POLIMEX-MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

WITH AUDITOR'S OPINION

Warsaw, 24 March 2017

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(in PLN '000)

Consolidated Income Statement

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Sales revenue	7.1	2 668 221	2 548 575
Cost of goods sold	7.6	(2 635 671)	(2 395 707)
Gross profit / (loss) on sales		**32 550**	**152 868**
Costs to sell		(22 347)	(21 127)
General and administrative expenses		(65 615)	(65 138)
Other operating revenue	7.2	38 417	68 017
Other operating expenses	7.3	(10 947)	(15 269)
Operating profit / (loss)		**(27 942)**	**119 351**
Financial revenue	7.4	13 906	6 736
Financial expenses	7.5	(30 687)	(38 203)
Share in profits of an associate		(3 628)	1 666
Gross profit / (loss)		**(48 351)**	**89 550**
Income tax	8	(12 355)	(20 575)
Net profit / (loss)		**(60 706)**	**68 975**
Net profit / (loss) attributable to:			
- shareholders of the parent		(61 387)	69 636
- non-controlling interests		681	(661)
Earnings / (loss) per share (in PLN per share)			
- basic		(0.709)	0.800
- diluted		(0.385)	0.630

(in PLN '000)

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Net profit / (loss)		**(60 706)**	**68 975**
Items that will not be reclassified subsequently to profit or loss:			
Change due to revaluation of fixed assets		–	50 880
Actuarial gains/losses		804	2 158
Deferred tax		(150)	(10 095)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		230	(2 612)
Deferred tax			
Other net comprehensive income for the period		**884**	**40 331**
Total comprehensive income		**(59 822)**	**109 306**
Attributable to:			
- shareholders of the parent		(60 503)	109 967
- non-controlling interests		681	(661)

(in PLN '000)

Consolidated Balance Sheet

	Note	As at 31 December 2016	As at 31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	11	321 814	348 146
Investment property		3 867	5 766
Goodwill arising from consolidation	12	282 694	282 694
Intangible assets	13	1 672	4 353
Investments in associates measured using the equity method		15 705	19 332
Financial assets	15	795	217 125
Long-term receivables		3 300	611
Performance bonds related to construction contracts		55 724	73 887
Deferred tax asset	8.2	198 608	209 550
Other non-current assets		1 479	3 160
Total non-current assets		**885 658**	**1 164 624**
Current assets			
Inventory	16	65 291	42 481
Trade and other receivables	17	419 319	566 511
Performance bonds related to construction contracts		42 992	43 746
Receivables arising from measurement of long-term contracts	18	27 522	100 519
Income tax receivables		–	17
Financial assets	15	218 699	1 154
Cash	19	710 813	626 145
Other assets		3 555	4 774
Assets held for sale	21	123 788	177 818
Total current assets		**1 611 979**	**1 563 165**
Total assets		**2 497 637**	**2 727 789**

(in PLN '000)

Consolidated Balance Sheet

	Note	As at 31 December 2016	As at 31 December 2015
Equity and liabilities			
Equity			
Share capital	22.1	173 238	173 238
Supplementary capital	22.2	309 710	306 762
Other capitals	22.3	(85 254)	(85 254)
Reserve capital - convertible bond premium	22.4	29 734	29 734
Accumulated other comprehensive income		77 288	75 237
Retained earnings / losses brought forward		(22 540)	41 795
Non-controlling interests		20	(661)
Total equity		**482 196**	**540 851**
Non-current liabilities			
Credit facilities and loans	23	140 272	137 408
Long-term bonds	25	160 336	147 352
Provisions	27	194 783	254 891
Liabilities due to employee benefits	28	12 706	14 352
Other liabilities		60 784	123 892
Performance bonds related to construction contracts		37 432	42 469
Deferred tax liability	8.2	–	40
Total non-current liabilities		**606 313**	**720 404**
Current liabilities			
Credit facilities and loans	23	129 577	150 000
Trade and other liabilities	29	624 081	656 378
Performance bonds related to construction contracts		47 731	30 230
Liabilities from measurement of long-term contracts	18	400 061	399 878
Income tax liabilities		–	32
Provisions	27	115 068	48 447
Liabilities due to employee benefits	28	52 707	62 436
Deferred income		1 527	742
Liabilities directly related to assets held for sale	21	38 376	118 391
Total current liabilities		**1 409 128**	**1 466 534**
Total liabilities		**2 015 441**	**2 186 938**
Total equity and liabilities		**2 497 637**	**2 727 789**

(in PLN '000)

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Gross profit / (loss)		**(48 351)**	**89 550**
Adjustment by:		**153 571**	**(151 984)**
Share in profit/loss of associates measured using the equity method		3 627	(1 666)
Amortization and depreciation	7.7	32 552	31 552
Net interest and dividends		21 764	15 840
Profit on investing activities		(24 611)	(2 666)
Change in receivables	20	215 355	(86 713)
Change in inventory	20	(28 151)	6 218
Change in liabilities except for credit facilities and loans	20	(72 178)	(28 346)
Change in other assets and deferred income	20	3 672	(19 966)
Change in the balance of provisions	20	10 390	(20 837)
Income tax paid		(24)	(30 184)
Other		(8 825)	(15 216)
Net cash generated on operating activities		**105 220**	**(62 434)**
Cash flows from investing activities			
Sales of property, plant and equipment and intangible assets		5 860	15 879
Acquisition of property, plant and equipment and intangible assets		(4 328)	(6 486)
Sale of financial assets, less cash disposed of		3 897	-
Acquisition of financial assets		(104)	(25)
Dividends received		-	3 219
Interest received		38	6
Repayment of originated loans		8	9
Net cash generated on investing activities		**5 371**	**12 602**
Cash flows from financing activities			
Payment of finance lease liabilities		(359)	(535)
Proceeds from credit facilities/loans taken out		177	2 600
Repayment of credit facilities/loans		(18 491)	(637)
Interest paid		(7 760)	(5 937)
Other		510	3 453
Net cash generated on financing activities		**(25 923)**	**(1 056)**
Net increase / (decrease) in cash and cash equivalents		84 668	(50 888)
Net exchange differences		(16)	(796)
Opening balance of cash	20	**626 145**	**677 033**
Closing balance of cash	20	**710 813**	**626 145**
Cash presented in the consolidated cash flow statement		**710 813**	**626 145**
– including restricted cash		619 746	506 368

(in PLN '000)

Consolidated Statement of Changes in Equity

	Share capital	Supplementary capital	Other capitals	Reserve capital - convertible bond premium	Accumulated other comprehensive income (due to)			Retained earnings/losses brought forward	Total	Non-controlling interests	Total equity
					Revaluation reserve	Actuarial gains/losses	Exchange differences from translation of foreign entities				
As at 1 January 2016	**173 238**	**306 762**	**(85 254)**	**29 734**	**94 387**	**602**	**(19 752)**	**41 795**	**541 512**	**(661)**	**540 851**
Profit/(loss) for the period	–	–	–	–	–	–	–	(61 387)	(61 387)	681	(60 706)
Other net comprehensive income	–	–	–	–	–	654	230		884	–	884
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**654**	**230**	**(61 387)**	**(60 503)**	**681**	**(59 822)**
Distribution of profit/ absorption of loss	–	2 948	–	–	–	–	–	(2 948)	–	–	–
Deconsolidation of a subsidiary	–	–	–	–	–	–	1 167	–	1 167	–	1 167
As at 31 December 2016	**173 238**	**309 710**	**(85 254)**	**29 734**	**94 387**	**1 256**	**(18 355)**	**(22 540)**	**482 176**	**20**	**482 196**

(in PLN '000)

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Supplementary capital	Other capitals	Equity component of issued bonds convertible into shares	Accumulated other comprehensive income (due to)			Retained earnings/losses brought forward	Total	Non-controlling interests	Total equity
						Revaluation reserve	Actuarial gains/losses	Exchange differences from translation of foreign entities				
As at 1 January 2015	**173 238**	**1 297 118**	**618 552**	**(85 254)**	**29 747**	**53 174**	**(1 128)**	**(17 140)**	**(1 636 749)**	**431 558**	**–**	**431 558**
Profit/(loss) for the period	–	–	–	–	–	–	–	–	69 636	69 636	(661)	68 975
Other net comprehensive income	–	–	–	–	–	41 213	1 730	(2 612)	–	40 331	–	40 331
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**41 213**	**1 730**	**(2 612)**	**69 636**	**109 967**	**(661)**	**109 306**
Absorption of prior year loss	–	(1 297 118)	(311 790)	–	–	–	–	–	1 608 908	–	–	–
Other	–	–	–	–	(13)	–	–	–	–	(13)	–	(13)
As at 31 December 2015	**173 238**	**–**	**306 762**	**(85 254)**	**29 734**	**94 387**	**602**	**(19 752)**	**41 795**	**541 512**	**(661)**	**540 851**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2016

1. General information

The Polimex-Mostostal Capital Group ("Group", "Capital Group") consists of Polimex-Mostostal S.A. ("Parent", "Company"), its subsidiaries and associates. The consolidated financial statements of the Group cover the year ended 31 December 2016 and contain comparative data for the year ended 31 December 2015.

Polimex-Mostostal S.A. operates based on Articles of Association established by a notarial deed on 18 May 1993 (Notarial Register A No. 4056/93) with subsequent amendments. The Company's registered office is located in Warsaw at al. Jana Pawła II 12, 00-124 Warszawa. The Company has been registered by the District Court for the capital city of Warsaw in Warsaw, 12th Business Division of the National Court Register under number KRS 0000022460. Polimex-Mostostal S.A. has been assigned a statistical number REGON 710252031.

The duration of the Parent and of the Group Companies is unlimited. Financial statements of all consolidated subsidiaries have been prepared for the same reporting period as the financial statements of the Parent, using consistent accounting principles. For consolidation purposes, financial statements of associates that apply different accounting principles have been restated to achieve compliance with the accounting principles applied by the Capital Group.

The calendar year is the financial year of the Parent and the Capital Group companies.

The Parent's core business includes broadly defined construction and assembly services, performed in the capacity of a general contractor both in Poland and abroad, as well as administration services provided to the Group companies. The Group's core business includes construction and assembly works, assembly of industrial devices and installations, manufacturing, real property development and management. Polimex-Mostostal S.A. and the Group operate in the following segments: Production, Industry, Power Engineering, Petrochemistry (crude oil, natural gas, chemicals), Infrastructure Construction, Other Activities.

Shares of the Parent, Polimex-Mostostal S.A., are listed on Warsaw Stock Exchange.

1.1. Composition of the Group and its changes

The Group consists of Polimex-Mostostal S.A. with registered office in Warsaw as the Parent and the following subsidiaries, Capital Groups and associates:

(in PLN '000)

No.	Entity	Registered office	Business activity	Interest (%) in the share capital / profit share in partnerships	
				As at	As at
				31.12.2016	31.12.2015
Subsidiaries				(%)	(%)
1	Polimex Opole Sp. z o.o. Sp. k. (*)	Warsaw	Construction works	99.9	99.9
2	Polimex Energetyka Sp. z o.o. (*) (Capital Group)	Warsaw	Construction works	100	100
3	Sinopol Trade Center Sp. z o.o. (***)	Płock	Wholesale trade	50	50
5	Stalfa Sp. z o.o.(*)	Sokołów Podlaski	Manufacture of metal products	100	100
6	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Technical services	100	100
7	Polimex-Mostostal Ukraina Spółka z dodatkową odpowiedzialnością (*)	Zhytomyr, Ukraine	Residential construction	100	100
8	Czerwonogradzki Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością (*)	Chervonohrad, Ukraine	Manufacturing of metal structures	99.61	99.61
9	Polimex Centrum Usług Wspólnych Sp. z o.o. (*)	Warsaw	Business and management consulting, tax, accounting and administrative services	100	100
10	Naftoremont-Naftobudowa Sp. z o.o. (*)	Płock	Construction works	100	100
11	Polimex Budownictwo Sp. z o.o. (*)	Warsaw	Real property trade, service and management	100	100
12	Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (***)	Gliwice	Construction, urban and technological design	99.57	99.57
14	Polimex Engineering Sp. z o.o. in liquidation (***)	Kraków	Construction design	100	100
15	S.C. Coifer Impex SRL in liquidation (***)	Bucharest, Romania	Manufacturing of steel structures	100	100
16	WBP Zabrze Sp. z o.o. in liquidation (***)	Gliwice	Design	99.97	99.97
17	Przedsiębiorstwo Robót Inżynieryjnych “PRINŻ-1” Sp. z o.o. in restructuring (***)	Sosnowiec	Road construction	95.53	95.53
18	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*)	Bielsko Biała	Water and sewage treatment, technical and economic analyses concerning improvement of existing or construction of new facilities	100	100
19	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Specialized and general construction	100	100
20	Mostostal Siedlce Sp. z o.o. (***)	Siedlce	Production	100	100
21	Polimex Opole Sp. z o.o. (***)	Warsaw	Construction works, trading, consulting and advisory services	100	100

