On 9 November 2015, an agreement transferring the ownership title to the property was concluded.
- On 1 October 2015 a Pursuant to the conditional sale agreement and transfer agreement, the total gross price payable for Object 1 and Object 2 is PLN 3,813,000.
- On 29 December 2015 a conditional sale agreement was concluded with Molina Sp. z o.o. 2 S.K.A. with the registered office in Warsaw regarding developed property located in Płock, Mazowieckie Province. Pursuant to the conditional agreement, the total net price of the real property is PLN 1,400,000 and shall be increased by output VAT at the current rate 23% or exempted from this tax.
- On 29 December 2015 a preliminary sale agreement was concluded with SPEC REM Urządzenia Specjalistyczne Sp. z o.o. with the registered office in Płock regarding property located in Płock, Mazowieckie Province. According to the Agreement, the total price of the property is PLN 562,575.

The conclusion of the above agreements is a part of the operations and assets restructuring program announced by the Company in the current report no. 130/2012, regarding the Financial Debt Service Agreement (FDSA) concluded with its creditors and fulfils the obligations arising from Annexes to FDSA. The Company shall continue the measures aimed at disposal of assets that are not crucial for its business operations. Apart from real property, the disposed assets shall include shares in subsidiaries, redundant assets or organized parts of an enterprise.

Further, on 29 January 2015, a sale agreement concerning selected assets of the Company located in industrial service centers was signed by the Company and Erbud Industry Centrum Sp. z o.o. with its registered office in Łódź. The total gross price under the agreement is PLN 2,952,000.

2.11. Key resources of the Capital Group

Power engineering

In this industry, the Group offers comprehensive performance of power projects, both acting as a general contractor and a consortium member cooperating with other entities, to include technology providers. The portfolio includes contracts for the largest Polish companies operating in this sector. Major completed investments include:

- Supply and assembly of two turbine sets of 100 MWe capacity each with design and auxiliary works in Żerań Power Plant.
- Providing FGD wet scrubbing installation in Elektrownia Rybnik S.A.
- Construction of renewable power generating installation (biomass-based) in Elektrociepłownia Białystok S.A.
- Construction of a new water treatment installation at Zakłady Azotowe Kędzierzyn S.A.

High quality of the services offered has been confirmed by international and domestic certificates. Key Group's resources in the Power engineering segment include references, competent managerial staff and cooperation with technology partners.

Petrochemistry (crude oil, natural gas, chemicals)

The Group specializes in prefabrication and assembly of complete devices and installations, as well as in their overhaul and improvement.

The portfolio includes contracts for the largest Polish companies operating in this respect. Major completed investments include:

- Construction of a gas pipeline DN700 Szczecin – Lwówek, Stage I gas pipeline DN 700 Szczecin – Gorzów Wielkopolski, Stage II gas pipeline DN 700 Gorzów Wielkopolski – Lwówek;
- Olefiny II, assembly of BA-108 furnace at PKN Orlen, investor: Chemplex Czech Republic;
- Overhaul of tanks, investor: TOTAL TRA Belgium.

High quality of the services offered has been confirmed by international and domestic certificates. Key Group's resources in the Petrochemical segment include references, competent managerial staff and flexibility.

Manufacturing

Mostostal Siedlce has modern machinery, with most devices connected to the network and equipped with CNC steering system. Along with the technology office, they constitute a CAD/CAM system. Steel products are manufactured in two plants totaling to 32,000 sq.m. of production space. Steel sheet and section tooling machines are equipped with numerical control systems that allow high precision and repeatability. Numerically controlled machines are steered by Ficep software.

Plant 2 has a PCR150 milling machine by UNION, which allows tooling of wind towers and front sheets of poles. Supported with overhead cranes of up to 64 ton capacity it allows manufacturing of heavy elements, such as parts of power plant structures. The machines in Plant 2 were installed in 2009, so they do not require substantial financial outlays for repair and breakdowns are infrequent. IT tools used include Tekla, Autocad, WinSteel.

Steel structures are produced in accordance with the following standards: EN 1090-1, -2; NS 3436; BSK 07; PN-B 06200; DIN 18800-7; DIN 15018; DS 804; DIN 19704; AWS D1.1

ZCP galvanizing plant has three galvanizing furnaces of 7, 9 and 13 m length.

Capacity by production department

The Steel Structure Department works five days a week in two eight-hour shifts.

Should contracts be large, working on Saturdays and Sundays is possible. The third shift can be introduced as well.

In the three-shift system, the total annual capacity is 36,000 tons, while in the two-shift system, 24,000 tons.

The Grid Department works five days a week in two or three shifts, depending on a line and demand.

Assuming the three-shift system, the total annual capacity is 26,400 tons.

The Galvanizing Shop works all year long five days a week, three shifts. Shift rotation takes place every week. The Packaging Department and Painting Shops work five days a week, two shifts. Should the number of orders outgrow the capacity of the standard system, manufacturing operations are carried out on Saturdays, in the two-shift system.

Assuming the three-shift system, the total annual capacity of the Galvanizing Shop is 72,000 tons. Assuming the two-shift system, the total annual capacity of the Painting Shops and Packaging Department is 36,000 tons.

Products manufactured by the Steel Structures and Grid Departments are mostly exported. In 2015, 64% of output sold by the Steel Structures Department was exported to 33 countries. Operations of the Grid Department are also focused on export sales; in 2015, 57% of revenue was generated from export of products to 29 countries. Anti-Corrosion Department has focused on the Polish market, providing mainly galvanizing and painting services in relation to own products.

2.12. Material financial issues affecting evaluation of the Company's ability to continue as a going concern

Terms of significant agreements signed with the creditors in 2012, namely the Financial Debt Service Agreement of 21 December 2012, as amended, affected the Company's business considerably.

The Company continued reorganization, which included revision of its operating strategy. The key objective of the strategy adopted in 2015 is to build the value of the Polimex-Mostostal Group. New plans assume development of the Polimex-Mostostal Group based on two pillars, i.e. power engineering and petrochemistry sectors, supported by industrial construction and manufacturing, which is to be maintained and performed by a separate production company located in the Siedlce plant (formerly Mostostal Siedlce).

On 16 November 2015 the Company and its creditors being parties to the Financial Debt Service Agreement of 21 December 2012 with Agencja Rozwoju Przemysłu S.A. as the holder of the New Bonds signed an Initial Agreement on New Strategy for the Polimex-Mostostal Capital Group. The conclusion of the Initial Agreement was the condition precedent of further implementation of Sustainable Development Strategy and further restructuring with the direct objective to improve the stability of operations and value of the Polimex-Mostostal Capital Group.

In the process of implementing the Initial Agreement, on 29 January 2016 the Company and its Creditors concluded an annex to FDSA, pursuant to which the organized part of the enterprise called Mostostal Siedlce would remain within the Polimex-Mostostal Capital Group. Pursuant to the amended FDSA, Mostostal Siedlce plant is to be spun off by the Company and contributed to Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Spółka komandytowa ("Mostostal Siedlce"). Along with the assets, Mostostal Siedlce shall assume the Company's debt arising from loans originated by PKO BP S.A. (in the amount of PLN 100 M) and Pekao S.A. (in the amount of PLN 50 M), secured on the assets of Mostostal Siedlce ("Existing Loans"). At the same time, Mostostal Siedlce, PKO BP S.A. and Pekao S.A. concluded a term loan agreement to be used to

refinance the Existing Loans ("Mostostal Loan Agreement") and an agreement determining terms, deadlines and financial conditions on which Mostostal Siedlce is to repay the debt arising from the Existing Loans until the time of their refinancing ("Financing Agreement"). Further, the amended FDSA, Financing Agreement and Mostostal Loan Agreement determine the principles of transferring possible cash surplus from Mostostal Siedlce to the Company.

On 12 February 2016, an agreement was concluded to contribute ("Contribution") an organized part of the Company's enterprise ("OPE", "Agreement") pursuant to which OPE was disposed of and transferred to Mostostal Siedlce Sp. z o.o. Sp. k.

Liquidity risk

According to the Company, its exposure to liquidity risk is relatively high. In order to maintain liquidity in the nearest future, the Company needs to engage in projects and contracts ensuring neutral and positive cash flows. The aforementioned risk is monitored on an ongoing basis and analyzed both in the short and long term. Following the conclusion of the Debt Service Agreement and issue of the New Bonds, the Company improved its liquidity. However, the agreements impose a number of obligations on the Company and the Segment Companies, in particular the obligation to:

- make timely payments to the Creditors and the Bond Holders;
- obtain specific proceeds from disposal of the Company's assets as part of the divestment process;
- reduce operating expenses;
- restructure past due trade liabilities;
- refrain from a number of activities without prior consent of the Creditors and the Bond Holders.

The Company's default on the obligations under the Debt Service Agreement and the Terms of Issue may result in acceleration of the Company's total financial debt to the financing banks and the bond holders.

The elevated level of the Company and the Group's debt may have an adverse effect, in particular on:

- the Group companies' limited ability or inability to secure additional funding from financial institutions, including in particular bank guarantees;
- a slowdown in the Company and the Group's operations due to a considerable limitation of the availability of trade credit, shorter payment terms or the business partners requesting advance payments to be made;
- the necessity to allocate a considerable portion of cash flows from the Group's operating activities to debt repayment, which denotes that the aforesaid cash flows will not always be used to finance the Group's operations or as capital expenditure;
- reduced flexibility of the Group in planning or responding to changes in its business and competitive environment, and on the markets where it operates; and
- deterioration in the market position of the Group as compared to its competitors with a lower credit exposure.

The high level of financial risk is negatively affected by the actions taken by some of the Company's creditors. Submission of bankruptcy petitions in the case of disputed claims or payment delinquencies may not be ruled out. Submission of the said petitions also involves a risk of delays in the divestment process, which has an adverse effect on liquidity and hinders the commercial debt restructuring process.

2.13. Projected development of the Company and the Capital Group

The Polimex-Mostostal Group shall grow in accordance with the Strategy for 2016-2020 which assumes:

- increasing revenue through development of a healthy order portfolio;
- rapid growth on the power engineering and petrochemical (crude oil, chemicals, natural gas) market and regaining its position in the industrial construction;
- extending operations to new areas with large investment opportunities;
- minimizing risk through phasing-out of infrastructural operations;
- full use of the potential and long-term experience gained by the Polimex-Mostostal Capital Group;
- performance of strategic projects for Polish economy.

In the power engineering sector, the Group wants to improve its sales profitability on the existing markets, enter selected new market segments and increase the number of contracts performed under the EPC formula.

The petrochemical (crude oil, chemicals and natural gas) sector is a strategic one for the Capital Group. The plan assumes regaining its position on selected markets and among key business partners, entering EPC projects and returning to Western European markets offering higher margins than the domestic market.

The strategic objective of the Production segment is to improve efficiency and enhance its presence on the Western markets.

The Group will regain its strong position on the industrial construction market. Projections for the coming years indicate rapid growth in the construction of industrial and storage facilities. The market potential estimated for 2016-2020 is PLN 42.7 bn.

2.14. Differences between the profit/loss presented in the annual report and the forecasts published for the year

No forecasts concerning the performance of Polimex-Mostostal S.A. or the Polimex-Mostostal Group were published for 2015.

2.15. Dividends paid (or declared)

The Parent did not declare or pay any dividends in 2014-2015.

Considering the restructuring process and the financial condition of the Company, if operating profit is generated in the future, the Management Board will recommend to the General Meeting that it should be used to reduce the Company's debt and develop its core business.

Furthermore, under the FDSA the Company committed not to pay any dividends or interim dividends or distribute any amounts to its shareholders and not to redeem or reduce its share capital, whether in whole or in part, through distribution of own funds without prior consent of (i) bond holders with receivables from bonds issued by the Company under the bond issue scheme; (ii) PKO Bank Polski with its registered office in Warsaw, Bank Polska Kasa Opieki S.A. with its registered office in Warsaw, Bank Ochrony Środowiska S.A. with its registered office in Warsaw, Kredyt Bank S.A. with its registered office in Warsaw and Bank Millennium S.A. with its registered office in Warsaw.

Therefore, no dividends are planned to be paid in the upcoming financial years, including for 2015.

3. Risk management in the Company and the Capital Group

3.1. Major risks and threats

These factors have been described in section 34 of the annual financial statements of Polimex-Mostostal S.A.

3.2. Interest rate and currency risk inherent in financial instruments. Financial risk management objectives and methods

Interest rate risk: the performance of the Company and the Polimex-Mostostal Group may be subject to fluctuations as a result of changes in market factors, in particular quoted prices of commodities, foreign exchange and interest rates. By managing the aforesaid risk, the Group aims to reduce changes in future cash flows and minimize the potential economic losses triggered by events which may have a negative effect on its performance. Both the Company and the Group companies hold cash in their bank accounts and have loan liabilities to banks. Additionally, the Company's debt includes liabilities due to bonds issued. The aforesaid liabilities are based on floating interest rates. The entities monitor the situation in the financial market, analyze trends and forecasts concerning reference market rates of interest so as to be able to take decisions, when appropriate, on conclusion of contracts as part of the available limits to hedge themselves against the unfavorable rises in interest expense related to borrowings.

Currency risk: the cash flows from financing activities of the Polimex-Mostostal Group Companies are characterized by a relatively high sensitivity to changes in foreign exchange rates, which is due to the fact that revenue is generated in foreign currencies, mainly EUR.

Natural hedges, i.e. hedging the currency risk through the entry into transactions that generate costs in the same currency as that in which revenue is earned, is the preferable method of currency risk hedging used by the Group companies.

Under the Debt Service Agreement, FX derivatives may not be used by the Company as the available credit products. Therefore, natural hedges are important as the only tool for mitigation of the currency risk related to the business activities is growing, also for the Segment Companies.

3.3. Insurance contracts

In the reporting period, the Group used widely insurance products available in the market. These included both property insurance (most of all, business liability insurance, professional liability insurance [liability insurance of designers, architects and construction engineers], board member liability insurance [D&O policy] as well as property insurance covering fortuitous events, theft and burglary, electronic appliances, property transported, machines and equipment) and construction and assembly insurance arranged under general contracts and individual policies assigned to specific contracts. Additionally, the Group companies took out motor insurance covering liability, comprehensive, theft and accident insurance, under a general (fleet) contract. For their employees working on construction sites in Poland and abroad, the companies also concluded insurance policies covering medical expenses and accidents.

As regards liability insurance (business liability and D&O policies), property insurance under a General Insurance Contract covering the Group's assets as well as insurance of employees working on construction sites in Poland and abroad, covering accidents and medical expenses, until the end of Q3 2015 the Company's policies were arranged on 1 October 2014. In October 2015 new policies were adopted in this respect. As for CAR-EAR

policies, until the end of the financial year, a two-year general insurance policy "General coverage of construction/assembly" was in force. As for professional liability insurance of architects and engineers a two-year policy has been concluded for the period from 1 January 2015 to 31 December 2016. In the reporting period, property in transport (both domestic and international) was insured with a continued policy valid from 1 January 2014 until the end of 2015. In April 2014 a two-year General Transport Insurance Agreement was signed, based on which an insurance policy was issued for the first insurance period, i.e. until April 2015. Since 21 April 2015 a new policy has been effective, covering the second year of the General Agreement's term, valid until 20 April 2016.

In the reporting period, the following policies were taken out by the Company:

Professional liability insurance of designers, architects and construction engineers (for two years) with the sum insured of PLN 10 M, taken out from AXA TUIR S.A. for the period of two years, valid until 31 December 2016, with an option to terminate after the first year should the determined level of sales related to design activity be exceeded. Along with Polimex-Mostostal S.A., the insurance covers Polimex Energetyka sp. z o.o. and Naftoremont-Naftobudowa sp. z o.o. and since 1 July 2015 Polimex-Engineering sp. z o.o. Since the determined level of sales has not been exceeded, the policy was extended for another annual period until 31 December 2016.

Property insurance in domestic and international transport (cargo) taken out from AIG Europe Limited Branch in Poland. The policy was valid until 31 December 2015 and since 2015 covered also segment companies: Polimex Energetyka sp. z o.o. and Naftoremont-Naftobudowa sp. z o.o., as well as Polimex Opole Sp. z o.o. Sp.k. On 1 January 2016 a new annual policy was signed with the same insurer, extended to include Mostostal Siedlce Sp. z o.o. Sp.k.

Basic-scope business liability and property insurance with the sum insured of PLN 10 million (basic policy taken out from the syndicate of AXA TUIR SA and AIG Europe Limited Branch in Poland, valid until 30 September 2015). Since Q4 the policy has been automatically extended for another year on the same terms. Since H2, the policy has been extended to include Polimex Centrum Usług Wspólnych sp. z o.o. (along with other insured companies: Polimex Energetyka Sp. z o.o., Naftoremont-Naftobudowa Sp. z o.o. and in a limited extent Polimex Opole Sp. z o.o. Sp.k.). Further, an individual policy valid until July 2020 has been arranged for the contract "Construction of a power unit for supercritical parameters at ENEA Wytwarzanie S.A. (Kozienice)".

Extended-scope business liability and property insurance (extended-scope policy) with the sum insured of PLN 90 M per event (with no limits imposed as to the number of events), taken out from the syndicate of AIG Europe Limited Branch in Poland and AXA TUIR SA, valid until 30 September 2015. In October 2015, a new policy was concluded with the same insurer, valid until 30 September 2016. Similarly as with the "basic" liability insurance, the policy covers the segment companies.

Liability insurance based on the laws of England, for contracts fulfilled in the United Kingdom, with the sum insured of GBP 5.000.000. The policy was taken out in May 2014 remained valid until 31 August 2015. It has not been extended.

Directors' and officers' liability insurance (D&O policy) with the sum insured of PLN 65 M, taken out from PZU S.A. The policy was valid until 30 September 2015. In October 2015, a new annual policy was concluded with the same insurer, with the sum insured of PLN 80 M. The insurance has been extended to members of managing bodies of Polimex-Mostostal S.A. and its subsidiaries.

Construction/erection all risks insurance (CAR/EAR) taken out from the syndicate of Warta/AXA/Hestia/Allianz – a two-year policy valid between 1 January 2014 and 31 December 2015. Since January 2016, a new policy has been valid under a new general agreement concluded with the syndicate of InterRisk VIG and Gothaer TUIR. The insurance covers contracts performed by segment companies: Polimex Energetyka sp. z o.o. and Naftoremont-Naftobudowa sp. z o.o. and Mostostal Siedlce Sp. z o.o. Sp.k. In accordance with the FDSA of 21 December 2012, including the subsequent annexes thereto, the rights under the general policy have been assigned to PKO BP SA.

Property insurance covering fortuitous events, theft and burglary (including for cash in hand and in transit), all risks for electronic appliances and all risks for machines, valid until 30 September 2015, issued under the two-year agreement by the syndicate of TUIR Warta S.A./STU Ergo Hestia S.A. and valid from 1 October 2014 to 30 September 2016. The agreement has not been terminated and has been extended for the second validity period. In accordance with the FDSA, the rights under the policy have been assigned to PKO BP S.A. (with respect to fixed assets) and to PEKAO S.A. (with respect to current assets).

Machine insurance (insuring machinery and equipment from all risks) supplementing the property insurance and obtained under the general property insurance agreement. The policy was valid until 30 September 2015. Since October 2015 the general machine insurance has been included into the new property insurance concluded under the new General Agreement with the syndicate of Warta/Hestia. The policy includes Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o.

Mandatory insurance of employees delegated or seconded to work abroad, taken out from AIG Europe Limited Branch in Poland. The policy was valid until 30 September 2015 and has been extended for another annual period until 30 September 2016.

Group accident insurance of domestic construction employees, taken out from AIG Europe Limited Branch in Poland. The policy was valid until 30 September 2015 and has been extended for another annual period until 30 September 2016.

Mandatory liability insurance of entities authorized to keep the accounting records, taken out from PZU S.A. The policy was valid until 31 December 2015 and has not been extended due to the spin-off of Polimex Centrum Usług Wspólnych Sp. z o.o. For this company, a new liability insurance policy for entities authorized to keep accounting records has been arranged valid since H2 2015.

General motor insurance (fleet policy) – a two-year contract concluded for a term from 21 April 2014 to 20 April 2016. As part of the said contract a policy was issued for the first settlement period ending on 20 April 2015 in respect of liability, followed by a subsequent one, including comprehensive car/theft and accident insurance for the period until 20 April 2016. As at the date of the report, an offering campaign is carried out in order to obtain fleet insurance for another annual or bi-annual period.

In the reporting period, the most active participants in the insurance market offering their services and products to the Company were: TUIR Warta S.A., PZU S.A., STU Ergo Hestia S.A., AXA TUIR S.A., AIG Europe Limited Branch in Poland and InterRisk Vienna Insurance Group. According to the Company, the scope of insurance is in line with the market practice of peer companies.

In the reporting period, Polimex-Mostostal Group companies (apart from the segment companies spun-off by Polimex-Mostostal S.A., whose insurance coverage is presented above along with insurance of Polimex-Mostostal S.A.) had taken out individual policies covering professional liability and property insurance, D&O (Stalfa only), assets and transport insurance. Two companies had taken out policies covering professional liability insurance of designers and architects (Pracownia Wodno-Chemiczna EKONOMIA Sp. z o.o. with the sum insured of PLN 5 M and Polimex Engineering Sp. z o.o. with the sum insured of PLN 10 M) and one company had taken out a cargo transport policy due to the type of its operations (Stalfa). For civil liability policies, the highest sum insured per one and all events during the term of the insurance was held by Polimex-Mostostal S.A. (the total of PLN 100 M). For other Group companies, the liability limit ranged from PLN 4 M (Stalfa) to EUR 5 M (Grande Meccanica). As regards business liability insurance, the companies signed contracts with TUIR Warta SA and Compensa TU SA, and Grande Meccanica with Axa Spa Ins. Co.