(in PLN '000)

No.	Entity	Registered office	Business activity	Interest (%) in the share capital / profit share in partnerships	
				As at	As at
				31.12.2016	31.12.2015
22	Infrastruktura Drogowa Sp. z o.o. (***)	Warsaw	Construction of roads and motorways, residential and non-residential buildings and other facilities	100	100
23	Polimex CUW Sp. z o.o. (***)	Warsaw	Business and management consulting; legal and accounting services	100	100
24	Mostostal Siedlce Sp. z o.o. Sp. k. (*)	Siedlce	Manufacturing of metal structures	98	98
25	Polimex Budownictwo Sp. z o.o. Sp. k. (***)	Siedlce	Construction works	98	98
26	Polimex Operator Sp. z o.o. (***)	Warsaw	Rental and lease of construction machines and equipment	100	100
27	Polimex Operator Sp. z o.o. Sp. k. (***)	Warsaw	Rental and lease of construction machines and equipment	98	
28	Polimex SPV 1 Sp. z o.o. (***)	Warsaw	Business and management consulting	100	100
29	Polimex GmbH, in liquidation (*)	Ratingen-Germany	Technical services and supplies, agent	100	100
Associates					
30	Energomontaż-Północ Bełchatów Sp. z o.o. (Capital Group) (**)	Rogowiec	Specialized construction and assembly services	32.82	32.82

* consolidated using the full method

** recognized using the equity method

*** not consolidated (sale, liquidation, bankruptcy proceedings, loss of control, immaterial)

As at 31 December 2016, the Parent's share in the total number of votes in its subsidiaries equaled to its interest in the equity of those entities.

The Parent controls the subsidiaries consolidated using the full method. Such control results from the fact that the Parent holds more than 90% of shares in its subsidiaries and may manage their operations. The associates which are not consolidated are in liquidation and the Parent does not exercise any control over them, or they are immaterial to consolidation at the Group level. The materiality threshold for excluding a subsidiary from consolidation is set by reference to the entity's assets relative to the Group's balance sheet total and the share of the entity's sales revenue in the sales revenue generated by the Group.

The Company exercises significant influence on its associate, Energomontaż-Północ Bełchatów Sp. z o.o., where it holds over 30% shares and may appoint one member of the Supervisory Board.

On 24 February 2016 the process of liquidating Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o. was completed and the company was removed from the Register of Entrepreneurs.

On 19 April 2016 District Court Katowice – Wschód opened restructuring procedures at Przedsiębiorstwo Robót Inżynieryjnych „PRINŻ-1" Sp. z o.o. and appointed a receiver. Therefore, Polimex-Mostostal S.A. lost control over this subsidiary (as defined in IFRS) and has discontinued consolidation of the financial data of PRINŻ-1 Sp. z o.o. The deconsolidation has been based on financial data of PRINŻ-1 Sp. z o.o. as at 31 March 2016. The effects of the deconsolidation on the financial profit/loss is PLN 8,267 thousand.

On 29 June 2016 the process of liquidating Modułowe Systemy Specjalistyczne Sp. z o.o. was completed and the company was removed from the Register of Entrepreneurs.

On 27 July 2016 the Parent sold the entire block of shares in Grande Meccanica S.p.A. to an unrelated party. The selling price as agreed with the buyer was EUR 900 thousand.

On 7 September 2016 the process of liquidating Naf Industriemontage GmbH was completed and the company was removed from a relevant commercial register in Germany.

1.2. Functional and reporting currency

Items presented in the financial statements of Capital Group entities are measured in the currency of the primary economic environment in which the entity conducts its business activity. The consolidated financial statements have been prepared in PLN, which is the Group's presentation currency. Figures in the consolidated financial statements are presented in PLN'000, unless it is stated that their accuracy is greater.

2. Approval of the financial statements

The consolidated financial statements of the Polimex-Mostostal Group for the year ended 31 December 2016 were approved by the Management Board for publication on 24 March 2017.

Consolidated financial statements of the Polimex-Mostostal Capital Group and the financial statements of the Parent are audited by a certified auditor - Deloitte Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa. The auditor's opinion and report on the audit of the financial statements for 2016 were issued on 24 March 2017. Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. is the auditor of selected subsidiaries in the Polimex-Mostostal Capital Group, including Polimex Opole spółka z ograniczoną odpowiedzialnością spółka komandytowa, Polimex Energetyka Sp. z o.o., Naftoremont-Naftobudowa Sp. z o.o., Polimex Centrum Usług Wspólnych Sp. z o.o., Mostostal Siedlce Sp. z ograniczoną odpowiedzialnością spółka komandytowa. Audit of financial data of the above subsidiaries was completed as at 24 March 2017; auditor's opinions and reports on the audit of statutory financial statements of these companies will be issued within the deadline specified in the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330 as amended).

3. Application of International Financial Reporting Standards

3.1. Statement of compliance

These interim condensed consolidated financial statements have been prepared in line with the International Financial Reporting Standards and the related Interpretations published in the form of EU Commission regulations.
The accounting records of certain Group Companies are kept in accordance with the accounting policy (principles) laid down in the Accounting Act of 29 September 1994 ("Accounting Act"), as amended, and the regulations issued based thereon. The consolidated financial statements contain adjustments which are not included in the accounting records of the Group companies but which have been made with a view to bringing their financial statements into line with the IFRS.

3.2. Effects of new and amended standards and interpretations

IFRS as endorsed by the EU do not materially differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following interpretations and standards not adopted for use as at 24 March 2017:

- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016) the European Commission decided not to commence approval of this interim standard for application in the EU until the final version of IFRS 14 is published;
- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019);
- Revised IFRS 2 "Share-based Payments" - Classification and Measurement of Share-based Payments (applicable to annual periods beginning on or after 1 January 2018);
- Revised IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2018, or upon first-time application of IFRS 9 "Financial Instruments");
- Revised IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date of the revised standards has been postponed until completion of work on the equity method);
- Revised IFRS 15 "Revenue from Contracts with Customers" - explanations to IFRS 15 (applicable to annual periods beginning on or after 1 January 2018);
- Revised IAS 7 "Statement of Cash Flows" – Disclosure initiative (applicable to annual periods beginning on or after 1 January 2017);
- Revised IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods starting on or after 1 January 2017);
- Revised IAS 40 "Investment Properties" - Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018);
- Amendments to various standards "Annual Improvements to IFRS (Cycle 2012-2014)" - resulting from the annual quality improvement project (IFRS 1, IFRS 12 and IAS 28) focusing mainly on solving inconsistencies and clarifying the wording (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while those to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (applicable to annual periods beginning on or after 1 January 2018).

According to Group's estimates, except for IFRS 16, the above new and revised standards would not materially affect its financial statements had they been applied as at the end of the reporting period. Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted using the lease rate if it can be readily determined. If the rate cannot be readily determined, the lessee shall use the incremental borrowing rate. Leases are classified by lessors in accordance with IAS 17 - as an operating lease or a finance lease. A lease is classified as a finance lease by the lessor if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease.

In finance lease the lessor recognizes finance income over the lease term of a finance lease, based on pattern reflecting a constant periodic rate of return on the net investment. A lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. The Group is a lessor in car leases, computer and other IT leases and office estate leases. Currently, these leases are recognized in accordance with principles regarding operating leases. Once the new standard becomes effective, the Group shall change the recognition and present the leases in accordance with principles regarding finance leases. The changes will result in material amounts related to such leases being recognized in the balance sheet as assets and liabilities.

At the same time, hedge accounting of the portfolio of financial assets and liabilities remains beyond the scope of EU-approved regulations. According to the Group's estimates, application of hedge accounting principles with respect to the portfolio of financial assets or liabilities in line with IAS 39 "Financial Instruments: Recognition and Measurement" would not have had a material impact on the financial statements if they had been approved for use by the EU as at the balance sheet date.

While approving these financial statements, the Group did not apply the following standards, revised standards and interpretations that had been published and endorsed for use in the EU, but which had not yet entered into force and may significantly affect the accounting policy of the Group:

- IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018);

  The Standard divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortized cost and those measured at fair value. The classification of a financial asset is made at the time it is initially recognized and depends on the financial instruments management model adopted by the entity and on characteristics of contractual cash flows generated by these instruments.

  According to initial estimates, the new standard will affect recognition of the measurement of shares held by the Group in related parties. The Group will be obliged to measure these shares at fair value. As at the date of adopting the standard, effects of the measurement shall be recognized in Group's capitals. Changes in fair value in subsequent periods following the first-time application of the standard shall be recognized in profit or loss. At present, shares in related entities are measured at historical cost.

  Further, the standard introduces a change in recognition of impairment of financial assets, introducing the expected loss based approach. According to initial estimates, the revised standard will not materially affect financial data in this respect. Most clients of the Company are entities related to the State Treasury or agencies - organizational units of the State Treasury. According to the Group, their credit risk is very low and adopting the trade receivables impairment model based on expected losses shall not necessitate recognition of material impairment losses.

- IFRS 15 "Revenue from Contracts with Customers" and subsequent revisions (applicable to annual periods beginning on or after 1 January 2018);

  Under the new standard, the Group has identified two areas that differ from the current principles: the time of recognizing revenue from sales and the need to separate certain parts of the contract. According to the new standard, sales revenue is recognized when the performance obligation is satisfied by the reporting entity. Depending on a case, revenue may be recognized over time (if the performance obligation is satisfied over time) or at a point in time (if the performance obligation is satisfied at a single point in time). Under the new standard, services offered in a bundle should be separated if certain criteria are met. Revenue from the separated services should be recognized separately from other contract parts.

The Group carries out complex construction contracts whose scope of works is broad and includes a number of tasks. Depending on contractual terms, revenue recognition may be revised for each of these contracts compared to the current accounting policy.

The following standards, revised standards and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the EU have been first-time applied in the consolidated financial statements for 2016:

- Revised IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception, endorsed by the EU on 22 September 2016;
- Revised IFRS 11 “Joint Arrangements”, Accounting for Acquisitions of Interests in Joint Operations, endorsed by the EU on 24 November 2015;
- Revised IAS 1 “Presentation of Financial Statements” - Disclosure Initiative, endorsed by the EU on 18 December 2015;
- Revised IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization, endorsed by the EU on 2 December 2015;
- Revised IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Bearer Plants, endorsed by the EU on 23 November 2015;
- Revised IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- Revised IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements, endorsed by the EU on 18 December 2015.
- Revised standards “IFRS Improvements (2010-2012)” – amendments to standards resulting from the annual improvements process (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 17 December 2014;
- Revised standards “IFRS Improvements (2012-2014)” – amendments to standards resulting from the annual improvements process (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 15 December 2015.

The above changes adopted by the Group have not materially affected its accounting policy.

4. Summary of significant accounting policies

4.1. Going concern

The consolidated financial statements have been prepared on the assumption that the consolidated Group Companies will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances occurred that would indicate a risk to the consolidated Group Companies’ ability to continue as a going concern. The Management Board plans to continue the operations of Polimex-Mostostal Ukraina SAZ, whose equity was negative as at 31 December 2016, in the foreseeable future.

4.2. Basis for preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with the historical cost principle, except for certain property, plant and equipment items carried at remeasured amounts or at fair value and financial instruments, which are measured at fair value at the end of each reporting period in accordance with the accounting policy described below.

In principle, the historical cost is determined based on fair value of consideration paid for specified goods or services.

The Polish zloty (“PLN”) is the presentation currency of the consolidated financial statements and unless stated otherwise, all figures are in PLN ‘000.

Key accounting principles applied by the Group are presented below.

4.3. Consolidation principles

These consolidated financial statements include the financial statements of Polimex-Mostostal S.A. and the financial statements of its subsidiaries, prepared for the year ended 31 December 2016. The financial statements of the subsidiaries, including the adjustments made to ensure their compliance with IFRS, have been prepared for the same reporting period as the financial statements of the parent, in line with consistent accounting policies for similar transactions and business events. Adjustments are made to eliminate any discrepancies in the accounting principles used.

All material balances and transactions between the Group Companies, including unrealized gains on intra-Group transactions, have been eliminated in whole. Unrealized losses are eliminated unless they are indications of impairment.

The subsidiaries are consolidated in the period from the date when the Group assumes control to the date when the control is no longer exercised. The parent’s control exists when the parent has power over the investee, exposure, or rights, to variable returns from its involvement with the investee or the ability to use its power over the investee to affect the amount of the investor's returns.

Changes in the Parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent.

4.4. Investments in associates

Investments in associates are accounted for using the equity method. These are entities significantly influenced by the Parent, directly or indirectly via subsidiaries, which are not subsidiaries or joint ventures. The financial statements of associates serve as the basis for measurement of the shares held by the Parent using the equity method. The financial year of the associates and the Parent is the same. Some associates apply the accounting principles laid down in the Accounting Act. Before calculation of the share in the net assets of associates, appropriate adjustments are made to ensure that the financial information of those entities is in conformity with the IFRS, as applied by the Group.

Investments in associates are presented on the balance sheet at cost increased by any subsequent changes in the Parent’s share in the net assets of such entities, less any impairment losses. The share in profits or losses of associates is reflected in the consolidated profit or loss. It may also be necessary to adjust the carrying amount due to changes in the proportionate share in the associate resulting from changes in its other comprehensive income. The Group’s share in such changes is recognized in the Group’s other comprehensive income.

Investments in associates are tested for impairment when there are indications of such impairment or when impairment losses recognized in prior years are no longer required.

4.4.1. Changes in Group’s interests in the share capital of the subsidiaries

Changes in the Group’s interests in the share capital of the subsidiaries that do not result in the loss of control are accounted for as equity transactions. The carrying amount of Group’s interests and non-controlling interests (NCI) is adjusted for changes in interests held in given subsidiaries. Differences between the amount adjusting NCI and the fair value of consideration paid or due are recognized directly in equity and assigned to equity holders of the Company. Should the Group loss control over a subsidiary, the respective gain or loss calculated as a difference between the aggregated consideration amount received plus the fair value of the retained interests and the sum of the initial carrying amount of assets (including goodwill) and liabilities of the subsidiary and NCI is recognized in profit or loss. All amounts related to that subsidiary, initially recognized in other comprehensive income, are settled as if the Group had directly disposed of the respective assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or to other equity class in accordance with relevant IFRS). Fair value of investments held in a former subsidiary as at the date of losing control is treated as fair value upon initial recognition to allow settlement of cost incurred upon initial recognition of the respective associate or joint venture in accordance with IAS 39.

(in PLN '000)

4.5. Interests in joint ventures

The Group's interests in joint ventures are measured using the equity method.

4.6. Translation of foreign currency items

Foreign currency transactions are translated into the Polish zloty by reference to the exchange rate effective as at the date of the transaction.

As at the end of the reporting period, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into PLN by reference to the average exchange rate effective as at the end of the reporting period and determined for the currency by the National Bank of Poland. Exchange differences on translation and settlement of these items are recognized as financial revenue (expenses), respectively, or capitalized in the value of assets. Non-monetary assets and liabilities recognized at historical cost in a foreign currency are recognized at the historical exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities recognized at fair value in a foreign currency are translated by reference to the exchange rate effective as at the fair value measurement date.

UAH and RUB are the functional currencies of foreign subsidiaries. As at the end of the reporting period, assets and liabilities of those foreign subsidiaries are translated into the presentation currency of the Group by reference to the exchange rate effective as at the end of the reporting period and their statements of comprehensive income are translated by reference to the weighted average exchange rate for the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated as a separate item of equity. At the time of disposal of a foreign operation, deferred exchange differences accumulated in equity in relation to the foreign operation are recognized in profit or loss.

Weighted average exchange rates for the reporting periods:

	Year ended 31 December 2016	Year ended 31 December 2015
UAH	0.1542	0.1722
RUB	0.0680	0.0616
EUR	4.3757	4.1848

4.7. Property, plant and equipment

Property, plant and equipment are presented at cost less depreciation and impairment losses, except real property and structures permanently attached to land, i.e. land, production plants and land occupied by a warehouse, manufacturing and office facility complex. The above asset class is presented under “Land and buildings” and measured using the revaluation model.

The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. The cost also includes the cost of replacing parts of machines and equipment at the time when it is incurred, provided that the recognition criteria are met. Costs incurred after the date of commissioning a fixed asset, such as costs of maintenance and repair, are charged to profit or loss when incurred.

Increases in the carrying amount resulting from revaluation of assets recognized using the revaluation method are charged to other comprehensive income and disclosed as “Accumulated other comprehensive income” in equity. Decreases offsetting former increases and relating to the same fixed asset are charged to other comprehensive income and reduce revaluation reserve. Any other reductions are recognized in the Income Statement. The resulting equity item is reclassified to retained profits upon derecognition of an asset it related to.

Upon acquisition, fixed assets are divided into components of material value, to which separate useful lives may be assigned.

Depreciation is calculated using the straight-line method over the estimated useful life of an asset:

Type	Period
Buildings and structures	20-40 years
Plant and equipment	5-20 years
Office equipment	3-5 years
Vehicles	3-10 years
Computers	3-8 years
Leasehold improvements	10 years

The residual value, useful life and depreciation method of assets are reviewed on an annual basis at the end of December and, if necessary, adjusted as of the beginning of the subsequent financial year.

Investments in progress are related to fixed assets under construction or assembly and are recognized at cost less impairment losses, if any. Fixed assets under construction are not depreciated until their construction is completed and until they are commissioned.

4.8. Investment property

Initially, investment property is recognized at cost, including transaction costs.

Following initial recognition, investment property is recognized at fair value. Gains or losses resulting from changes in the fair value of investment property are charged to profit or loss as other revenue or other operating expenses in the period when they arise.

Assets are transferred to investment property only when they change their designation – the owner of the assets confirms that the assets are no longer used or an operating lease agreement is concluded. If an asset used by the owner – the Company becomes investment property, the Company applies the principles described in the *Property, plant and equipment* section until the day when the real property changes its designation. The difference between the carrying amount determined in line with the principles presented in the *Property, plant and equipment* section and the fair value is treated the same as when carried at a revalued amount. If an investment property is disposed of, the difference between the selling price and the book value is recognized in profit or loss.

4.9. Intangible assets

Upon initial recognition, intangible assets are measured at cost. Following initial recognition, intangible assets are recognized at cost less amortization and impairment losses.

Intangible assets with a limited useful life are amortized over their useful life and tested for impairment each time when there is any indication that the assets may be impaired. The following useful lives have been applied:

Type	Period
Patents and licenses	For patents and licenses used based on a fixed-term contract, the period includes a period over which they may be used
R&D expenses	5 years
Computer software	2-10 years

Goodwill

Goodwill arising from acquisition of an entity is initially recognized at cost, being the surplus of

- the total of:
  - (i) consideration paid;
  - (ii) the amount of any non-controlling interest in the acquiree and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;

- over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Goodwill is tested for impairment once a year, or more often, if there is any indication of impairment. Goodwill is not amortized.

As at the date of the business combination, goodwill is allocated to each cash generating unit which may benefit from the synergy. Each unit or group of units to which goodwill has been allocated:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes; and
- is not bigger that one operating segment specified in line with IFRS 8 Operating Segments.

An impairment loss is determined based on estimation of the recoverable amount of a cash generating unit which to which goodwill has been allocated. If the recoverable amount of the cash generating unit is lower than the carrying amount, an impairment loss is recognized. If goodwill forms part of a cash generating unit and a part of the unit operations is sold, goodwill related to the sold operations is included in its carrying amount at the time of determining gains or losses on the sale of such part. The sold goodwill is then determined based on the relative value of operations sold and the value of the retained part of the cash generating unit. A cash generating unit may not be bigger than one operating segment before aggregation.

4.10. Leases

The Group as the lessee

Finance leases transferring substantially all the risks and rewards of ownership of the leased asset onto the Group are recognized on the balance sheet as at the lease inception date at the lower of: fair value of the leased asset or the current value of minimum lease payments. Initial payments are split into financial expenses and a decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are charged to profit or loss, unless the capitalization requirements are met.

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

Leases whereby the lessor retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Initial operating lease payments and the subsequent rent are charged to operating expenses in profit or loss using the straight-line method over the lease term.

Contingent lease payments are expensed in the period when they become due.

The Group as the lessor

Leases whereby the lessor retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Initial operating lease payments and the subsequent rent are charged to operating revenue in profit or loss using the straight-line method over the lease term.

Contingent lease payments are recognized as revenue in the period when they become due.

4.11. Impairment of non-financial non-current assets

As at the end of each reporting period, the Group verifies whether there is any indication that its non-financial non-current assets may be impaired. If there is any indication of impairment or if an annual impairment test is necessary, the Group estimates the recoverable amount of a given asset or a cash generating unit which the asset belongs to, if the asset itself does not generate any cash flows.

The recoverable amount of an asset or a cash generating unit corresponds to the fair value less costs to sell relating to the asset or a cash generating unit, or its value in use, whichever higher. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized up to a specified recoverable amount.

At the end of each reporting period, the Group verifies whether there is any indication that an impairment loss recognized for a given asset in the prior periods is redundant or whether it should be reduced.

4.12. Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed assets. Borrowing costs include interest determined using the effective interest method, financial charges under finance lease agreements as well as exchange differences relating to borrowings up to the interest expense adjustment.

4.13. Financial assets

Categories of financial assets:

– held-to-maturity financial assets;
– financial assets measured at fair value through profit or loss;
– loans and receivables;
– available-for-sale financial assets;

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets which are not derivatives, with determined or determinable payments and defined maturity, which the Company intends to and is able to hold to maturity, other than:

- designated upon initial recognition as measured at fair value through profit or loss;
- meeting the definition of loans and receivables;
- designated as available-for-sale.

Held-to-maturity financial assets are measured at amortized cost using the effective interest method. Held-to-maturity financial assets are classified as non-current assets if their maturity exceeds 12 months of the end of the reporting period.

Financial assets measured at fair value through profit or loss

A financial asset measured at fair value through profit or loss has to satisfy one of the following criteria:

a) be classified as held-for-trading.

   Financial assets are classified as held for trading if they are:

   i. acquired mainly for purposes of being sold in the short term;

   ii. part of a portfolio of identified financial instruments that are managed together and it is probable that they will generate profit in the short term;

   iii. derivative instruments (except those forming part of hedge accounting or financial guarantee agreements);

b) be classified as such upon initial recognition in line with IAS 39.

Financial assets measured at fair value through profit or loss are measured at fair value, taking into account their market value as at the end of the reporting period, less sale transaction costs. Changes in the value of the aforesaid financial instruments are charged to profit or loss and recognized as financial revenue or expenses. For contracts with one or more embedded derivatives, the entire contract may be classified as a financial asset measured at fair value through profit or loss. This does not apply to cases where an embedded derivative does not materially affect cash flows from the contract or separation of embedded derivatives is clearly not allowed. Upon initial recognition, financial assets may be classified as measured at fair value through profit or loss if the following criteria are met:

(i) such classification eliminates or significantly reduces a treatment inconsistency where both measurement and recognition of gains or losses are subject to different regulations; or

(ii) the assets form part of a group of financial assets that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(iii) the financial assets contain embedded derivatives which should be recognized separately.

Loans and receivables

Loans and receivables are financial assets not classified as derivatives, with determined or determinable payments, not quoted on an active market. They are classified as current assets if their maturity does not exceed 12 months of the end of the reporting period. Loans and receivables whose maturity exceeds 12 months of the end of the reporting period are classified as non-current assets. Following initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets which are not derivatives, classified as available for sale or not included in any of the former asset classes. These assets are recognized at fair value, without deducting transaction costs, including their market value as at the end of the reporting period. If no stock market prices are available on an active market and the fair value may not be estimated reliably using alternative methods, available-for-sale financial assets are measured at cost adjusted by impairment losses. Positive and negative differences between the fair value of available-for-sale assets (if a market price set on an active market is available or the fair value may be estimated reliably otherwise) and cost, less deferred tax, are recognized in other comprehensive income. Any reductions in the value of available-for-sale assets resulting from impairment are charged to financial expenses.

Acquisition and sale of financial assets are recognized as at the transaction date. Upon initial recognition, a financial asset is measured at fair value increased, for assets not classified as measured at fair value through profit or loss, by transaction costs directly attributable to the acquisition.

A financial asset is derecognized when the Company loses control over the contractual rights contained in the instrument; usually when the instrument is sold or when all cash flows attributable to the instrument are transferred onto an independent third party.

4.14. Impairment of financial assets

As at the end of each reporting period, the Group verifies whether there is any objective indication that financial assets or a group of financial assets may be impaired.

Assets measured at amortized cost

If there is any objective indication that a loss has been incurred due to impairment of loans and receivables measured at amortized cost, the impairment loss is equal to the difference between the carrying amount of the financial asset and the present value of projected future cash flows (excluding future losses due to bad debts, which have not been incurred yet), discounted using the original (i.e. determined upon initial recognition) effective interest rate. The carrying amount of an asset is reduced through recognition of an impairment loss. The loss is charged to profit or loss.