In 2015, the majority of the Group companies also took out property insurance against fortuitous events, theft and burglary as well as electronic appliances and motor insurance. Such policies were taken out from TUIR Warta S.A., Compensa S.A., PZU S.A. and Axa SpA Ins.Co. for Grande Meccanica Ins. Co. As regards motor insurance, the companies' fleet was insured under general (fleet) contracts or on individually negotiated terms. Services in this regard were provided primarily by: TUIR Warta SA, PZU SA, Generali and, in the case of Grande Meccanica by Axa SpA Ins.Co.

Additionally, Polimex Opole Sp. z o.o. Sp.k. has taken out a construction site insurance policy (turnkey construction of two power units: no. 5 and 6 at PGE GiEK S.A. Oddział Elektrownia Opole) covering all risks (CAR/EAR) in excess of the policy concluded by the Client.

In 2015, the most active participants in the insurance market offering their services and products to Polimex-Mostostal S.A. and the subsidiaries in the Group were: TUIR Warta S.A., PZU S.A., STU Ergo Hestia S.A., AXA TUIR S.A. and AIG Europe Limited Branch in Poland. According to the Company, the scope of insurance is in line with the market practice of peer companies.

3.4. Key characteristics of the Company's internal control and risk management systems used for the preparation of separate and consolidated financial statements

The Company's internal control system applied in the process of preparation of financial statements is based on:

- unified accounting policy applied by the Capital Group companies with regard to recognition, measurement and disclosures in accordance with International Financial Reporting Standards in the consolidated financial statements of the Capital Group;
- procedures of recording business transactions in the financial and accounting system and controlling adherence thereto;
- unified templates of separate and consolidated financial statements;
- audit of annual financial statements of Polimex-Mostostal S.A. and the Capital Group companies carried out by independent auditors;
- procedures of authorization, approval and analysis of financial statements prior to their publication;
- independent and unbiased evaluation of risk management and internal control systems.

Preparation of annual financial statements is preceded by a meeting of the Audit Committee and independent auditors, during which an audit plan and scope are agreed and potential risk areas that may affect the fair and true nature of financial statements are discussed. Preparation of financial statements is a planned process that

includes appropriate distribution of tasks among Company's employees, based to their competencies and qualifications.

In order to limit risks related to the preparation of financial statements, every six months they are verified by an external auditor (mid-year financial statements are reviewed, while annual ones are audited). The results of the reviews and audits are presented to the Management Board and to the Audit Committee at the Supervisory Board.

The Company has adopted authorization procedures, according to which periodic reports are submitted to the Management Board and then to the Audit Committee at the Supervisory Board for analysis. Once analyzed by the Audit Committee and verified by an auditor, the financial statements are approved by the Management Board for publication and then submitted to competent capital market bodies and published. Prior to publication, the financial statements are disclosed only to individuals involved in their preparation, verification and approval.

The Group has Audit and Internal Control Office which performs independent and unbiased evaluation of risk management and internal control systems, as well as analysis of business processes.

The Office performs its tasks based on annual audit plans approved by the Management Board following their analysis by the Audit Committee at Supervisory Board.

The Audit and Internal Control Office may carry out immediate audits commissioned by the Supervisory or Management Board of the Company.

When performing its tasks, the Audit and Internal Control Office provides recommendations regarding implementation of solutions and standards aimed at reduction of risk related to the achievement of business objectives, improved efficiency and effectiveness of internal controls and productivity of business processes.

Once a quarter, the Audit and Internal Control Office prepares reports on the monitoring of implementation of its recommendations, addressed to the Management Board and Audit Committee at Supervisory Board.

Further, the Audit and Internal Control Office coordinates the process of corporate risk management and provides methodological support to organizational units of the Capital Group.

4. Organization of the Issuer's Capital Group

4.1. Group structure

Presented below is the structure of the Issuer's Group as at the date of publication of this report, including subsidiaries and associates. The table does not include companies in liquidation, not carrying out business operations, as well as those immaterial from the Capital Group's perspective.

Domestic companies	Share
Polimex Energetyka Sp. z o.o.	100.00%
Naftoremont-Naftobudowa Sp. z o.o.	100.00%
Polimex Opole Sp. z o.o. Sp.k.	99.9%
Polimex Engineering Sp. z o.o.	100.00%
Polimex Budownictwo Sp. z o.o.	100.00%
Mostostal Siedlce Sp. z o.o. Sp.k.	98.00%
Polimex-Mostostal ZUT Sp. z o.o.	100.00%
Polimex Centrum Usług Wspólnych Sp. z o.o. (formerly Polimex-Hotele Sp. z o.o.)	100.00%
StalFa Sp. z o.o.	100.00%
Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.	100.00%
Przedsiębiorstwo Robót Inżynieryjnych "PRInż-1" Sp. z o.o.	95.53%
Energomontaż-Północ Bełchatów Sp. z o.o.	32.82%
Foreign companies	Share
Grande Meccanica SpA (Italy)	100.00%
Polimex-Mostostal Wschód (Russia)	100.00%
Polimex-Mostostal Ukraina (Ukraine)	100.00%
Czerwonograd ZKM (Ukraine)	99.61%

4.2. Key Group companies

Key Group entities include:

- **Polimex Energetyka Sp. z o.o.** – in the new strategy, the Power Engineering segment has been designated as the key area of the Group's operations. The activities in the Power Engineering segment include comprehensive construction of facilities for the power, power engineering and municipal power industries in addition to the accompanying facilities, such as waste gas and water treatment or fuel

supply and slag collection systems. The entity also provides repair and improvement services as well as technical service of electrical power equipment;

- **Naftoremont-Naftobudowa Sp. z o.o.** – a segment company operating in the Petrochemistry segment, where the Group's operations include fulfilment of contracts for refineries and chemical plants, and involve supplies and installation of specialist production facilities, including tanks and pipelines. The Group also offers overhauls of process lines, also without any downtime, which requires a special regime. The Petrochemistry segment also includes environmental protection operations involving construction of systems used for purposes of neutralization of industrial emissions;
- **Polimex Opole Sp. z o.o. Sp.k.** – a special purpose vehicle established to carry out a strategic investment in Opole;
- **Mostostal Siedlce Sp. z o.o. Sp.k.** - a company performing manufacturing tasks since 12 February 2016 following the transfer of ZCP Mostostal Siedlce in the form of in-kind contribution.
- Project companies – project teams may either be located in the organizational structures of the Group companies or take the form of separate PMOs. Organizational and technical systems are being developed with a view to establishing an integrated project management center focused on the needs of the Group. The following PMOs operate as companies: **Polimex Engineering Sp. z o.o.**, **WBP Zabrze Sp. z o.o.** (in liquidation since 1 July 2015), **Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.**
- **Polimex-Mostostal ZUT Sp. z o.o.** – a company responsible for TPM at Mostostal Siedlce;
- **StalFa Sp. z o.o.** – a company operating in the production industry as an independent manufacturer of steel and aluminum products used in the construction sector, including: infrastructure, telecommunication, power engineering, road construction and other industries;
- **Energomontaż-Północ Bełchatów Sp. z o.o.** – the plant carries out investment and improvement projects in the power engineering, chemical and petrochemical, oil and gas, off-shore (drilling platforms), environmental protection as well as industrial and municipal construction industries. The services provided in the power engineering industry include improvement of power units to increase their efficiency, installation of supercritical high-capacity power units, construction of flue-gas desulfurization and denitrating systems, installation of state-of-the-art waste-heat boilers for gas and steam units as well as installation of oil boilers.
- **Polimex Centrum Usług Wspólnych Sp. z o.o.** (formerly Polimex-Hotele Sp. z o.o.) – since 1 July 2015 the company has been providing HR, accounting, tax and legal services for the Capital Group companies.
- **Polimex Budownictwo Sp. z o.o.** - a company intended to carry out industrial construction projects.

In addition to entities registered in Poland, the Group includes foreign operations offering own or the Issuer's Group's products and services in their countries of registration. Companies with own production potential include:

- **Grande Meccanica SpA (Italy)** – entity providing services in the refinery sector (100.00%);
- **Polimex-Mostostal Wschód (Russia)** – sale of other Group companies' products on the Russian market;
- **Polimex-Mostostal Ukraina (Ukraine)** – entity established to develop Manufacturing segment business in Ukraine.
- **Czerwonogradzki ZKM (Ukraine)** – entity manufacturing steel structures and metal products, mainly platform grids.

Group companies which have discontinued their operations and are planned to be liquidated (or sold) or for which bankruptcy proceedings have been instigated:

- Sinopol Trade Center Sp. z o.o.
- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation;
- Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation;
- PPU Elektra Sp. z o.o. in liquidation bankruptcy;
- Coifer Impex srl in bankruptcy;
- Polimex GmbH (formerly: Depolma GmbH);
- NAF Industriemontage GmbH;
- since 1 July 2015: WBP Zabrze Sp. z o.o.

4.3. Organizational or equity links between the Group and other entities

Polimex-Mostostal S.A. is the parent in the Polimex-Mostostal Group. Additionally, in 2015, the Company fulfilled some contracts as a leader or member of contractors' consortia, with the major ones being:

- a consortium of: Rafako S.A. (leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A. established in order to win and deliver a contract with PGE Elektrownia Opole S.A. for Construction of Power Unit No. 5 and No. 6 at PGE Elektrownia Opole S.A.;
- a consortium of: Hitachi Power Europe GmbH (leader) and Polimex-Mostostal S.A. established in order to win and deliver a contract with Elektrownia Koźlenice S.A. for Construction of a Power Unit in Świerże Górne;

- a consortium of: Polimex-Mostostal S.A. (leader) and Energop Sp. z o.o. established in order to win and deliver a contract for Repair of the Main Steam and Water Line System Related to Units No. 7-12 in the Bełchatów Power Plant.
- a consortium of: Polimex-Mostostal S.A. (leader), Naftoremont-Naftobudowa and Tulcon S.A. established in order to win and deliver a contract for. Improvement of Pyrometallurgy Station within the Technological Facility of Huta Miedzi Głogów I concluded between the consortium and KGHM.

4.4. Headcount

In 2015, as a results of the continued restructuring and voluntary and group dismissal program carried out by the Group, the headcount at the Polimex-Mostostal Group decreased by nearly 24% year-on-year.