The Company first verifies whether there is any objective indication of impairment of individual financial assets which individually are material as well as those which individually are not material. If the verification shows that there is no objective indication that an individually reviewed financial asset may be impaired, whether it is material or not, the Company includes the asset in a group of financial assets with a similar credit risk and jointly determines their impairment. Assets which are individually tested for impairment and for which an impairment loss has been recognized or it has been determined that the previous one will not change, are not included in the general test of a group of assets for impairment.

If the impairment loss decreased in the subsequent period and the decrease can be objectively related to an event taking place after the loss has been recognized, the prior impairment loss is reversed. The subsequent reversal of an impairment loss is charged to profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost as at the date of reversal.

Financial assets measured at cost

If there is any objective indication of impairment of an unquoted equity instrument which is not measured at fair value as its fair value cannot be estimated reliably, or of a derivative instrument which is linked with and has to be settled by delivery of such an unquoted equity instrument, the impairment loss is determined as the difference between the carrying amount of a financial asset and the present value of projected future cash flows discounted using the current market rate of return for similar financial assets.

Impairment losses on financial assets measured at cost are not reversed.

The above principles apply to shares held in related parties.

4.15. Derivative financial instruments and hedges

Derivatives used by the Group for purposes of hedging economic risks related to changes in interest rates and foreign exchange rates are mainly FX forwards and interest rate swaps. Such derivatives are measured at fair value. Derivatives are presented as assets if their value is positive or as liabilities if their value if negative.

Any gains and losses resulting from changes in the fair value of derivatives which do not qualify for hedge accounting are directly charged to net profit or loss for the financial year.

The fair value of FX forwards is measured by reference to the current forward rates applied to contracts with similar maturity. The fair value of interest rate swaps is determined by reference to the market value of similar instruments.

4.16. Inventory

Inventory is measured at the lower of: cost and the net realizable value.

Cost recognition:

Materials	at cost, using the FIFO method;
Finished products and work in progress	at the cost of direct materials and labor plus a mark-up of indirect production costs determined based on a standard use of the production capacity, less borrowing costs;
Goods	at cost, using the FIFO method;

Upon release from the warehouse, the Company recognizes costs of sales (if the goods are sold) or material consumption (if the inventory is used for production or provision of services).

Upon sale of inventory, its carrying amount is recognized as cost of the period in which respective revenue is recognized.

The net realizable value is the estimated realizable selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale.

4.17. Trade and other receivables

Trade receivables are recognized at the initially billed amounts, less impairment losses on doubtful debts. An impairment loss on receivables is estimated when collection of the full amount due becomes unlikely.

Where the effect of the time value of money is material, the amount due is determined by discounting projected future cash flows to their present value using a rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increases in the value of receivables due to the passage of time are recognized as financial revenue.

Other receivables include in particular advance payments related to future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented considering the nature of assets they concern, as current or non-current assets, respectively. As non-monetary assets, advance payments are not discounted.

The Group presents amounts retained by clients under “Performance bonds related to construction contracts”.

4.18. Performance bonds transferred in relation to construction contracts

Performance bonds related to construction contracts are amounts receivable by the Company and arising from deposits paid in the course of executing construction contracts.

These bonds are recognized and disclosed at amounts initially billed or paid to clients, including impairment losses.

Where the effect of the time value of money is material, the bond amount is determined by discounting projected future cash flows to their present value using a rate that reflects current market assessments of the time value of money. Impairment loss on performance bonds paid in relation to construction contracts is recognized when collection of the full bond amount is no more probable.

If the discounting method has been applied, increases in the amount due to the passage of time are recognized as financial revenue.

4.19. Cash and cash equivalents

Cash recognized in the balance sheet includes cash at bank and in hand, as well as demand deposits.

Cash equivalents include investments that meet all of the following criteria: are short-term ones (i.e. maturing within less than three months of the acquisition date), highly liquid, easily convertible to fixed cash amounts and exposed to immaterial value change risk.

Cash and cash equivalents are measured at nominal value.

The balance of cash and cash equivalents recognized in the cash flow statement consists of the aforesaid cash and cash equivalent items.

4.20. Credit facilities, loans and debt securities (bonds)

Upon initial recognition, all bank loans, credit facilities and debt securities are recognized at fair value less costs incurred to obtain the loan or credit facility.

Following initial recognition, interest-bearing loans, credit facilities and debt securities are measured at amortized cost using the effective interest method.

4.21. Assets (disposal groups) held for sale

Non-current assets (disposal groups) are classified as held for sale if their carrying value shall be recovered mostly through sale and the sale is considered highly probable. They are recognized at the lower of: carrying value and fair value less costs to sell.

4.22. Other assets

Prepaid expenses are presented at the amount of costs already incurred and relating to subsequent reporting periods. They are measured at nominal value, provided that in the future they will result in an inflow of benefits to the entity. Specifically, prepayments include:

- insurance;
- subscriptions;
- prepaid rental fees.

4.23. Deferred income

Deferred income is measured in line with the prudence principle. It includes mainly equivalents of funds received or due for supplies to be provided in future reporting periods. Amounts classified as deferred income gradually increase the balance of operating revenue.

4.24. Trade and other liabilities

Current trade liabilities are recognized at the amount due. Other financial liabilities, not classified as financial instruments measured at fair value through profit or loss, are measured at amortized cost using the effective interest method.

Other non-financial liabilities include in particular liabilities resulting from purchases of fixed assets and accrued expenses. Other non-financial liabilities are recognized at the amount due.

Liabilities due to performance bonds with settlement periods up to 12 months are recognized as current liabilities. Long-term performance bond liabilities are discounted to the current value using effective interest rates. Upon occurrence, short-term performance bonds related to construction contracts are carried at the current amount of projected consideration and recognized in subsequent periods at amortized cost.

Replacement of an existing debt instrument with an instrument with substantially different terms by the same entities is recognized as expiry of the original financial liability and recognition of the new one. Similarly, significant modification of the contractual terms of an existing financial liability is recognized as expiry of the original liability and recognition of the new one. Differences in the carrying amounts resulting from the replacement are recognized in profit or loss.

4.25. Performance bonds received in relation to construction contracts

Performance bonds received in relation to construction contracts are amounts arising from proceeds recognized in the course of executing construction contracts.

These bonds are recognized and disclosed at amounts initially billed or paid by suppliers.

Where the effect of the time value of money is material, the bond amount is determined by discounting projected future cash flows to their present value using a rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increases in the amount due to the passage of time are recognized as financial expense.

4.26. Liabilities due to employee benefits

Short-term employee benefits provided by the Group include:

- salaries and wages, including social security contributions;
- short-term paid leave if the absence is expected within 12 months of the end of the period when the employees performed the related work;
- profit-sharing and bonus payments due within 12 months of the end of the period when the employees performed the related work;
- non-cash benefits for current employees.

Short-term employee benefits, including payments to defined contribution plans, are recognized in the period during which the employee performed work for the entity, and for profit-sharing and bonus payments, when the following conditions were satisfied:

- the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- the liability may be estimated reliably.

The Group recognizes anticipated costs of short-term employee benefits in the form of paid leave in case of accumulated paid leave (the entitlement to which is transferred to subsequent periods and which may be used in the future if they have not been fully used in the current period) and in case of non-accumulated paid leave (which involve the Company's liability when they occur).

In line with the corporate compensation schemes, the Group's employees are entitled to jubilee and retirement benefits. Jubilee benefits are paid to employees after a specified number of years of service. Retirement benefits are paid once, when the employee retires. The amount of retirement and jubilee benefits depends on the number of years of service and an employee's average salary. The Group recognizes a provision for future liabilities due to retirement and jubilee benefits to allocate expenses to the periods they are related to. Pursuant to IAS 19, jubilee benefits are other long-term employee benefits, whereas retirement benefits are post-employment defined benefit plans. The present value of such liabilities is measured by an independent actuary at the end of each reporting period. Accrued liabilities are equal to discounted future payments, taking into account employee turnover, and pertain to the time until the end of the reporting period. Demographic and employee turnover data is based on historical information. Actuarial gains and losses are recognized in other comprehensive income.

Liabilities related to retirement and jubilee benefits are presented under liabilities due to employee benefits.

Post-employment benefits in the form of defined benefit plans (retirement benefits) and other long-term employee benefits (jubilee benefits, long-term disability benefits) are determined using the projected unit credit method, with actuarial valuation carried out as at the end of the reporting period.

Actuarial gains and losses related to post-employment defined benefit plans are presented in other comprehensive income. Gains and losses related to other benefits paid after the term of the employment contract are charged to profit or loss of the current period.

4.27. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects a refund of the costs for which the provision has been recognized (for example, under insurance contracts), the refund is recognized as a separate asset but only when it is virtually certain that refund will be received. Costs related to the provision are recognized in profit or loss, less any refunds.

Where the effect of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the present value, using a rate that reflects current market assessments of the time value of money and any risk related to the liability. If a discounting method is used, an increase in the provision related to the passage of time is recognized as financial expenses.

4.28. Share-based payments

Executive share options are measured by the Company as at the grant date, i.e. the date when the agreed terms of the executive share option plan are accepted by the entity and the eligible employees.

The Company recognizes the costs of such payments, estimated on the basis of the fair value of executive share options during the term when employees are being vested with the related rights (when all the vesting conditions set out in the executive share option plan are satisfied). At the same time, the Company recognizes the corresponding increase in reserve capitals created for purposes of the plan.

Following satisfaction of the vesting conditions and recognition of the cost of services along with the corresponding increase in equity, the Company does not make any subsequent adjustments to total equity. This also applies to situations where executive share options the vesting conditions for which have been satisfied are not exercised. However, the Company reclassifies the amounts recognized in reserve capital to supplementary capital when the shares purchased by the eligible individuals under the Incentive Scheme are acquired and paid for.

Equity-settled transactions

The accumulated cost of equity-settled transactions as at the end of each reporting period by the vesting date reflects the passage of time of acquiring the rights and the number of awards which – in the opinion of the Management Board of the Company as at that date based on the best estimates of the number of equity instruments – will be granted.

The Company does not recognize any costs related to awards the rights to which have not finally been granted, save for those where rights vesting depends on market conditions, which are treated as vested whether the market conditions have been satisfied or not, provided that all other efficiency/performance and service conditions have been met.

If the terms of granting the equity-settled awards are modified, to meet the minimum requirement the costs are recognized as if the conditions did not change. Moreover, costs related to each increase in the value of the transaction following modification, measured as at the change date, are recognized.

If the equity-settled award is cancelled, it is treated as if the rights to the award were acquired on the cancellation date, and all costs of the award which have not been accounted for are immediately recognized. However, if the cancelled award is replaced with a new award – regarded as a substitute award on the day when it is granted, the cancelled award and the new award are treated as if they were a modification of the initial award, i.e. as described above.

The dilutive effect of options issued is considered at the time of determining earnings per share as additional dilution.

4.29. Allocation of profit to employee benefits and special funds

In line with the Polish business practice, shareholders may allocate profit for purposes of employee benefits by increasing the social fund and to other special funds. In financial statements prepared in conformity with the IFRS, profit distributed for the aforesaid purposes is classified as operating expenses of the related period.

4.30. Revenue

Revenue is recognized to the extent that it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of such revenue can be measured reliably. Revenue is recognized less VAT, excise duty and rebates. Other revenue recognition criteria:

Construction contracts

Revenue from provision of a service in progress, as specified in the contract, delivered to a considerable degree as at the end of the reporting period is determined at the end of the reporting period if the amount of revenue can be estimated reliably. The stage of completion is measured by the share of costs incurred from the contract date to the revenue measurement date in the estimated total costs of service provision or the share of work performed in the total work to be performed.

If the stage of completion of a service in progress may not be measured reliably at the end of the reporting period, revenue is measured at the amount of costs incurred in the reporting period, which may not exceed the costs that will probably be covered by the client in the future.

If the total costs related to contract fulfillment are likely to exceed the total revenue under the contract, the expected loss is recognized as an expense in the period when it was identified.

The costs of a service in progress comprise the costs incurred from the relevant contract date to the end of the reporting period. Any costs incurred before the contract date and related to the subject matter thereof are classified as assets if it is probable that they will be offset in the future with revenue received from the client. Next, they are recognized as costs of a construction service in progress.

If the costs incurred by the Company (in percentage terms) less expected losses and increased by gains recognized in profit or loss exceed the billed sales (in percentage terms), the resulting unbilled sales amount is presented on the balance sheet as receivables from measurement of long-term contracts in correspondence with revenue from sales of services.