	2013	2014	2015	Change	
				2015/2014	2014/2013
Management Board	4	4	3	(25.00)%	0.00%
Support function	502	256	125	(51.17)%	(49.00)%
Operations function	6 201	4 155	2 349	(43.47)%	(32.99)%
Total	6 707	4 415	2 477	(43.90)%	(34.17)%

* Average headcount in FTEs

4.5. Changes in the composition of management and supervisory bodies of the parent and their committees, executives' appointment and dismissal procedures and powers, in particular the right to make decisions on the issue or redemption of shares

Composition of the **Management Board of Polimex-Mostostal S.A.** as at 1 January 2015:

- Maciej Stańczuk Acting President of the Board
- Joanna Makowiecka- Gaca Vice-President of the Management Board
- Krzysztof Cetnar Vice-President of the Management Board

Changes in the composition of the Management Board in the reporting period:

13 February 2015	The Supervisory Board appointed Jacek Czerwonka Vice-President of the Management Board effective from the date of the resolution (Resolution No. 92/XI of the Supervisory Board, WSE Communiqué No. 30/2015)
2 April 2015	The Supervisory Board dismissed Maciej Stańczuk from the Management Board effective from the date of the resolution (Resolution No. 97/XI of the Supervisory Board, WSE Communiqué No. 55/2015).
2 April 2015	The Supervisory Board appointed Joanna Makowiecka-Gaca to the position of Acting President of the Management Board effective from the date of the resolution (Resolution No. 98/XI of the Supervisory Board, WSE Communiqué No. 56/2015).
6 August 2015	The Supervisory Board appointed Joanna Makowiecka-Gaca President of the Management Board effective from 7 August 2015 (Resolution No. 122/XI of the Supervisory Board, WSE Communiqué No. 92/2015).

As a result of the aforesaid changes, the composition of the Management Board as at 31 December 2015 was as follows:

- Joanna Makowiecka- Gaca President of the Management Board
- Krzysztof Cetnar Vice-President of the Management Board
- Jacek Czerwonka Vice-President of the Management Board

On 14 October 2015, Supervisory Board dismissed all Management Board members and then re-appointed them for a shared three-year office term. Since then, each member of the Board used to be appointed for an individual, three-year term of office. On 27 February 2015, the Articles of Association were amended and a common, three-year term of office was introduced. Since terms of office of the members were different, the only way to introduce the shared term of office was to dismiss and re-appoint the entire Management Board for the new, shared three-year office term (Supervisory Board's resolutions no. 129/XI, 130/XI, 131/XI and 132/XI, WSE Communiqué no. 108/XI).

Between the end of the reporting period, i.e. 31 December 2015, and the date of approval of this report, composition of the Management Board changed. On 4 March 2016, Supervisory Board dismissed Joanna Makowiecka-Gaca and Krzysztof Cetnar from the Management Board. On the same day, Supervisory Board appointed the following individuals members of the Management Board for the period of the current three-year office term: Antoni Józwiowicz, Tomasz Kucharczyk and Tomasz Rawecki (WSE Communiqué no. 15/2016). Therefore, as at the date of the report, composition of the Management Board was as follows:

- | | |
|---------------------|--|
| • Antoni Józwiowicz | President of the Management Board |
| • Jacek Czerwonka | Vice-President of the Management Board |
| • Tomasz Kucharczyk | Vice-President of the Management Board |
| • Tomasz Rawecki | Vice-President of the Management Board |

Pursuant to Section 41.1 of the Articles of Association and Section 1.2 of the Rules of the Management Board, the Management Board is the Company's governing body on which all the management powers have been conferred and which acts in any matters which have not been assigned exclusively to the General Meeting or the Supervisory Board.

The Board consists of one or more members, whose number is defined by the Supervisory Board upon their appointment.

The Management Board may be composed of President, Vice-Presidents and other members of the Board appointed by the Supervisory Board. Vice-Presidents and members of the Board are appointed in consultation with the President of the Management Board. If the Management Board consists of one person, the Supervisory Board appoints the President of the Board.

The Management Board may consist of individuals appointed from among the shareholders or other individuals.

Each member of the Board used to be appointed for an individual, three-year term of office. On 16 February 2015, the Extraordinary Shareholders' Meeting adopted a resolution whereby a shared, three-year term of office has been introduced. Pursuant to the Rules of the Management Board, expiry of the term of office does not limit the possibility of being appointed again as a member of the Management Board.

The Supervisory Board is authorized to appoint, dismiss and suspend, for sound reasons, individual or all members of the Management Board prior to the expiry of the term of office and to delegate members of the Supervisory Board, for a maximum term of three months, to substitute temporarily members of the Management Board who may not perform their role.

Pursuant to the Rules of the Management Board, a member of the Management Board may be dismissed through resignation, a loss of his/her capacity to enter into legal transactions or following his/her death.

A member of the Management Board may also be dismissed or suspended by way of a resolution adopted by the General Meeting.

The Management Board and its members are not authorized to make decisions on the issue or redemption of shares.

In 2015, meetings of the Management Board of Polimex-Mostostal S.A. were held on:

7, 9,14,21,28 January; 4,11,18,25 February; 4,11,18,26 March; 1,9,15,22,29 April; 6,13,20,26 May; 3,10,17,24 June; 1,6,15,22,29 July; 13,26 August; 16,23,30 September; 12,28 October, 4,1,25 November; 2,9,17,23 December.

During these meetings, the Board resolved on operating activities, organizational changes in the Company and Capital Group, as well as on appointing and dismissing of commercial proxies, calling General and Extraordinary Shareholders' Meetings, approval of financial statements, incorporating subsidiaries, spin-off of organized parts of enterprise, real property and other assets, disinvestment, concluding commission agreements and annexes thereto (purchase decisions), Supervisory Board's recommendations regarding the consolidated text of Articles of Association, adopting and cancelling internal regulations.

Composition of the **Supervisory Board of Polimex-Mostostal S.A.** as at 1 January 2015:

- | | |
|-------------------------|--|
| • Adam Ambrozik | Chairman of the Supervisory Board |
| • Andrzej Kasperek | Vice-Chairman of the Supervisory Board |
| • Jarosław Kochaniak | Secretary of the Supervisory Board |
| • Wojciech Barański | Member of the Supervisory Board |
| • Krzysztof Kaczmarczyk | Member of the Supervisory Board |
| • Marcin Milewicz | Member of the Supervisory Board |
| • Andrzej Zwara | Member of the Supervisory Board |

Changes in the composition of the Supervisory Board in the reporting period:

16 February 2015

The Extraordinary Shareholders' Meeting appointed Andrzej Sokolewicz a member of the Supervisory Board (Resolution No. 5 of the General Meeting; WSE Communiqué 33/2015);

- 27 May 2015 Adam Ambrozik resigned from the position of member of the Supervisory Board (WSE Communiqué No. 64/2015);
- 17 June 2015 the Extraordinary Shareholders' Meeting appointed Marek Szczepański a member of the Supervisory Board (Resolution No. 30 of the General Meeting; WSE Communiqué 72/2015).

In the reporting period, the following members of the Supervisory Board held executive positions:

Chairman of the Supervisory Board

- Adam Ambrozik until 27 May 2015;
- Marek Szczepański since 30 June 2015.

Vice-Chairman of the Supervisory Board

- Andrzej Kasperek the entire reporting period.

Secretary of the Supervisory Board

- Jarosław Kochaniak the entire reporting period.

As a result of the aforesaid changes, the composition of the Supervisory Board as at 31 December 2015 was as follows:

- Marek Szczepański Chairman of the Supervisory Board
- Andrzej Kasperek Vice-Chairman of the Supervisory Board
- Jarosław Kochaniak Secretary of the Supervisory Board
- Wojciech Barański Member of the Supervisory Board
- Krzysztof Kaczmarczyk Member of the Supervisory Board
- Marcin Milewicz Member of the Supervisory Board
- Andrzej Sokolewicz Member of the Supervisory Board
- Andrzej Zwara Member of the Supervisory Board

Between the end of the reporting period, i.e. 31 December 2015, and the date of approval of this report, composition of the Supervisory Board changed. On 22 February 2016 Wojciech Barański resigned from his position in the Supervisory Board (WSE Communiqué no. 9/2016) and on 25 February 2016 Extraordinary Shareholders' Meeting dismissed the following members of the Supervisory Board: Marek Szczepański, Andrzej Kasperek, Jarosław Kochaniak, Krzysztof Kaczmarczyk and Andrzej Zwara. On the same day, the Extraordinary Meeting appointed the following members of the Supervisory Board: Anna Młynarska-Sobaczewska, Bartłomiej Kachniarz, Zbigniew Jędrzejewski, Andrzej Komarowski, Bartłomiej Kurkus and Iwona Warszewicz (WSE Communiqué no. 13/2016). Following the appointment, until the date hereof, composition of the Supervisory Board was as follows (WSE Communiqué no. 13/2016):

- Anna Młynarska-Sobaczewska Chairwoman of the Supervisory Board
- Bartłomiej Kachniarz Vice-Chairman of the Supervisory Board
- Andrzej Sokolewicz Secretary of the Supervisory Board
- Zbigniew Jędrzejewski Member of the Supervisory Board
- Andrzej Komarowski Member of the Supervisory Board
- Bartłomiej Kurkus Member of the Supervisory Board
- Marcin Milewicz Member of the Supervisory Board
- Iwona Warszewicz Member of the Supervisory Board

Three committees have been appointed within the structure of the Supervisory Board, i.e. the Audit Committee, the Compensation Committee and the Strategy and Development Committee.

Composition of the **Audit Committee** as at 1 January 2015:

- Marcin Milewicz Chairman
- Andrzej Kasperek Member
- Andrzej Zwara Member

The composition of the Committee changed in the reporting period and was as follows as at 31 December 2015:

- Marcin Milewicz Chairman
- Andrzej Kasperek Member

- Andrzej Sokolewicz Member
- Andrzej Zwara Member

Following the above changes in the composition of the Supervisory Board, the composition of the Committee changed and as at the date hereof was as follows:

- Bartłomiej Kachniarz Chairman
- Bartłomiej Kurkus Member
- Marcin Milewicz Member
- Andrzej Sokolewicz Member

The Committee is primarily responsible for advising the Supervisory Board on proper implementation and control of the financial reporting processes at the Company, effectiveness of internal controls and risk management systems as well as liaison with certified auditors. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

Composition of the **Compensation Committee** as at 1 January 2015:

- Adam Ambrozik Chairman
- Wojciech Barański Member
- Jarosław Kochaniak Member

The composition of the Committee changed in the reporting period and was as follows as at 31 December 2015:

- Marek Szczepański Chairman
- Wojciech Barański Member
- Jarosław Kochaniak Member

Following the above changes in the composition of the Supervisory Board, the composition of the Committee changed and as at the date hereof was as follows:

- Anna Młynarska-Sobaczewska Chairperson
- Zbigniew Jędrzejewski Member
- Andrzej Komarowski Member
- Iwona Warsewicz Member

The Committee is primarily responsible for supporting the Supervisory Board in fulfilment of its control and oversight obligations by presenting opinions on draft agreements relating to performance of duties by members of the Management Board as well as opinions on proposed changes to the Management Board compensation and bonus system. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

Composition of the **Strategy and Development Committee** as at 1 January 2015:

- Jarosław Kochaniak Chairman
- Adam Ambrozik Member
- Krzysztof Kaczmarczyk Member
- Marcin Milewicz Member

The composition of the Committee changed in the reporting period and was as follows as at 31 December 2015:

- Jarosław Kochaniak Chairman
- Krzysztof Kaczmarczyk Member
- Marcin Milewicz Member
- Andrzej Sokolewicz Member
- Marek Szczepański Member

Following the above changes in the composition of the Supervisory Board, the composition of the Committee changed and as at the date hereof was as follows:

- Andrzej Sokolewicz Chairman
- Bartłomiej Kurkus Member
- Marcin Milewicz Member
- Iwona Warsewicz Member

The Committee is primarily responsible for supporting the Supervisory Board in oversight of implementation of the growth strategy as well as annual and multi-annual business plans of the Company and the Group. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

The Articles of Association lay down the principles applicable to appointment of and fulfilment of duties by the Supervisory Board. As specified in Section 34 of the Articles of Association, the Supervisory Board consists of at least five members appointed by the General Meeting for a joint, three-year term of office. The number of Supervisory Board members during each subsequent term of office is determined by the General Meeting at the time of appointment. The Articles of Association stipulate that at least a half of the total number of members should be independent and define the criteria to be satisfied by independent members of the Supervisory Board.

The Supervisory Board of Polimex-Mostostal S.A. operates in accordance with the laws, specifically the provisions of the Code of Commercial Companies, Articles of Association, Rules of the Supervisory Board and the Code of Best Practice for WSE Listed Companies.

4.6. Compensation paid to members of management and supervisory bodies

	Period from 1.01.2015 to 31.12.2015	Period from 1.01.2014 to 31.12.2014
Management Board of the Parent	3 224	4 699
Supervisory Board of the Parent	735	622
Total	3 959	5 321

The remuneration of the Issuer's Management Board paid in 2015 amounted to PLN 3,959,000 as compared to PLN 4,699,000 in 2014, and included:

		Year ended 31 December 2015	Year ended 31 December 2014
President of the Management Board	Joanna Makowiecka – Gaca	900	720
Vice-President of the Management Board	Krzysztof Cetnar	720	410
Vice-President of the Management Board	Jacek Czerwonka	634	–
President of the Management Board (until 9 May 2014)	Gregor Sobisch	–	947
Acting President of the Management Board (until 2 April 2015)	Maciej Stańczuk*	760	802
Acting President of the Management Board (until 21 March 2013)	Robert Oppenheim	–	90
Vice-President of the Management Board (until 31 December 2013)	Robert Bednarski	–	508
Vice-President of the Management Board (until 29 October 2014)	Bogusław Piekarski*	210	542
Vice-President of the Management Board (until 12 February 2014)	Arkadiusz Kropidłowski*	–	559
Vice-President of the Management Board (until 10 May 2013)	Aleksander Jonek*	–	121
Total		3 224	4 699

* Remuneration paid in 2014 and 2015 under the non-competition agreement

The remuneration of the Issuer's Supervisory Board paid in 2015 amounted to PLN 735,000 as compared to PLN 622,000 in 2014, and included:

		Year ended 31 December 2015	Year ended 31 December 2014
Chairman of the Supervisory Board	Marek Szczepański	65	–
Vice-Chairman of the Supervisory Board	Andrzej Kasperek	109	95
Secretary of the Supervisory Board	Jarosław Kochaniak	99	46
Member of the Supervisory Board	Wojciech Barański	84	82
Member of the Supervisory Board	Marcin Milewicz	84	82
Member of the Supervisory Board	Krzysztof Kaczmarczyk	84	6
Member of the Supervisory Board	Andrzej Zwara	84	6
Member of the Supervisory Board	Andrzej Sokolewicz	73	–
Chairman of the Supervisory Board (until 27 May 2015)	Adam Ambrozik	50	60

Chairman of the Supervisory Board (until 24 June 2014)	Jerzy Góra	–	58
Vice-Chairman of the Supervisory Board (until 30 May 2014)	Ryszard Engel	–	44
Vice-Chairman of the Supervisory Board (until 12 September 2014)	Artur Jędrzejewski	–	67
Vice-Chairman of the Supervisory Board (until 2 December 2014)	Dariusz Krawczyk	–	76
Total		<u>735</u>	<u>622</u>

4.7. Agreements between the parent and its management providing for compensation in the event of their resignation or wrongful dismissal or dismissal as a result of a business combination through acquisition of the Company

If a Management Member complies with the Non-competition Agreement after the expiry date of the Management Agreement, the Company shall pay the Management Member a gross compensation equal to 50% of 12 times the gross Monthly Compensation referred to in Article 2.1 of the Management Agreement in the amount valid as at the date of concluding the Management Agreement (henceforth: "Compensation"). The bonus referred to in Article 3 of the Management Agreement does not provide a basis for calculation of the Compensation.

4.8. Amendments to the Issuer's Articles of Association

The General Meeting has the power to amend the Articles of Association at its own initiative and/or at the request of the Supervisory or Management Board.

The Supervisory Board evaluates draft amendments to the Articles of Association and determines the consolidated text thereof (Article 38.g and 38.k of the Articles of Association, respectively).

4.9. Rules of the Issuer's General Meeting and its key powers. Shareholder rights and the way in which they are exercised

The General Meeting is the highest governing body of the Company.

The General Meeting is convened and prepared in conformity of the Code of Commercial Companies, the Articles of Association of Polimex-Mostostal S.A. and the Rules of the General Meeting. Both the Articles of Association and the Rules of the General Meeting are available on the website of Company.

General Meetings or Extraordinary Shareholders' Meetings may be convened.

They are held at the registered office of the Company.

The General Meeting is convened by the Management Board on an annual basis, by 30 June of the year following the close of the financial year. The Supervisory Board may convene the General Meeting if the Management Board failed to do so within the time limit specified above and the Extraordinary Shareholders' Meeting at its own discretion.

The Extraordinary Shareholders' Meeting is convened by the Management Board when needed, at its own initiative, or at the request of the Supervisory Board.

A shareholder or shareholders representing at least 1/20th of the share capital may request that the Extraordinary Shareholders' Meeting be convened and specific issues included in its agenda. Requests for convening the Extraordinary Shareholders' Meeting should be submitted to the Management Board in writing or in electronic form. Should the Extraordinary Shareholders' Meeting not be convened within two weeks of the aforesaid request being submitted to the Management Board, the court of registration may authorize the requesting shareholders to convene the Extraordinary Shareholders' Meeting. The chairman is then appointed by the court.

The Extraordinary Shareholders' Meeting may also be convened by shareholders representing at least half of the share capital or at least half of the total number of votes at the Company. The chairman is appointed by the shareholders.

A shareholder or shareholders representing at least 1/20th of the share capital may request that specific issues be included in the agenda of the nearest meeting. The said request should be submitted to the Management Board no later than 21 days before the announced date of the General Meeting and include a statement of reasons or a draft resolution concerning the proposed agenda item. The request may be filed in electronic form.

Subject to the provisions of the Code of Commercial Companies, the General Meeting is valid regardless of the number of represented shares.

Any matters raised at the General Meeting need to be presented to the Supervisory Board for examination in advance.

Resolutions of the General Meeting are adopted in an open vote by a simple majority of votes, unless the Code of Commercial Companies or Articles of Association impose stricter adoption requirements for specific matters. Secret ballot applies to elections as well as motions for dismissal of members of Company's governing bodies or its liquidators, motions for making the above individuals liable and also in personnel issues. Additionally, secret ballot is required at the request of at least one shareholder present or represented at the General Meeting.

The General Meeting may not adopt resolutions on issues that are not included in the agenda unless the whole share capital is represented at the meeting and none of the attendees files an objection as to the adoption of a resolution.

Resolutions of the General Meeting are adopted by an absolute majority of votes, unless the Code of Commercial Companies or the Articles of Association provide otherwise.

A resolution on removing an issue from the agenda may only be adopted for sound reasons. The relevant motion should include a detailed statement of reasons. Removing an issue from the agenda or non-considering an issue included in the agenda at the motion of the shareholders requires a resolution of the General Meeting adopted at the consent of all present shareholders who have proposed the motion, supported by 75% of votes cast by shareholders present and authorized to vote at the General Meeting.

The General Meeting is opened by the Chairman or Vice-Chairman of the Supervisory Board, and in their absence, by the President of the Management Board or an individual designated by the Management Board, whereas the chairman of the General Meeting is elected out of its attendees.

Votes are cast using a computerized system of casting and calculating votes. A returning committee consisting of three members elected out of the candidates proposed by the Chairman of the General Meeting ensures that the voting process is carried out properly.

The Articles of Association and the Rules of the General Meeting do not allow the shareholders to exercise their right to vote by mail or using electronic communication means.

The Supervisory Board of Polimex-Mostostal S.A. is appointed by the General Meeting in a secret ballot. Before the election, the General Meeting determines the number of Supervisory Board members for the term of office, as authorized by the Articles of Association.

Key powers of the General Meeting

Apart from the matters specified in the Code of Commercial Companies, resolutions of the General Meeting are required for:

- verification and approval of the financial statements and the Management Board's report on the activities of the Company for the prior financial year;
- acknowledgment of the fulfilment of duties by members of the Supervisory Board and Management Board;
- distribution of profit or absorption of losses;
- appointment and dismissal of members of the Supervisory Board;
- amendments to the Articles of Association;
- increasing or reducing the share capital;
- creation and liquidation of special funds;
- approval of the Rules of the Supervisory Board;
- adoption of the compensation policy for members of the Supervisory Board;
- consent to issues of convertible bonds or bonds with the pre-emptive right;
- consent to disposal and lease of the enterprise or its organized part and establishing a limited property right on it;
- adoption of the rules of the General Meeting;
- redemption of shares at the consent of the shareholder through their buyback by the Company as well as setting out the terms of such redemption;
- business combinations, dissolution and liquidation of the Company as well as appointment of liquidators;
- examination of matters put forward by the Supervisory Board, the Management Board and the shareholders.

Representatives of the media may be present at General Meetings.

Rights and obligations of shareholders

The shareholders have the right to a share in the profit disclosed in the financial statements audited by a certified auditor, which the General Meeting decided to allocate to payments to the shareholders.