If the billed sales (in percentage terms) exceed the costs incurred by the Company (in percentage terms) less expected losses and increased by gains recognized in profit or loss, the resulting future revenue is presented as liabilities due to measurement of long-term contracts in correspondence with revenue from sales of services.

Revenue from sales of goods, materials and products

Revenue is recognized when substantial risks and rewards of ownership of goods and products are transferred onto the buyer and the amount of revenue can be estimated reliably.

Rental income

Income from rental of investment property is recognized using the straight-line method over the rent period of active contracts.

Interest

Interest income is recognized as it accrues (using the effective interest method, i.e. the rate discounting future cash inflows over the estimated useful life of financial instruments) relative to the net carrying amount of the financial asset.

Dividends

Dividends are recognized as at the record date.

4.31. Taxes

Current tax

Current tax liabilities and receivables for the current and prior periods are measured at anticipated amounts due from (refundable to) the tax authorities, using tax rates and based on tax regulations in force as at the end of the reporting period.

Deferred tax

For financial reporting purposes, the deferred tax is recognized in line with the balance sheet method with respect to temporary differences between the tax value of assets and liabilities plus equity and their carrying amount presented in the financial statements as at the end of the reporting period.

Deferred tax asset / liability is recognized for all deductible / taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the gross accounting profit or loss, nor the taxable profit or loss; and

- for taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, save for situations where the dates of reversal of temporary differences are controlled by the investor and it is probable that the temporary differences will not be reversed in the foreseeable future.

The carrying amount of the deferred tax asset is reviewed as at the end of each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available against which the deferred tax asset can be utilized in whole or in part. An unrecognized deferred tax asset is again reviewed as at the end of each reporting period and recognized up to the amount reflecting the probability that future taxable profit will be available to recover that asset.

The deferred tax asset and liability are measured by reference to the tax rates expected to be applicable in the period when the asset is realized or the liability derecognized, assuming tax rates (and tax regulations) effective as at the end of the reporting period or those certain to be effective as at the aforementioned date as the basis.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income in relation to items recognized in other comprehensive income or directly in equity in relation to items recognized directly in equity.

The Group companies offset their deferred tax asset against the deferred tax liability only if they have an enforceable legal title to offset their current tax receivables with liabilities, whereas the deferred income tax concerns the same taxpayer and the same tax authority.

5. Material values based on professional judgment and estimates

5.1. Material estimates

Presented below are the key assumptions concerning the future as well as other major sources of uncertainty identified at the end of the reporting period, which involve a substantial risk of considerable adjustment to the carrying amounts of assets, equity and liabilities in the following financial year.

Economic useful life of property, plant and equipment

As described in Note 4.4, the Company verifies projected economic useful lives of its property, plant and equipment at the end of each annual reporting period.

Fair value measurement and the related procedures

For financial reporting purposes, the Company measures investment property at fair value. The measurement is carried out by third-party qualified property appraisers using the income approach or comparison approach. Detailed information regarding the measurement is provided in Note 21.

The Company applies the revaluation model to real property and structures. If a remeasurement is carried out, the Company obtains fair value measurements for real property and structures in each location. The remeasurement includes the entire asset class if the fair value materially differs from the carrying amount. Measurement is carried out using the income approach or comparison approach. Detailed information regarding the measurement is provided in Note 11.

Shares in related parties that can be reliably measured are reported at fair value. If such shares are disposed of after the end of the reporting period but before the date of approving financial statements, the disposal price is considered a reliable estimate of their fair value and they are reported at that price as at the end of the reporting period.

Impairment of assets

The Company carries out impairment tests of non-current assets and shares if indications of their impairment occur. This requires estimating of the value in use of a cash generating unit to which the non-current assets belong. The value in use is estimated by determining future cash flows generated by the cash generating unit, which also requires determination of the discount rate for calculation of the present value of such cash flows.

Deferred tax asset, Note 8.2.

The Company recognizes the deferred tax asset based on the assumption that it will generate taxable profit sufficient to realize the asset in the future. If the actual tax results were to deteriorate in the future, the above assumption might prove baseless.

Revenue recognition, Note 18

The gross margin on contracts fulfilled by the Company is determined on the basis of a formalized Project Review process as the difference between the selling price and estimated total contract costs (total costs incurred and estimated by the contract completion date). Costs estimated by the contract completion date are verified during the Project Review process carried out on a monthly, quarterly, semi-annual or other basis, depending on the contract type. Costs by the contract completion date are estimated by competent teams responsible for a given area, based on expertise and experience.

The Company applies the percentage stage-of-completion method while accounting for long-term contracts. Application of the method requires estimating the proportion of works completed to all the services to be provided. Based on revised contract budgets and the stage of completion of construction contracts, the Company recognizes the effects of changes in estimates in the next period profit or loss.

Measurement of liabilities due to employee benefits – pension and disability benefits

Provisions for employee benefits are estimated using actuarial methods. The underlying assumptions have been presented in Note 28.

Provision for warranty repairs, Note 27

Provisions for warranty repairs are recognized in the course of contract fulfillment, in proportion to sales revenue. The amount of such provisions depends on the type of construction services provided and it represents a specific percentage of sales revenue under the contract. However, the value of provisions for warranty repairs may be subject to a case-by-case analysis (also considering the opinion of the project manager) and it may be increased or reduced if appropriate. Provisions are derecognized within the first 3-5 years following investment project completion, in proportion to the actual costs of repairs.

Restructuring provision, Note 27

The Company recognizes a restructuring provision if it has a detailed, formal plan specifying the affected activities or their part, basic locations subject to restructuring, number of employees to receive compensation in return for termination of employment contracts as well as the plan implementation date. Additionally, it is necessary that the plan has been announced or its implementation has already begun.

Provisions for court cases, Note 27

Provisions for the effects of pending court proceedings are recognized when a lawsuit has been brought against the entity and the probability that the verdict will be adverse for the entity is higher than the probability that it will be favorable. The probability is estimated considering the course of the court proceedings and legal opinions. The provisions are charged to other operating expenses.

Provision for liquidated damages, Note 27

The amounts of liquidated damages are estimated by the technical staff responsible for construction contract fulfillment, along with the legal department interpreting the provisions of the contracts. Provisions for liquidated damages are recognized when the probability of such damages being imposed by the client for a failure to adequately perform contractual obligations is high.

Provision for contract settlement costs, Note 27

Provisions for contract costs are related to the final settlement of road construction contracts. Detailed information has been presented in Note 7.1.

Provision for expected losses on construction contracts, Note 27

At the end of each reporting period, the Company verifies its estimates of total revenue and expenses under construction contracts in progress. The total expected loss on a contract is expensed in the period when it is recognized, in accordance with IAS 11.

Provision for sureties, Note 27

A surety is presented in the accounting records as a provision if it is highly probable at the end of the reporting period that the borrower will not be able to repay its debt.

Impairment loss on redundant materials (Note 16) and receivables (Note 17)

As at each balance sheet date the Company analyses impairment indications for trade receivables to include disputable receivables, amounts claimed at court, receivables from entities in bankruptcy or liquidation, etc. On this basis, impairment losses are recognized for each amount receivable, while remaining ones are included in a statistically calculated impairment loss pursuant to aging analysis.

As at the end of each reporting period, the Company remeasures the impairment loss on redundant materials considering the number of days in stock and their possible future use.

6. Reporting segments

For management purposes, the Group's operations have been divided into segments based on the products manufactured and services delivered. Operating segments for reporting purposes:

Manufacturing	Production and supplies of steel structures, grids, cabinet systems, pallets and road barriers. Services involving anti-corrosion and hot-dip zinc coating of steel structures, Duplex system, hydraulic painting.
Industry	Construction and assembly services General contractor services related to facilities in the construction sector (including property development services). Large industrial and general construction facilities. Installation of steel structures, specialist equipment, rooms and special-purpose structures.
Power engineering	Services related to the power industry. General contractor services related to facilities in the power industry; design, manufacture and sale of power boilers; ongoing comprehensive technical services provided to power stations, heat and power stations and industrial plants.
Petrochemistry (oil, gas, chemicals)	General contractor services related to facilities in the chemical sector. Installation of process equipment in the chemical and petrochemical sector, prefabrication and installation of steel structures, technology pipelines, storage tanks and other pipelines; prefabrication and installation of furnaces for the refinery sector. Green projects. Clients include chemical plants, refineries, petrochemical and gas industry entities.
Infrastructure construction	General contractor services related to facilities in the road and railroad construction sector. The key client is the Directorate General for National Roads and Motorways.
Other Activities	Equipment, transport, lease and rental services, laboratory tests, equipment technical service and other services which are not provided in the aforesaid segments.

The operating performance of each segment is monitored by the Management Board for purposes of allocating resources, evaluating the effects of such allocation and performance. Evaluation of the operating performance of each segment is based on its performance on operating activities and its gross profit/loss. Income tax is monitored on the Group level and not allocated to segments.

The prices used in intersegment transactions are set on arm's length basis, similarly to those used in transactions with third parties.

The tables below present revenue and profit of each operating segment for the year ended 31 December 2016 and 31 December 2015. The Management Board of the Company monitors each segment's performance on an ongoing basis. Since 1 January 2014, due to a change in the organizational structure of the Company, segment assets and liabilities have not been evaluated on an ongoing basis. Therefore, in line with IFRS 8.23, the tables below do not present assets and liabilities by segments.

Principles underlying the presentation of the segment data are identical to those underlying the preparation of the financial statements.

(in PLN '000)

Year ended 31 December 2016	Manufacturing	Industry	Power Engineering */	Petrochemistry	Infrastructure Construction	Other Activities	Excluded	Total operations
Revenue								
Sales to external clients	434 601	13 216	1 904 341	274 720	536	40 807	–	2 668 221
Intersegment sales	96 503	30 300	906	657	441	53 697	(182 504)	–
Total segment revenue	531 104	43 516	1 905 247	275 377	977	94 504	(182 504)	2 668 221
Performance								
Amortization/depreciation, including:	18 716	240	3 584	98	30	9 914	–	32 582
- depreciation of property, plant and equipment	18 540	141	3 330	96	26	7 861	–	29 994
- amortization of intangible assets	176	99	254	2	4	2 053	–	2 588
Operating profit / (loss) per segment	46 845	(222)	(64 132)	(18 199)	16 556	(12 418)	–	(31 570)
Balance of financial revenue and expenses	(5 367)	(548)	1 588	(2)	(344)	(12 108)	–	(16 781)
Segment gross profit / (loss)	41 478	(770)	(62 544)	(18 201)	16 212	(24 526)	–	(48 351)

Revenue from intersegment transactions is eliminated.

*/ Operating profit includes the share in associate's loss of PLN 3,678 thousand.

Capital expenditure corresponds to the increase in property, plant and equipment, intangible assets as well as investment property.

Year ended 31 December 2016	Manufacturing	Industry	Power Engineering	Petrochemistry	Infrastructure Construction	Other Activities	Total operations
Other segment information							
Capital expenditure	4 056	2	244	84	–	98	4 484
- on property, plant and equipment	4 053	2	221	84	–	90	4 450
- on intangible assets	3	–	23	–	–	8	34
Revaluation of property, plant and equipment	–	–	(13)	–	–	–	(13)
Revaluation of investment property	–	–	–	–	–	10 441	10 441

(in PLN '000)

Year ended 31 December 2015	**Manufacturing**	**Industry**	**Power Engineering */**	**Petrochemistry (oil, gas, chemicals)**	**Infrastructure Construction**	**Other Activities**	**Excluded**	**Total operations**
Revenue								
Sales to external clients	424 565	41 425	1 801 367	182 740	27 504	70 974	–	2 548 575
Intersegment sales	94 769	1 762	1 628	23 303	27 410	41 765	(190 637)	–
Total segment revenue	519 334	43 187	1 802 995	206 043	54 914	112 739	(190 637)	2 548 575
Performance								
Amortization/depreciation, including:	13 788	294	3 406	1 394	2 322	10 349	–	31 553
- depreciation of property, plant and equipment	12 845	173	3 091	1 356	2 311	8 878	–	28 654
- amortization of intangible assets	943	121	315	38	11	1 471	–	2 899
Operating profit / (loss) per segment	71 177	817	48 925	4 601	(15 880)	11 377	–	121 017
Balance of financial revenue and expenses	(4 989)	2 140	1 047	(178)	(992)	(28 495)	–	(31 467)
Segment gross profit / (loss)	66 188	2 957	49 972	4 423	(16 872)	(17 118)	–	89 550

Revenue from intersegment transactions is eliminated.

*/ Operating profit includes the share in associate’s profit of PLN 1,666 thousand.