Extraordinary Shareholders' Meeting may be convened by shareholders representing at least half of the share capital or at least half of the total number of votes at the Company, who then appoint the chairman. A shareholder or shareholders representing at least 1/20th of the share capital may request the Management Board to convene the Extraordinary Shareholders' Meeting and include specific issues in its agenda.

In order to participate in the General Meeting of Polimex-Mostostal S.A., one has to be the Company's shareholder at least 16 days before the date of the General Meeting. A shareholder or shareholders of the Company representing at least 1/20th of the share capital may request that specific issues be included in the agenda of the General Meeting. The said request should be submitted to the Management Board of the Company no later than 21 days before the date of the General Meeting.

Any documents which are presented at the General Meeting (including draft resolutions) are published on the Company's website as from the date when the General Meeting was convened.

The shareholders may participate in the General Meeting and exercise their right to vote in person or through plenipotentiaries.

A shareholder has the right to:

- vote, put forward motions and file objections;
- provide a brief statement of reasons for his/her opinion;
- run for Chairman of the General Meeting and request that his/her candidacy for Chairman of the General Meeting be included in the minutes;
- speak and reply at the meeting;
- propose draft resolutions on matters included in the agenda;
- propose amendments and supplements to draft resolutions included in the agenda of the General Meeting – until the discussion on the item subject to the draft resolution is closed;
- propose motions on formal issues, i.e. those concerning the meeting procedure and voting;
- propose candidates to the Company's Supervisory Board, in writing to the Chairman of the General Meeting or verbally to be included in the minutes;
- review the records of the minutes and request copies of resolutions, certified by the Management Board;
- initiate court action aimed at revocation of a resolution adopted by the General Meeting if the shareholder voted against the resolution and demanded that his/her objection be included in the minutes following its adoption, if the shareholder was unreasonably prevented from participation in the General Meeting, if the shareholder was not present at the General Meeting because the meeting had not been convened in accordance with the applicable procedures or if the resolution concerned matters not included in the agenda;
- initiate court action against the Company to declare a resolution of the General Meeting invalid if it was adopted in contravention of the law.

At the shareholder's request, the Management Board is obliged to provide him/her with information concerning the Company, should it be reasonable from the point of view of assessment of an issue included in the agenda. The Management Board should refuse to provide such information if:

- such provision could be detrimental to the Company, its related party or subsidiary, in particular as a result of revealing technical, commercial or organizational secret of the enterprise;
- such provision could expose a member of the Management Board to criminal, civil or administrative liability.

If reasonable, the Management Board may provide information in writing, no later than within two weeks of the close of the General Meeting.

Ordinary bearer shares are not handed over to the shareholders but deposited with an entity specified by the Management Board of the Company, in conformity with the laws applicable to trading in financial instruments.

Certificates of deposit are the only evidence that a person may use the share and exercise any other rights attached thereto.

Bearer shares are not convertible into registered shares.

Shares may be inherited on general terms.

One vote at the General Meeting is attached to each share.

Only individuals entered into the stock ledger or holding bearer shares are considered the Company's shareholders.

The shareholders are required to keep confidential any information obtained in relation to the Company's operations.

Shares may be redeemed.

Shares may be redeemed at the consent of the shareholder through their buyback by the Company (voluntary redemption) or without such consent (forced redemption).

Detailed terms of and procedure applicable to share redemption are each time set out in a resolution of the General Meeting.

Priority of share acceptance for redemption is determined by the order in which the relevant motions are submitted to the Management Board by the end of the financial year.

5. Shareholding structure

5.1. Total number and par value of all shares in Polimex-Mostostal S.A. held by members of the Management Board and Supervisory Board

The Issuer's shares held by members of the Company's governing bodies as at 31 December 2015:

Position	Current number of shares held in Polimex-Mostostal S.A.
Member of the Supervisory Board	114 bearer shares with the par value of PLN 2.00 each, to which the total of 114 voting rights that may be exercised at the General Meeting are attached
Total	114 bearer shares with the par value of PLN 2.00 each, to which the total of 114 voting rights that may be exercised at the General Meeting are attached

In the reporting period members of management and supervisory bodies did not hold any shares in parties related to the Company.

5.2. Shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of voting rights that may be exercised at the General Meeting of Polimex-Mostostal S.A.

As the Company is a public company whose shares are traded on the main market of the Warsaw Stock Exchange, it does not have access to up-to-date information concerning the current shareholding structure.

The information below has been compiled on the basis of notices required under Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies, dated 29 July 2005, or published otherwise, as required by the applicable laws.

Shareholders holding at least 5% of the total number of voting rights that may be exercised at the General Meeting as at 31 December 2015:

No.	Shareholder	Number of shares/votes	Percentage interest in the share capital/ in total number of votes at the General Meeting*
1.	Bank Polska Kasa Opieki S.A.	15 076 137	17.41%
2.	PKO Towarzystwo Funduszy Inwestycyjnych SA – all clients	12 935 735	14.93%
	Including: NEPTUN Fundusz Inwestycyjny	12 143 833	14.02%
3.	SPV Operator Sp. z o.o.	6 000 001	6.92%
4.	Towarzystwo Funduszy Inwestycyjnych PZU SA	12 534 822	14.47%
5.	Other shareholders	40 072 107	46.26%
Total number of shares issued		86 618 802	100.00%

* As the shares in Polimex-Mostostal S.A. carry no preference as to the number of voting rights, the interest in the share capital is the same as the share in the total number of votes at the General Meeting.

Between the end of the reporting period, i.e. 31 December 2015, and the date of approval of this report, the Company was not notified of any changes in its shareholding structure.

5.3 Number of shares or titles to shares held by members of supervisory and managing bodies with indication of possible changes

The number of shares or titles to shares held by members of supervisory and managing bodies complies with the figures presented in section 5.1 above. During the reporting period and by the date of publication of this report, the figures have not changed.

5.4 Statement of compliance with corporate governance principles

Code of Best Practice for WSE Listed Companies

In line with the Rules of the Warsaw Stock Exchange, the Company, whose shares are listed on the main market of WSE, should comply with the corporate governance principles laid down in the Code of Best Practice for WSE Listed Companies. The Code is a set of recommendations and principles applicable specifically to governing bodies of listed companies and their shareholders. The Rules of the Warsaw Stock Exchange as well as the resolutions of WSE Management Board and Supervisory Board specify how listed companies should communicate information concerning their compliance with corporate governance principles, along with the scope of such information. If a principle has not been applied by a listed company on a permanent basis or has been violated incidentally, the listed company is obliged to communicate such information in the form of a current report. Furthermore, a listed company is obliged to supplement its annual report with a report containing information on the scope of its application of the Code of Best Practice for WSE Listed Companies in the financial year.

It is the Company's objective to ensure the highest possible transparency of its operations, proper quality of communication with investors and protection of shareholder rights, also in materials the publication of which is not governed by the applicable laws. Therefore, the Company has implemented measures necessary to ensure as strict as possible compliance with the principles laid down in the Code of Best Practice for WSE Listed Companies.

Pursuant to the report no. 10/2016 of 24 February 2016, the Issuer's Management Board adopted a resolution concerning non-application of some of the principles laid down in the Code of Best Practice for WSE Listed Companies. The Management Board intends to comply with all the corporate governance principles established in the Code of Best Practice for WSE Listed Companies, except for the following:

I. I. Disclosure policy, investor communications

1. Section I.1.Z.16 of the Code of Best Practice for WSE Listed Companies:

Principle:

"information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting"

Statement of reasons:

The Company does not comply with the principle as it does not transmit the general meetings. Should we decide to apply the principle, the manner of its application will be analyzed.

2. Section I.1.Z.19 of the Code of Best Practice for WSE Listed Companies:

Principle:

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

Statement of reasons:

The aforesaid principle is complied with to the extent that the Company operates a corporate website and publishes on it information required by legal regulations as well as shareholders' questions asked before the General Meeting of the Company, together with answers to those questions. The principle is not complied with to the extent that the Company does not publish shareholders' questions on issues on the agenda, submitted during a General Meeting, or answers to those questions, as the course of the General Meeting is not recorded by the Management Board. On its website, the Company publishes draft resolutions before the General Meeting date as well as resolutions adopted by the General Meeting.

1. Section I.1.Z.20 of the Code of Best Practice for WSE Listed Companies:

Principle:

“an audio or video recording of a general meeting”

Statement of reasons:

The Company does not anticipate publishing the recordings of the General Meetings on its website considering the related costs and based on the past experience in organization of General Meetings and their course, which does not indicate the need to make such recordings.

II. IV. General Meeting, Shareholder Relations

1. Section VI.IV.R.2 of the Code of Best Practice for WSE Listed Companies:

Principle:

“If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-time transmission of general meetings;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the venue of the general meeting”

Statement of reasons:

The Company does not anticipate that General Meetings will be transmitted in real time using the Internet since the shareholding structure and the past experience in organization of General Meetings do not indicate the need for such transmission. According to the Company, exercising the right to vote with the use of electronic communication means has not become a common practice yet and as such, it involves organizational and technical risks, which may result in questioning resolutions adopted in this manner due to technical defects. As this practice becomes more common, the Management Board of the Company will consider the possible application of the underlying corporate governance principle.

2. Section VI.IV.Z.2 of the Code of Best Practice for WSE Listed Companies:

Principle:

“If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.”

Statement of reasons:

Based on the past experience in organization of General Meetings and their course, as well as the shareholding structure, which does not indicate the need for such transmission, the Company does not anticipate that General Meetings will be transmitted using the Internet. However, it may not be ruled out that the aforesaid principle will be applied in the future, once appropriate technical measures have been employed and expenditure incurred by the Company for that purpose.

5.5. Information on agreements known to the Issuer (including those entered into after the end of the reporting period), which may change the proportion of shares held by the existing share- and bond holders in the future

The Company is not aware of the existence of any agreements which may lead to changes in the proportion of shares held by the existing share- and bond holders.

5.6. Holders of any securities giving special control rights with respect to the parent and a description of such rights

There are no holders of securities that would give special control rights with respect to the Company.

5.7. Purchase of treasury shares, in particular the objective of such purchase, number and par value of shares, along with information on interest in the share capital as well purchase and selling price if such shares are disposed of

The Company does not plan to purchase any treasury shares.

5.8. Limitations on transferring the ownership title to securities and exercising the voting rights attached to the parent's shares

There are no limitations on transferring the ownership title to securities or exercising the voting rights attached to the Company's shares.

5.9. Proceedings before courts, arbitration or public administration bodies, the total value of which represents at least 10% of the Issuer's equity

The most important proceedings pending as at 31 December 2015, the total value of which represents at least 10% of the Issuer's equity:

Action brought against the Issuer:

- **Action brought by the State Treasury – Chair of the Regional Court in Warsaw**
The litigation has been initiated to enforce payment of liquidated damages for a delay in rectifying faults under the contract of 29 December 2003 signed by Mostostal Siedlce S.A. (legal predecessor of the Issuer) for a turnkey project at ul. Owsiana in Warsaw. The value of the litigation is PLN 17,442,671.
- **Action brought by the President of the Public Procurement Office**
The litigation has been initiated to revoke the additional construction contract for the educational and sports facility in Kleszczów. It is conducted against a consortium with the Issuer as a member. The share of Polimex-Mostostal S.A. in the consortium is 97.47%. The value of the litigation is PLN 10,657,772.
- **Action brought by the Fryderyk Chopin Institute**
The litigation has been initiated to enforce payment of liquidated damages for a 50-day delay in contract delivery. The value of the litigation is PLN 6,176,600.
- **Action brought by Europa Centralna Sp. z o.o. (formerly Helical Sośnica Sp. z o.o.) against Polimex-Mostostal S.A.** The value of the litigation is PLN 41,100,893.
On 24 April 2014 the claim against the Company by Helical Sośnica Sp. z o.o. was submitted to the Regional Court in Warsaw regarding the payment of PLN 21,615,503.52 of liquidated damages for delays in the construction of Europa Centralna shopping mall. On 4 February 2015 the claim of Europa Centralna Sp. z o.o. was extended and the amount claimed grew up to PLN 41,100,892.23.
- **Action brought by the State Treasury - General Directorate for National Roads and Motorways**
The claim regards the payment of a portion of liquidated damages for Client's withdrawal from the construction contract no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010 regarding the construction of S-69 Bielsko-Biała-Żywiec-Zwardoń expressway, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec due to the Contractor's fault and the construction contract no. GDDKiA/KA/48/R1/A-1/S-M/2008 regarding the construction of A-1 motorway section from Sośnica interchange at the crossing of A-1 and A-4 expressways with the section of A-1 expressway from Sośnica to Maciejów (including the interchange) from km 510+530.00 to km 518-734.34 for a delay in completion. This is a counterclaim. The value of the litigation is PLN 61,792,041.20.
- **Action brought by the State Treasury - General Directorate for National Roads and Motorways**
The claim regards the payment of a portion of liquidated damages for Client's withdrawal from the construction contract no. 2811/45/2010 of 23 September 2010 regarding the construction of A-4 motorway, the section from Rzeszów (Rzeszów Wschód interchange) to Jarosław (Wierzbna interchange) from km 581+250 to km 622+450 due to the Contractor's fault. This is a counterclaim. The value of the litigation is PLN 249,476,370.
- **Action brought by the State Treasury - General Directorate for National Roads and Motorways**
The claim regards the payment of a portion of liquidated damages for Client's withdrawal from the construction contract no. 4/12/R/2010 of 22 December 2010 regarding the design and construction of A-1 motorway from Stryków to Tuszyń interchange, the section from km 295 + 850 (from Stryków I interchange, excluding the interchange itself) to km 335 + 937.65 due to the Contractor's fault. This is a counterclaim. The value of the litigation is PLN 192,611,293.57.
- **Action brought by the Receiver of MOSTMAR S.A. in liquidation**
The claim regards the payment under settlement of profit/loss on the contract on the construction of S069 expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec for the period from September 2010 to October 2012. The value of the litigation is PLN 16,153,011.33.

- **Action brought by the Receiver of MOSTMAR S.A. in liquidation**

The claim regards the payment for non-contractual use of materials and equipment left by Mostmar S.A. after withdrawal from the contract on the construction of S-69 expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec. The value of the litigation is PLN 4,538,992.23.

Actions brought by the Issuer

- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 114,604,497.20. The share of Polimex-Mostostal S.A. in the consortium is 51%. The litigation has been instituted to award additional fee for construction of A4 motorway between Szarów and Brzesko for the scope of services which proved necessary due to the fact that the geological and hydrological conditions in the subsoil turned out to be worse than those described in the soil engineering documentation. In its verdict of 13 January 2014 (as announced on 27 January 2015), the Regional Court in Warsaw (1st instance) dismissed the action brought by the consortium of Polimex-Mostostal S.A., Metrostav a.s. and Doprastav a.s., and awarded payment of attorney fees in the amount of PLN 7,200 to the State Treasury. On 18 March 2015, an appeal was filed against the decision. The appellate hearing date has not been determined.
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 36,961,661. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to increase the fee for construction of A2 motorway between Stryków and Konotopa as a result of rising prices of liquid fuels and asphalt. In its verdict of 3 September 2014, the Regional Court in Warsaw (1st instance) dismissed the action brought by the consortium of Polimex-Mostostal S.A., Mostostal-Warszawa S.A., and awarded payment of attorney fees in the amount of PLN 7,200 to the State Treasury. On 8 October 2015, an appeal was filed against the decision. The appellate hearing date has not been determined.
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 29,121,768.45. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to claim a refund of liquidated damages, including interest, offset by the client in relation to construction of A2 motorway between Stryków and Konotopa, and to invalidate the contractual provisions. The hearing of the parties was held on 26 February 2016.
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 219,592,408. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A4 motorway between Rzeszów and Jarosław through the fault of the client. On 13 May 2014, the Court issued a writ in the writ proceedings and ordered the respondent to make a payment of PLN 111,992,128 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date to Polimex-Mostostal, refund the costs of the proceedings to Polimex-Mostostal, pay Doprastav PLN 107,600,280 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date and refund the costs of the proceedings of PLN 32,217 to Doprastav. On 4 June 2014, the State Treasury – the Directorate General for National Roads and Motorways filed an effective objection against the aforesaid warrant for payment. The case was proceeded in the ordinary course and on 10 June 2015 DGNRM brought a counteraction against the Syndicate claiming the amount of PLN 249,476,370 (described under Actions brought against the Issuer). On 1 December 2015 the Court dismissed the counteraction against Doprastav. On 21 December 2015 DGNRM filed a complaint against the Court decision to dismiss the counterclaim against Doprastav. The case shall be analyzed by the Appellate Court in Warsaw. On 27 January 2016 Doprastav filed a response to the complaint of DGNRM against the Court decision to dismiss the counterclaim against Doprastav.
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 176,954,030.25. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A1 motorway between Stryków and Tuszyn through the fault of the client. In a decision of 5 May 2015 the Court dismissed the counteraction against Doprastav. On 29 May 2015 DGNRM filed a complaint against the Court decision to dismiss the counterclaim against Doprastav. On 5 June 2015 Doprastav a.s. served a letter responding to those filed by claimants, MSF Engenharia and MSF Polska of 2 April 2015 and on 8 June 2015 replied to the above complaint of DGNRM. On 29 September 2015 the Appellate Court in Warsaw dismissed the complaint by DGNRM.
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 78,810,044.69. The share of Polimex-Mostostal S.A. in the consortium is 34%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of S69 expressway between Mikuszowice and Żywiec through the fault of the client.

- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 32,170,763.50. The litigation has been initiated to enforce payment of amounts due under invoices relating to delivery of contract for construction works no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010, concerning construction of S69 expressway Bielsko-Biała-Żywiec-Zwardoń between the Mikuszowice interchange (Żywiecka/Bystrzańska) and Żywiec, and contract for construction works no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A1 motorway from the Sośnica (A1/A4) interchange, along with A1 motorway between Sośnica and Maciejów (including the interchange) (km: 510+530.00 to km 518-734.34).
- **Respondent: the State Treasury – the Directorate General for National Roads and Motorways.** The value of the litigation is PLN 103,644,247.22. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to enforce remedying a loss incurred by the contractor due to an incorrect description of the client's requirements related to a contract for construction of A2 motorway between Stryków and Konotopa. The latest hearing was scheduled on 18 February 2016 (hearing of Ms. Iwona). By 18 March 2016 the parties must make a decision regarding the choice of a court expert.
- **Respondent: Europa Centralna Sp. z o.o. (formerly Helical Sośnica Sp. z o.o.)** The value of the litigation is PLN 79,325,935. The case regarded determining Helical Sośnica to have no title to claim damages and claiming PLN 52,109,916.06 of contractual fee for additional works and as reimbursement of costs incurred by the Company when performing the contract after 15 October 2012. On 29 December 2015 the claim was extended again: instead of claiming Helical Sośnica to have no title to claim damages and the payment of PLN 52,109,916.06 (extension of the claim of 21 August 2014) the Company claimed PLN 25,938,604.23 from Europa Centralna Sp. z o.o. as an equivalent of the bank guarantee paid to the respondent and additionally PLN 1,277,414.52 of the fee for working at the construction site after 18 October 2012.
- **Respondent: Bank BGŻ BNP Paribas S.A. (formerly BNP Paribas Bank Polska S.A.)** The value of the litigation is PLN 25,938,605. On 26 February 2013 Regional Court in Warsaw decided to secure the claim against BNP Paribas Bank Polska S.A. regarding determining no title and obligation to pay the bank guarantee (performance bond) funds related to the construction contract no. 2324/11/WAR of 21 November 2011 in the form of banning the payment of the bank guarantee funds. On 13 March 2013 the Company brought an action regarding among others determining no title and obligation to pay the funds from the above bank guarantee and expiration of the guarantee. On 28 May 2014 the Regional Court in Warsaw dismissed the Company's claim. On 14 July 2014, an appeal was filed against the decision. On 3 March 2015 the Appellate Court in Warsaw dismissed the Company's appeal. On 25 June 2015 the Company filed a cassation claim to the Supreme Court.
- **Respondent: The city of Katowice.** The value of the litigation is PLN 39,763,698. The claim filed against the city of Katowice and regarded the payment of PLN 39,763,697.92 related to the construction of a multi-functional International Congress Center in Katowice with accompanying facilities, access roads, parking places and technical infrastructure; modification of the underground network and infrastructure located in close proximity of the Hala Widowiskowo-Sportowa Spodek and Roździeńskiego, Korfantego and Olimpijska Streets.
- **Respondent: Stadion w Zabrze Sp. z o.o. The value of the litigation is PLN 37,317,79.50.** On 23 December 2013, when performing the obligation imposed by the Court decision regarding the security of 12 December 2013, Polimex-Mostostal S.A. filed a claim against Stadion w Zabrze Sp. z o.o. in the Regional Court in Gliwice to determine the following: i) the statement by Stadion w Zabrze Sp. z o.o. of withdrawal from the construction contract no. 2011/99 of 24 August 2011 being null and void; (ii) Polimex-Mostostal S.A. not owing Stadion w Zabrze Sp. z o.o. any amounts due to non-performance of the contract; the amounts have been covered with an insurance guarantee no. BI/GW/GG/03/05/2011 issued by Towarzystwo Ubezpieczeń i Reasekuracji „WARTA” S.A. on 23 August 2011; (iii) Stadion w Zabrze Sp. z o.o. having no title to claim the payment of the above guarantee (ref.no. X GC 524/13). On 1 August 2014 Polimex-Mostostal S.A. extended the claim by the amount of PLN 17,757,778.93 arising from settlement of works performed by it. Then, on 9 December 2014, the claim was extended by another amount of PLN 310,000.
- **On 21 October 2014, Report No. 237 on the meeting of the Polish Financial Supervision Authority (PFSA) was published. As communicated by the Polish Financial Supervision Authority, a penalty of PLN 800,000.00 had been imposed on the Company** for a failure to adequately perform disclosure obligations relating to the divestment process commenced in 2011 and to the Company's financial reporting for 2011. In 2011, the financial statements were signed by Management Board composed of: Konrad Jaskóła, Aleksander Jonek, Grzegorz Szkopek and Zygmunt Artwik. In November 2014, the Company requested cancellation of the PFSA's decision. The decision on the request is pending.