Capital expenditure corresponds to the increase in property, plant and equipment, intangible assets as well as investment property.

(in PLN '000)

Year ended 31 December 2015	Manufacturing	Industry	Power Engineering	Petrochemistry (oil, gas, chemicals)	Infrastructure Construction	Other Activities	Total operations
Other segment information							
Capital expenditure	556	–	336	131	201	1 256	2 480
- on property, plant and equipment	556	–	249	131	199	766	1 901
- on intangible assets	–	–	87	–	2	490	579
Revaluation of property, plant and equipment*	18 513	–	–	860	–	1 137	20 510
Revaluation of investment property	(2 360)	–	(257)	–	–	–	(2 617)

*The amount of revaluation related to measurement of fixed assets in line with the revaluation model.

(in PLN '000)

6.1. Key clients and suppliers of the Group

In 2016 the Group had two clients whose share in sales exceeded 10% of total sales revenue. Their share in total sales amounted to PLN 1,617 million and is presented in the Power Engineering segment.

6.2. Geographic information

The following tables present data regarding revenue generated in each geographical segment of the Group for the year ended 31 December 2016 and 31 December 2015.

Year ended 31 December 2016	**Domestic**	**Export sales**	**TOTAL**
Revenue			
Sales to external clients	2 179 352	488 869	2 668 221

Year ended 31 December 2015	**Domestic**	**Export sales**	**TOTAL**
Revenue			
Sales to external clients	2 105 953	442 622	2 548 575

The sales are classified as domestic or foreign based on the location of provided services or destination of deliveries.

7. Revenue and expenses

7.1. Sales revenue

	Year ended 31 December 2016	**Year ended 31 December 2015**
Revenue from sales of other services	2 134 324	2 137 140
Revenue from sales of goods, materials and products	529 213	406 708
Rental income	4 684	4 727
Total sales revenue	2 668 221	2 548 575

Material events regarding the performed contracts

In March 2016, an external audit of the construction of a new, supercritical 1075 MW power unit in the Kozienice Power Plant (the “Kozienice Project”) was audited at the request of the Company, which acts as a general contractor on the project, in order to identify and estimate the potential risks. The audit was performed by Tebodin and CWW. Its findings served as the basis for revision of the Kozienice contract budget for 2016 and 2017. A number of technical risks relating to the Kozienice project were identified and the related costs were estimated. An increase in the total costs related to this procedure was PLN 137,158 thousand compared to the budged developed in March 2016. This has had a direct impact on a drop in the margin, mainly as a result of higher contract fulfillment costs (to include the Hi-Fog system, the technology pipeline, the automatic control system and a provision for subcontractor claims).

(in PLN '000)

7.2. Other operating revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Gain on disposal of assets		
Gain on sales of property, plant and equipment	1 604	2 663
Derecognition of impairment losses and provisions		
Derecognition of restructuring provision	–	7 113
Derecognition of provision for court cases	807	5 774
Derecognition of provision for costs	–	756
Derecognition of provision for non-trading expenses	1 390	–
Derecognition of provision for assets available for sale	1 812	–
Other operating revenue		
Gain on revaluation of non-current assets to fair value	–	20 510
Gain on revaluation of investment property to fair value	9 020	–
Gain/loss on deconsolidation of a subsidiary	12 188	11 397
Damages and penalties received	5 744	3 192
Cancellation of trade liabilities	2 348	14 086
Other	3 504	2 526
Total other operating revenue	**38 417**	**68 017**

7.3. Other operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Recognition of impairment losses and provisions		
Recognition of provision for disputes and employee cases	1 260	861
Recognition of impairment losses on non-financial non-current assets	613	–
Recognition of provision for restructuring	–	328
Other operating expenses		
Gain/loss on deconsolidation of a subsidiary	3 466	–
Loss on revaluation of investment property to fair value	–	2 617
Damages and penalties	2 174	1 746
Costs of amicable settlement	–	2 086
Court fees	1 544	3 012
Other	1 890	4 619
Total other operating expenses	**10 947**	**15 269**

7.4. Financial revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income on bank accounts	1 158	3 484
Interest income on delayed payment of receivables	452	879
Exchange gains	–	710
Revaluation of financial assets	1 477	–
Revenue on sales of financial assets	1 653	–
Gain on liquidation of companies	2 364	–
Guarantee refund	5 850	–
Other	952	1 663
Total financial revenue	**13 906**	**6 736**

(in PLN '000)

7.5. Financial expenses

	Year ended 31 December 2016	Year ended 31 December 2014
Interest on bank credit facilities and loans	9 522	10 589
Interest and commission on bonds	12 984	12 201
Interest on other liabilities	2 208	4 423
Exchange losses	2 308	–
Bank commissions on guarantees and credit facilities	2 270	394
Revaluation of financial assets	–	6 805
Other	1 395	3 791
Total financial expenses	**30 687**	**38 203**

7.6. Expenses by type

	Year ended 31 December 2016	Year ended 31 December 2015
Amortization and depreciation	32 552	31 552
Consumption of materials and energy	393 494	468 096
External services including construction	1 866 577	1 559 944
Taxes and charges	17 666	16 016
Costs of employee benefits	401 138	391 407
Other expenses by type	17 494	20 481
Total expenses by type	**2 728 921**	**2 487 496**
Items recognized as costs to sell	(22 347)	(21 127)
Items recognized as general and administrative expenses	(65 615)	(65 138)
Cost of goods and materials sold	17 906	17 705
Change in products	(27 878)	(21 610)
Impairment losses on trade receivables and inventories	4 635	(549)
Discount of receivables/liabilities	1 218	(69)
Cost of supplies for internal purposes	(1 169)	(1 001)
Cost of goods sold	**2 635 671**	**2 395 707**

7.7. Amortization/depreciation expense charged to profit or loss

	Year ended 31 December 2016	Year ended 31 December 2015
Items recognized as cost of goods sold	31 136	30 231
Depreciation of fixed assets	28 594	27 771
Amortization of intangible assets	2 542	2 460
Items recognized as costs to sell	611	445
Depreciation of fixed assets	589	327
Amortization of intangible assets	22	118
Items recognized as general and administrative expenses	805	876
Depreciation of fixed assets	782	555
Amortization of intangible assets	23	321
Total amortization/depreciation and impairment losses	**32 552**	**31 552**

(in PLN '000)

7.8. Costs of employee benefits

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and wages	319 887	310 973
Costs of social insurance	58 600	53 355
Costs of retirement benefits	1 185	3 002
Jubilee benefits	47	1 898
Other post-employment benefits	1 956	2 992
Appropriations to the Social Benefits Fund	4 830	4 286
Other (incl. work clothes and cleaning detergents)	14 633	14 901
Total costs of employee benefits	**401 138**	**391 407**

8. Income tax

8.1. Income tax

Key items of the tax charge for the year ended 31 December 2016 and 31 December 2015:

	Year ended 31 December 2016	Year ended 31 December 2015
Consolidated Income Statement		
Current income tax charge	(2 810)	(28 820)
Prior year tax adjustments	(274)	(10)
Deferred income tax	(9 271)	8 255
Tax charge relating to continuing operations, recognized in consolidated profit or loss	**(12 355)**	**(20 575)**
Consolidated Statement of Comprehensive Income		
Deferred tax relating to revaluation of land and buildings	–	(9 667)
Deferred tax relating to measurement of liabilities due to post-employment benefits	(150)	(428)
Tax charge on continuing operations disclosed in Consolidated Statement of Comprehensive Income	**(150)**	**(10 095)**

(in PLN '000)

The difference between income tax on gross profit before tax and the theoretical amount that would result from application of the weighted average tax rate (applicable to profits of consolidated entities):

	Year ended 31 December 2016	**Year ended 31 December 2015**
Profit / (loss) before tax		
Tax at the statutory tax rate in Poland, i.e. 19% in 2016 (2015: 19%)	9 187	(17 014)
Tax effects of the following items:		
- Non-taxable income	3 554	3 620
- Non-deductible expenses	(4 409)	(8 604)
- Adjustments related to prior years' current income tax	424	–
- Use of previously unrecognized tax losses	–	4 502
- Recognition of deferred tax asset not recognized in prior years	936	6 941
- Tax losses and deductible temporary differences in relation to which no deferred tax asset has been recognized	(8 111)	(3 022)
- Non-deductible expenses not included in profit/loss	580	2 955
- Differences in tax rates applicable to foreign entities	48	23
- Tax losses that expired after the statutory settlement deadline	(285)	–
- Other	(12 117)	48
- Deconsolidation of subsidiaries	(2 162)	–
Settlement of tax in Special Economic Zone	–	(10 024)
Amount charged to profit/loss due to income tax	**(12 355)**	**(20 575)**

(in PLN '000)

8.2. Deferred income tax

Change in the balance of deferred tax asset and liability during the year (before offset within one tax jurisdiction):

Deferred tax liability	Accelerated tax amortization/depreciation	Gains arising from fair value changes	Measurement of long-term contracts	Right of perpetual usufruct of land	Exchange differences	Leases	Other	Total
Balance as at 1 January 2015	**14 104**	**1 469**	**18 260**	**(338)**	**1 852**	**302**	**5 619**	**41 268**
Charged / (credited) to profit or loss	(4 649)	(1 433)	2 937	338	(345)	(270)	(4 658)	(8 079)
Charged / (credited) to other comprehensive income	–	9 667	–	–	–	–		9 667
Balance as at 31 December 2015	**9 455**	**9 704**	**21 197**	**–**	**1 507**	**32**	**961**	**42 856**
Charged / (credited) to profit or loss	457	–	(12 392)	–	(1 247)	(23)	97	(13 108)
Balance as at 31 December 2016	**9 912**	**9 704**	**8 805**	**0**	**260**	**9**	**1 058**	**29 748**
Presentation of deferred tax asset and liability (net) including offset under the same tax jurisdiction								(29 748)
Deferred tax liability in the balance sheet								–

Deferred tax asset	Liabilities due to employee benefits	Exchange differences	Impairment losses on inventory	Impairment losses on receivables	Measurement of long-term contracts	Provisions	Past due liabilities	Tax losses	Other	Total
Balance as at 1 January 2015	**8 015**	**–**	**2 112**	**21 871**	**106 781**	**42 430**	**10 320**	**48 822**	**13 000**	**253 351**
Charged / (credited) to profit or loss	3 067	44	(547)	(110)	(15 021)	4 466	(6 334)	(6 427)	20 305	(557)
Charged / (credited) to other comprehensive income	(428)	–	–	–	–	–	–	–	–	(428)
Balance as at 31 December 2015	**10 654**	**44**	**1 565**	**21 761**	**91 760**	**46 896**	**3 986**	**42 395**	**33 305**	**252 366**
Charged / (credited) to profit or loss	(1 873)	(23)	(60)	(2 160)	(16 494)	22 208	(3 423)	(6 981)	(15 354)	(24 160)
Charged / (credited) to other comprehensive income	150	–	–	–	–	–	–	–	–	150
Balance as at 31 December 2016	**8 931**	**21**	**1 505**	**19 601**	**75 266**	**69 104**	**563**	**35 414**	**17 951**	**228 356**
Presentation of deferred tax asset and liability (net) including offset under the same tax jurisdiction										(29 748)
Deferred tax asset in the balance sheet										**198 608**

(in PLN '000)

Deferred tax asset and liability:

	31 December 2016	31 December 2015
Deferred tax asset:		
before offset		
- realizable after 12 months	51 596	64 615
- realizable within 12 months	176 760	187 751
	228 356	**252 366**
Deferred tax liability:		
before offset		
- realizable after 12 months	19 608	19 320
- realizable within 12 months	10 140	23 536
	29 748	**42 856**

Not recognized deferred tax assets and not used tax allowances:

	31 December 2016	31 December 2015
- Unused tax losses	13 045	9 109
- Impairment losses on receivables	21 949	22 579
- Provisions for expenses	24 831	28 973
- Other	–	936
	59 825	**61 597**

The Group did not recognize deferred tax assets related to impairment losses on some trade receivables. The risk that temporary differences related to these settlements will not be realized is high.

As at 31 December 2016, tax losses to be used in subsequent periods amounted to PLN 258,158 thousand. The following table presents expiration of the unused tax losses for which no deferred tax asset has been recognized:

Loss expiration year	Loss to be deducted in future periods	Not recognized asset due to tax losses
2018	6 212	1 180
2017	62 446	11 865
Total	**68 658**	**13 045**

9. Earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Parent for the period by the weighted average number of ordinary shares in the period.

The diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders (less interest on redeemable preference shares convertible to ordinary shares) for the period by the total weighted average number of ordinary shares in the period adjusted by effects of dilutive options and dilutive cancellable preference shares convertible to ordinary shares.

Information regarding profit and shares used to calculate the basic and diluted earnings per share:

(in PLN '000)

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit / (loss)	**(61 387)**	**69 636**
Net profit / (loss) adjustment – interest expense related to bonds convertible to shares	12 320	11 269
Net profit / (loss) after adjustment, for purposes of calculation of diluted loss per share	(49 067)	80 905
Basic earnings / (loss) per share		
(PLN):		
number of shares registered as at the end of the reporting period	86 618 802	86 618 802
weighted average number of ordinary shares used for purposes of calculation of basic loss per share	86 618 802	86 618 802
basic earnings / (loss) per share	(0.709)	0.800
Diluted loss per share		
(PLN):		
Dilutive potential ordinary shares related to bonds convertible to shares	40 750 000	40 750 000
Total number of shares used to calculate diluted earnings / (loss) per share	127 368 802	127 368 802
Diluted earnings / (loss) per share	(0.385)	0.630

Potential ordinary shares include S series shares (bonds convertible to shares). As presented in Note 39 "Events after the end of the reporting period", on 20 January 2017 new shareholders assumed 150,000,000 ordinary T series shares. The above calculation has been based on data available as at the end of the reporting period, not including the issue of 20 January 2017.

10. Dividends paid and proposed

The Parent did not declare or pay any dividends in 2015-2016.

No dividends are planned to be paid in 2017 for the financial year ended 31 December 2016.

(in PLN '000)

11. Property, plant and equipment

Net value as at 31 December 2016	Land and buildings	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Advances for fixed assets under construction	Total
Net value as at 1 January 2016	**226 432**	**97 945**	**14 609**	**8 093**	**1 060**	**7**	**348 146**
Impairment	(387)	(44)	-	-	-	-	(431)
Acquisition of non-current assets	151	1 487	333	261	1 442	919	4 593
Sale and liquidation of non-current assets	(460)	(737)	(133)	(135)	(353)	(7)	(1 825)
Deconsolidated subsidiary	-	(5)	-	-	-	-	(5)
Reclassification from assets available for sale	90	1 489	97	117	3	-	1 796
Reclassification to assets available for sale	-	(573)	(12)	(210)	-	-	(795)
Reclassification to investment property and among groups	13	205	55	25	-	-	298
Depreciation for the period	(8 697)	(14 829)	(2 382)	(4 055)	-	-	(29 963)
Net value as at 31 December 2016	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**
As at 1 January 2016							
Gross value	319 469	281 582	48 047	38 402	2 450	7	689 957
Depreciation and impairment loss	(93 037)	(183 637)	(33 438)	(30 309)	(1 390)	-	(341 811)
Net value	**226 432**	**97 945**	**14 609**	**8 093**	**1 060**	**7**	**348 146**
As at 31 December 2016							
Gross value	286 675	274 518	46 984	32 247	3 543	919	644 886
Depreciation and impairment loss	(69 533)	(189 580)	(34 417)	(28 151)	(1 391)	-	(323 072)
Net value	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**

(in PLN '000)

	Land and buildings measured using the revaluation model	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Advances for fixed assets under construction**	**Total**
Net value as at 1 January 2015	**51 573**	**31 686**	**15 777**	**11 558**	**913**	**-**	**111 507**
Impairment	-	(3 971)	-	-	-	-	(3 971)
Acquisition of non-current assets	106	810	129	604	245	7	1 901
Sale and liquidation of non-current assets	(194)	(771)	(741)	(33)	-	-	(1 739)
Revaluation	55 154	-	-	-	-	-	55 154
Deconsolidated subsidiary	-	(8)	(2)	(7)	-	-	(17)
Reclassification from assets available for sale	130 986	95 827	4 060	594	77	-	231 544
Reclassification to assets available for sale	(4 086)	(8 614)	(1 328)	(834)	(175)	-	(15 037)
Reclassification to investment property and among groups	(2 533)	(9)	-	-	-	-	(2 542)
Depreciation for the period	(4 574)	(17 005)	(3 286)	(3 789)	-	-	(28 654)
Net value as at 31 December 2015	**226 432**	**97 945**	**14 609**	**8 093**	**1 060**	**7**	**348 146**
As at 1 January 2015							
Gross value	78 896	119 556	45 379	34 654	20 030	-	298 515
Depreciation and impairment loss	(27 323)	(87 870)	(29 602)	(23 096)	(19 117)	-	(187 008)
Net value	**51 573**	**31 686**	**15 777**	**11 558**	**913**	**-**	**111 507**
As at 31 December 2015							
Gross value	319 469	281 582	48 047	38 402	2 450	7	689 957
Depreciation and impairment loss	(93 037)	(183 637)	(33 438)	(30 309)	(1 390)	-	(341 811)
Net value	**226 432**	**97 945**	**14 609**	**8 093**	**1 060**	**7**	**348 146**

(in PLN '000)

Impairment loss recognized in 2016 amounted to PLN 431 thousand. In 2015, there were no impairment losses on property, plant and equipment that would be material individually.

As at 31 December 2016, value of land, buildings and structures measured according to the cost model would amount to PLN 169,874 thousand and as at 31 December 2015, PLN 175,890 thousand.

The Group has been monitoring the real property market on an ongoing basis with regard to the held assets (land, buildings, structures). As at 31 December 2016, no fair value remeasurement of real property was carried out based on valuation reports delivered by independent appraisers. As at 31 December 2016, the value of fixed assets recognized in accordance with the revaluation model did not materially differ from their fair value.

Independent valuation of land and buildings owned by the Group was carried out by appraisers in order to determine their fair value as at 31 December 2015. The income approach and comparison approach were used. The valuation methods used were based on unobservable input data. Fair value measurement was classified on Level 3 of the fair value hierarchy. The following table presents fair value resulting from the measurement.

	Level 3	**Fair value as at 31 December 2015**
Production plant in Siedlce	128 481	128 481
Land (pertaining to the production plant in Siedlce)	34 430	34 430
Plots of land occupied by warehouse, production and office facilities	53 831	53 831
Land (plots of land occupied by warehouse, production and office facilities)	8 527	8 527
Other	1 162	1 162
Total	**226 431**	**226 431**

(in PLN '000)

Fair value measurement carried out in 2015 using material non-observable input data (Level 3)

Description	Fair value as at 31 December 2015	Measurement method	Non-observable data	Scope of non-observable data (probability-weighted average)	Relationship between non-observable data and fair value
Production plant in Siedlce	128 481	Fixed assets were measured using the income approach, investment method, and discounted cash flows method in the case of buildings and structures. The market value of land included in the real property was determined using the comparison approach.	Capitalization rate	8.9 – 9.7%	A slight increase in the applied capitalization rate would result in a significant decrease in the fair value of real property (and vice versa).
			Rent rate	The market monthly rent was applied considering the use of a given property (for administration, office or warehouse purposes), location differences and individual factors, such as size, comparison to other facilities, with the average rate of PLN 18-25 per square meter per month for administration and office facilities and PLN 8-17 per square meter per month for industrial and warehouse facilities.	A significant increase in the market rent rate would result in a material increase in fair value (and vice versa).
Land (pertaining to the production plant in Siedlce)	34 430	The market value of land included in the real property was determined using the comparison approach, average price adjustment method.	The average price per square meter of comparable properties depending on use	PLN 100 per square meter	An increase in the average price per square meter results in an increase in the property value (and vice versa)

(in PLN '000)

Description	Fair value as at 31 December 2015	Measurement method	Non-observable data	Scope of non-observable data (probability-weighted average)	Relationship between non-observable data and fair value
Plots of land occupied by warehouse, production and office facilities	62 359	Real property was measured based on the income method, investment method, and simple capitalization approach in case of buildings and structures. The market value of land included in the real property was determined using the comparison approach, average price adjustment method.	Capitalization rate	8 - 10.50%	A slight increase in the applied capitalization rate would result in a significant decrease in the fair value of real property (and vice versa).
			Rent rate	- PLN 10 - 55 per square meter per month for administration and office facilities; - PLN 5 - 20 per square meter per month for industrial and warehouse facilities.	A significant increase in the market rent rate would result in a material increase in fair value (and vice versa).
		Comparison approach for buildings and structures	The average price per square meter of comparable properties depending on use	Buildings and structures: the average price per square meter of comparable real property PLN 1,993.65. The adjustment ratio of 1.152 (the real property in Siedlce). Kozienice county: Buildings, structures and halls: PLN 1,200 – 2,300 per square meter Passage between halls: PLN 780 per square meter; Transformer station: PLN 2,395.91 per square meter; Electric installations: PLN 24,646 per 1,000 cubic meters Water and sewage installations: PLN 2,647 per 100 cubic meters; - PLN 1,673 per square meter; adjustment rate 0.507 (Jasło county) - PLN 1,140.99 per square meter; adjustment rates 0.889 – 1.198 (Rybnik county) - PLN 929.4 – 1,115.8 per square meter (Stalowa Wola county)	An increase in the average price per square meter results in an increase in the property value (and vice versa).
		The market value of land included in the real property was determined using the comparison approach, average price adjustment method.	The average price per square meter of comparable plots depending on use	- the average price per square meter of comparable plots depending on location: average price of comparable properties: PLN 55.67 with the adjustment ratio of 1.252 (Płock county); - PLN 95.43 per square meter (Siedlce); - PLN 16 – 30 per square meter; the adopted price is PLN 14 with the adjustment ratio of 2.21 (Kozienice county); - the average price per square meter of comparable properties: PLN 59.3 with the adjustment ratio of 1.637 (Stalowa Wola county); - the average price per square meter of comparable properties: PLN 55.67 with the adjustment ratio of 1.432 (Płock county); - the average price per square meter of comparable properties: PLN 43.63 with the adjustment ratio of 0.750 (Krosno county)	An increase in the average price per square meter results in an increase in the property value (and vice versa).

12. Goodwill from consolidation

	31 December 2016	31 December 2015
Energomontaż Północ S.A. Group (incorporated in 2010)	282 694	282 694
Total	**282 694**	**282 694**

In line with IAS 36, the Management Board of Polimex-Mostostal S.A. tested goodwill from consolidation following acquisition of the Energomontaż-Północ Group for impairment as at 31 December 2016. An operating segment before aggregation is the lowest level at which goodwill is monitored by the Management Board of the Group.

Segment	Value in use	Book value including goodwill	Weighted average cost of capital (WACC)	Fixed growth rate after projection period	Goodwill in the consolidated financial statements
Power Engineering	423 140	343 014	10.04%	1.00%	282 694

Goodwill for 2016 was allocated to the following operating segments (PLN'000):

Discounted cash flows for the power engineering segment (value in use) were estimated at PLN 423,140 thousand. Valuation was performed based on the following assumptions: WACC of 10.04%, growth rate after the projection period of 1.0%. As the value of discounted cash flows for the power engineering segment based on the adopted assumptions exceeded the book value of the segment, goodwill was not impaired in the consolidated financial statements.

Sensitivity analysis

The carrying amount corresponds to the recoverable amount with the growth rate after the projection period being 2.5 p.p. lower than the one used in the model.

Change in the growth rate after projection period	(2.50%)	(1.00%)	0.00%	1.00%	2.50%
Growth rate after projection period	(-1.50%)	0.00%	1.00%	2.00%	3.50%
Book value	343 014	343 014	343 014	343 014	343 014
Value in use	342 559	386 092	423 140	469 404	565 329
Surplus of value in use over the book value of the segment (+) / Impairment (-)	**(455)**	**43 078**	**80 126**	**126 390**	**222 315**

The carrying value corresponds to the recoverable amount with the discount rate being 1.63 p.p. higher than the one used in the model.