6. Environmental protection

Bearing in mind protection of natural environment, security and good social relations, the Company has performed its tasks in compliance with the law and adopted standards.

The Company carries out its business based on legal provisions adopted in Poland and in the European Union. All installations owned by the Company are used in compliance with environmental protection standards, are provided with all required certificates and permits, i.e.:

- integrated permit for IPPC metal coating systems;
- permit to emit dust and gases to the atmosphere;
- permit to generate waste;
- permit under the Water Law to discharge sewage containing substances that are particularly dangerous for the water environment, to the sewage system;
- permit under the Water Law to use ground water.

The IPPC metal coating systems used by Polimex-Mostostal S.A. (galvanizing facility) are in line with BAT requirements set out in the reference documents of the European Commission.

Polimex-Mostostal S.A. has been monitoring air, water and soil pollution. Measurements performed in 2015 indicated that all emissions were kept within the acceptable limits and complied with emission standards applicable to the installation where solvents are used.

The Company aims at minimizing its waste through appropriate work organization. Waste generated in the course of its business operations is recycled first, and then treated in waste piles. Thus, the volume of waste to be piled is reduced.

Polimex-Mostostal S.A. has been monitoring the use of raw materials, water and energy carriers on a continuous basis and efficiently managing natural resources.

Investments made in 2015 have resulted in a reduction in the use of water, power and gas in the production sector:

- water consumption (l/Mg of product) decreased by approx. 10%;
- power consumption (kW/Mg of product) decreased by approx. 4%;
- natural gas consumption for production purposes (cubic meter/Mg of product) decreased by approx. 16%.

The Company's operations in 2015 did not involve any environmental or industrial accidents and no risks to the environment resulting from uncontrolled emission of pollutants were identified.

In 2015, neighbors or green organizations made no complaints regarding Company's environmental impact. Inspections carried in 2015 by Environmental Protection Inspection bodies did not detect any non-compliance with environmental regulations.

The Company has been calculating and paying environmental fees regarding emissions, rainwater disposal and consumption of underground water.

Polimex-Mostostal S.A. has implemented a certified environmental management system based on ISO 14001:2004 as part of the Integrated Management System. The Company formulated its environmental protection policy and objectives, whereby it committed to minimize its adverse effect on the environment and prevent damage to the environment when pursuing its business objectives.

A supervision audit, conducted by a certification company in September 2015, confirmed fulfilment of the requirements imposed by the law and compliance with environmental management standards. Construction and manufacturing operations are carried out in conformity with environmental protection standards and the principles of sustainable development. The Issuer's subsidiaries which are construction companies have in place confined-area non-hazardous waste management programs, approved in line with the applicable regulations.

At each company, environmental protection activities are coordinated by specialized services, the structure of which is in line with their scope of business. The said services are primarily responsible for monitoring each waste emission on an ongoing basis, maintenance of waste management records, controlling the neutralization and recovery processes, sewage monitoring and monitoring the emission of air pollutants on a periodic basis. A central focus is placed on waste management in conformity with the Regulation of the Minister of Finance with respect to storing, safeguarding and transferring waste to entities holding a neutralization permit for recovery purposes as well as maintenance of appropriate quality and quantity records.

7. Implemented management systems confirmed by relevant certificates

The Polimex-Mostostal S.A. Capital Group and the Company have implemented a certified Integrated Management System based on ISO 9001, ISO 14001, OHSAS-18001, PN-N-18001.

Bearing in mind compliance with standards and legal regulations to meet clients' expectations, the Company has implemented the Integrated Management System (IMS) being a key component of the management approach adopted in the Capital Group including the subsidiaries.

Both the Quality Management System based on ISO 9001 and Environmental Management based on ISO 14001 and OHS Management based on OHSAS-18001 and PN-N-18001 are integral parts of the controls used in managing business and support processes arising from the Quality Assurance Policy.

Individual goals arising from the Quality Assurance Policy have been implied in all aspects of Company's operations included in the IMS.

Polimex-Mostostal S.A. has been supervising the system in Polimex Energetyka Sp. z o.o., Naftoremont-Naftobudowa Sp. z o.o., Polimex Centrum Usług Wspólnych Sp. z o.o. System processes as well as quality

management based on ISO 9001, environmental protection based on ISO 14001 and OHSAS-18001, PN-N-18001 are centralized.

IMS is process-oriented, focused on actions that are to ensure quality of products and services offered, improve productivity, support OHS measures, environmental protection, continuous improvement and satisfaction of clients and other stakeholders.

Polimex-Mostostal S.A. has operated the Integrated Management System since 1997. The latest system certification agreement was concluded with DEKRA Certification in 2014 and will remain valid for three years, until 2017.

In 2015 DEKRA Certification Audit Team carried out the first supervisory audit, which was completed with a positive result. The positive result of the assessment of compliance with ISO 9001, ISO 14001, OHSAS-18001, PN-N-18001 is confirmed in the Audit Report, which presents aspects indicating further improvement opportunities.

In order to evaluate usefulness, adequacy and effectiveness of the Integrated Management System, the Company Executives have been carrying out annual Management Review; the last one took place in June 2015.

During the Review, the following documents were discussed and approved:

- conclusions drawn from performance of material IMS measures undertaken after the last Review and plans regarding its operation in the coming years;
- conclusions drawn from analysis of operation of organizational units and IMS processes;
- implementation of financial and economic plans for the last year and plans for the coming year;
- assumptions underlying organizational development and strategy for next years;
- input data used by organizational units, including targets and ratios, as well as improvement measures for 2015.

The Management Review has been summarized in the Final Report including decisions and improvement measures for the Polimex-Mostostal Capital Group for 2015.

For the purpose of supervising all IMS aspects in 2015, an internal audit schedule and supplier audit schedule has been developed for the Capital Group, aimed at checking the system for compliance with reference standards and assessing effectiveness of its implementation, as well as continuous improvement in all organizational units of the Capital Group included in IMS in terms of quality, environmental protection and OHS. Audit results and follow-up measures constitute an integral part of data used in the course of the Management Review by the Capital Group Executives.

Continuous improvement and keeping abreast with changes occurring in the Capital Group, focused on satisfying clients' requirements and compliance with law and standards, as well as on maintenance of certificates, permits and decisions necessary to ensure continuity of production and performance of services in individual Capital Group companies, issued by authorized entities, are the key elements of system maintenance.

The Integrated Management System improves productivity and efficient resource management in the Company. Further, it optimizes costs and facilitates compliance with legal requirements regarding environmental protection and OHS, at the same time ensuring introduction of internal rules adequate to changes in the current legislation.

OHS

Polimex-Mostostal S.A. has implemented a certified security management system based on ISO 18001:2004 and OHSAS 18001:2007 as part of the Integrated Management System. It complies with the above standards and is effectively enforced. An audit of the system was carried out from 15 to 18 September by DEKRA, an external certification firm. The purpose of the audit was to check the implementation of the above requirements and standards. The compliance is confirmed by a report entry no. W-A 915814/A3/P/9001/14001/18001. The certificate remains valid until 1 August 2017.

Further, the Company has determined its security policy and objectives. According to them, OHS measures are to prevent occupational accidents, diseases and potential accidents. All employees are involved in these measures and their qualifications have been improved on a continuous basis.

The Company has provided funds sufficient to implement the policy. Compliance with law and OHS regulations included in legal acts and court documents have obliged us to ensure continuous improvement of our staff's OSH qualifications in the form of courses and implementation of new technical solutions that ensure occupational safety. All company's activities comply with OHS, sustainable development and business ethics standards.

OHS specialists are in charge of coordinating relevant measures across the Capital Group in compliance with the requirements of Ordinance on OHS services of 2 September 1997. Their organizational structure is adjusted to specifics of business operations, i.e. power engineering, oil, gas, construction, administration etc.

The key tasks of the OHS services include supervision, control and monitoring in relation to undertakings, projects, tasks or construction sites. Special focus is placed on response to evolving threats, minimizing occupational accidents, potential accidents and compliance with / enforcement of provisions of valid OHS procedures.

During the financial year, measures were undertaken across the Capital Group aimed at improving the working conditions of our employees and employees of our sub-contractors and at mitigating the number and effects of occupational accidents through:

1. Group entities providing a relevant budget to be used to buy modern and ergonomic equipment, devices, tools, clothes, individual protection means, improvement of employee qualifications and certification necessary to carry out work;
2. developing separate OHS Improvement Plans for each Segment, Company or Branch of the Capital Group;
3. in relation to the pending reorganization and development of the New Strategy, internal regulations (OSH related decisions) and IMS documents related to OHS have been updated; improved provisions, adjusted to the current economic conditions, technology trends and terms imposed by clients operating in the power engineering industry;
4. cooperation with companies with high safety standards (Alstom, Hitachi, EDF, Siemens) through fulfilling their safety management requirements, which translates into winning of contracts and projects both in Poland and abroad;
5. entrusting the Polimex-Mostostal Capital Group with two strategic domestic projects: construction of 11 Power Unit (1,075 MWe) in Koźlenice Power Plant and construction of power units no. 5 and 6 in Opole Power and Heating Plant; continuing the tasks performed at Bełchatów Heating and Power Plant, PKN Orlen, LOTOS Gdańsk, Antwerp Refinery, Gazoport LNG at Świnoujście and other projects carried out at clients' facilities.

All measures undertaken in the Capital Group were aimed at mitigating of the number of accidents and their effects and focused on broadly defined prevention, promoting of safe work, safe behavior (both in relation to own employees and those of sub-contractors), work organization, work stand equipment, promoting of OSH measures and education regarding protection of employees' health and life.

8. Events significant for the operations of Polimex-Mostostal S.A., which occurred after the end of the financial year and by the date of publication of the financial statements

The key events that occurred after the end of the financial year have been presented in sections 1-7 hereof.

Management Board of Polimex-Mostostal S.A.

Antoni Józwiwicz

Tomasz Kucharczyk

Tomasz Rawecki

Jacek Czerwonka

President of the Management Board

Vice-President of the Management Board

of Vice-President of the Management Board

of Vice-President of the Management Board