Change in the discount rate	1.63%	1.00%	0.00%	(1.00%)	(1.63%)
Discount rate	11.67%	11.04%	9.00%	9.04%	8,41%
Book value	343 014	343 014	343 014	343 014	343 014
Value in use	342 769	370 739	423 140	488 563	538 833
Surplus of value in use over the book value of the segment (+) / Impairment (-)	**(245)**	**27 725**	**80 126**	**145 549**	**195 819**

(in PLN '000)

13. Intangible assets

	Computer software	Other	Total
Net value as at 1 January 2016	**4 344**	**9**	**4 353**
Increase	35	-	35
Decrease	(116)	-	(116)
Revaluation	(12)		(12)
Amortization for the period	(2 584)	(4)	(2 588)
Reclassification	5	(5)	-
As at 31 December 2016	**1 672**	**-**	**1 672**
As at 1 January 2016			
Gross value	33 241	435	33 676
Amortization and impairment loss	(28 897)	(426)	(29 323)
Net value	**4 344**	**9**	**4 353**
As at 31 December 2016			
Gross value	24 264	150	24 414
Amortization and impairment loss	(22 592)	(150)	(22 742)
Net value	**1 672**	**-**	**1 672**

	Computer software	Other	Total
Net value as at 1 January 2016	**6 335**	**59**	**6 394**
Increase	579	-	579
Decrease	(1)	-	(1)
Amortization for the period	**(2 848)**	**(50)**	**(2 898)**
Reclassification from assets to sales - production	280	-	280
Reclassification	(1)		(1)
As at 31 December 2015	**4 344**	**9**	**4 353**
As at 1 January 2015			
Gross value	30 739	312	31 051
Amortization and impairment loss	(24 404)	(253)	(24 657)
Net value	**6 335**	**59**	**6 394**
As at 31 December 2015			
Gross value	33 241	435	33 676
Amortization and impairment loss	(28 897)	(426)	(29 323)
Net value	**4 344**	**9**	**4 353**

14. Investments in associates measured using the equity method

The Group holds 32.82% of shares in Energomontaż-Północ Bełchatów Sp. z o.o. with the registered office in Bełchatów, whose core business includes specialized construction and assembly services. Energomontaż-Północ Bełchatów Sp. z o.o. is the parent entity in the Energomontaż-Północ Bełchatów Capital Group. Consolidated financial information of the group:

(in PLN '000)

	31 December 2016	31 December 2015
Current assets	58 869	89 099
Non-current assets	18 569	21 113
Current liabilities	22 394	42 255
Non-current liabilities	5 524	7 466
Minority interest	2 423	2 153
Net assets	47 097	58 338
Sales revenue	122 229	172 121
Net profit on continuing operations	(11 053)	5 075
Total comprehensive income	(11 053)	5 075
Share in profit/(loss) of associate*	(3 628)	1 666

* Share in profit of associate is determined on the basis of the percentage interest in capital and net profit on continuing operations.

Energomontaż-Północ Bełchatów Sp. z o.o. is a non-public company so there is no quoted price of its shares. The above information reflects amounts presented in financial statements of the associate's capital group (not the Group's share in these amounts).

15. Financial assets

Non-current financial assets	31 December 2016	31 December 2015
Shares in subsidiaries	604	617
Performance bonds issued by banks	191	216 490
Other financial assets	-	18
Total	**795**	**217 125**

Short-term financial assets	31 December 2016	31 December 2015
Performance bonds issued by banks	218 699	1 142
Loans	-	12
Total	**218 699**	**1 154**

Change in the balance of performance bonds issued by banks results from reclassification from long- to short-term ones during 2016.

15.1. Change in the balance of long-term financial assets - shares

	31 December 2016	31 December 2015
Opening balance	**617**	**504**
Increases	**5**	**296**
Purchase of shares	5	296
Decreases	**18**	**183**
Liquidation of a company	18	30
Other	–	153
Closing balance	**604**	**617**

16. Inventory

	31 December 2016	31 December 2015

Materials	18 946	21 647
Advance payments for materials	2 776	1 547
Goods	35	23
Work in progress	29 062	12 206
Finished products	14 472	7 058
Total inventory	**65 291**	**42 481**

	31 December 2016	31 December 2015
Change in impairment losses on inventory		
Opening balance	10 388	10 126
a) increases	1 458	661
b) decreases	(1 485)	(399)
Impairment losses on inventories	**10 361**	**10 388**

17. Trade and other receivables

Trade receivables bear no interest and their payment deadlines range from 30 to 180 days.
The terms of related-party transactions have been presented in Note 31.

	31 December 2016	31 December 2015
Trade receivables including:	280 972	393 837
- from related parties	3 867	249
- from other entities	277 105	393 588
Receivables from State Budget including:	34 532	31 132
- due to VAT	34 495	29 493
- other	37	1 639
Other receivables	103 815	141 542
Total receivables (net)	**419 319**	**566 511**
Impairment losses on receivables	194 838	207 182
Total receivables (gross)	**614 157**	**773 693**

Changes in impairment losses on trade receivables:

	31 December 2016	31 December 2015
Opening balance of impairment losses	207 182	252 758
Increase, including:	**14 592**	**25 446**
- recognition of impairment loss on receivables	15 455	25 446
Decrease, including:	**27 799**	**71 022**
- use	329	11 782
- repayment of receivables	26 082	18 891
- derecognition	-	431
- subsidiaries deconsolidated due to loss of control	(1 034)	21 855
- reclassification to assets held for sale	2 422	1 936
- reclassification – performance bonds related to construction contracts	-	16 127
Closing balance of impairment losses	**194 838**	**207 182**

As at 31 December 2016 past due trade receivables amounted to PLN 136,353 thousand (PLN 393,837 thousand in 2015) but no impairment was detected. Most of these receivables arise from performance of contracts in Infrastructure segment. Apart from receivables, accounting records include provisions related to contract settlement in Infrastructure segment (details in Note 27 “Provisions”, Note 38 “Proceedings regarding receivables and liabilities held before courts”). Other receivables classified to this group include independent clients with no recent payment default. The aging analysis of these trade receivables is presented below:

(in PLN '000)

	31 December 2016	**31 December 2015**
Up to 1 month	28 252	204 143
Over 1 month and up to 3 months	12 701	51 365
Over 3 months and up to 6 months	12 440	2 858
Over 6 months and up to 1 year	7 023	3 036
Past due over 1 year	104 937	132 435
Total	**165 353**	**393 837**

Trade and other receivables with impairment detected:

	31.12.2016		**31.12.2015**	
	Amount receivable	**Impairment loss**	**Amount receivable**	**Impairment loss**
Disputable amounts not claimed at court yet	71 164	58 449	74 330	57 606
Disputable amounts claimed at court	51 191	48 621	57 806	48 588
Amount owed by an entity in liquidation/bankruptcy	25 675	24 505	22 831	22 765
Other*	110 693	87 724	107 628	103 030
Total	**258 723**	**219 299(**)**	**262 595**	**231 989**

* Main reasons justifying recognition of an impairment loss include composition proceedings, liquidated damages, complaints, failure to assign works to sub-contractors.

** Including impairment losses on trade receivables of PLN 194,838 thousand.

18. Long-term construction contracts

Contracts in progress at the end of the reporting period:

Contracts in progress at the end of the reporting period:	**As at 31 December 2016**	**As at 31 December 2015**
Costs incurred plus recognized gains less losses incurred by the end of the reporting period	5 328 730	3 583 718
Less: invoices raised considering the stage of completion	(5 701 269)	(3 883 077)
	(372 539)	**(299 359)**
Recognized in the consolidated financial statements as amounts due:		
From clients under construction contracts (receivables)	27 522	100 519
To clients under construction contracts (liabilities)	(400 061)	(399 878)
	(372 539)	**(299 359)**

(in PLN '000)

As at 31 December 2016 amounts retained by clients in relation to construction works amounted to PLN 98.7 million (PLN 117.6 million in 2015). Advance payments received from clients in relation to construction works amounted to PLN 144.7 million (PLN 443.0 million in 2015).

19. Cash and cash equivalents

	Balance as at 31 December 2016	Balance as at 31 December 2015
Cash at bank and in hand	702 333	580 994
Short-term deposits	8 480	45 151
Total	**710 813**	**626 145**
Restricted cash	619 746	506 368

Cash at bank bears floating-rate interest, which depends on the interest rate for o/n bank deposits. Short-term deposits may mature from one day to one month, depending on the Group's current demand for cash, and they bear interest at specified rates.

20. Cash Flow Statement

Reconciliation of changes in balance sheet items in the reporting period with changes in the cash flow statement:

	Year ended 31 December 2016	Year ended 31 December 2015
Change in inventories as per balance sheet	**(22 810)**	**(36 306)**
Adjustment due to change in inventory of assets held for sale	(3 552)	–
Adjustment due to deconsolidation of companies classified as assets held for sale	(1 789)	–
Adjustment due to reclassification of inventories to assets held for sale	–	42 524
Change in inventories as per cash flow statement	**(28 151)**	**6 218**
Change in receivables as per balance sheet	**238 047**	**(89 155)**
Adjustment by receivables due to performance bonds	(785)	(2 663)
Adjustment by receivables of entities held for sale	20 399	28 459
Adjustment due to deconsolidation of companies classified as assets held for sale	(41 322)	–
Adjustment by receivables due to sale of Grande Meccanica	35	–
Deconsolidation of Polimex-Engineering	(1 019)	–
Deconsolidation of WBP Zabrze Sp. z o.o.	–	(3 718)
Adjustment due to reclassification of receivables to assets held for sale	–	(19 636)
Change in receivables as per cash flow statement	**215 355**	**(86 713)**
Change in other assets as per balance sheet	**3 686**	**(18 613)**
Adjustment by other assets held for sale	74	–
Adjustment due to deconsolidation of companies classified as assets held for sale	(88)	–
Adjustment due to reclassification of other assets to assets held for sale	–	(1 353)
Change in other assets as per cash flow statement	**3 672**	**(19 966)**
Change in liabilities as per balance sheet	**(95 763)**	**(35 071)**
Adjustment by liabilities due to investment purchases	804	4 120
Adjustment by lease liabilities	359	535
Adjustment by liabilities of deconsolidated Polimex Engineering	3 252	
Adjustment by liabilities of liquidated NAFIndustriemontage	606	
Deconsolidation of WBP Zabrze Sp. z o.o.	–	15 783
Adjustment by receivables of entities held for sale	(77 074)	0
Adjustment due to deconsolidation of companies classified as assets held for sale	95 638	(13 713)
Change in liabilities as per cash flow statement	**(72 178)**	**(28 346)**

(in PLN '000)

Change in loan liabilities as per balance sheet	**(17 559)**	**140 576**
Adjustment by accrued interest liabilities	(2 491)	(2 530)
Adjustment by liabilities of liquidated NAFIndustriemontage	1 736	12 477
Deconsolidation of WBP Zabrze Sp. z o.o.	–	1 440
Adjustment of assets separated from entities held for sale by liabilities	–	(150 000)
Change in loan liabilities as per cash flow statement	**(18 314)**	**1 963**
Change in provisions as per balance sheet	**6 513**	**(24 957)**
Deconsolidation of WBP Zabrze Sp. z o.o.	–	415
Adjustment by provisions of deconsolidated Polimex Engineering	773	–
Adjustment by provisions of entities held for sale	(2 494)	–
Adjustment due to deconsolidation of companies classified as assets held for sale	5 598	3 705
Change in provisions as per cash flow statement	**10 390**	**(20 837)**
Other	**(8 825)**	**(15 216)**
Item “Other” in operating activities of the cash flow statement includes in particular:		
- derecognition / recognition of impairment losses on non-current assets or their measurement	(1 812)	(17 810)
- reclassification of cash to assets held for sale or liquidated	(6 171)	11 729
- appropriation to a financial asset	–	6 601
- profit/loss on deconsolidation of WBP Zabrze Sp. z o.o.	–	(11 397)
- other	(842)	(4 339)

21. Assets and liabilities held for sale

	Balance as at 31 December 2016	**Balance as at 31 December 2015**
Property, plant and equipment	39 332	83 368
Investment property	21 320	12 731
Intangible assets	80	34
Deferred tax asset	1 439	1 129
Other assets	192	556
Inventory	25 183	21 630
Trade and other receivables	33 214	53 682
Cash	3 028	4 688
Assets held for sale	**123 788**	**177 818**
Credit facilities and loans	7 013	38 655
Other liabilities	31 363	79 736
Liabilities directly related to assets held for sale	**38 376**	**118 391**

Under the Financial Debt Service Agreement of 21 December 2012, the Issuer committed to sell specific assets. The sold assets include shares in Subsidiaries, redundant property, plant and equipment, organized parts of the enterprises, as well as developer and investment property along with selected operating property items. The table above presents financial information on assets whose disposal is planned within a year of the end of the reporting period.

As at 31 December 2016 some assets of the Production segment are presented as assets held for sale due to the planned sale of subsidiaries included in the Production segment, i.e. Stalfa Sp. z o.o., ZKM Ukraine, Polimex-Mostostal Ukraine, Polimex Mostostal Wschód. The Parent’s sale of shares in the subsidiaries is in conformity with the provisions of the Issuer's Financial Debt Service Agreement of 21 December 2012, including Annex No. 6 thereto, dated 30 July 2014.

(in PLN '000)

Investment property classified as held for sale was measured as at 31 December 2016. The Company hires independent third-party appraisers to determine the fair value of land, buildings and structures it owns.

As at 31 December 2016 fair value of real property was determined by ICF Corporate Finance sp. z o.o.

The fair value of real property was determined based on its best and most efficient use property (which is the case at present). Third-party measurement of land and buildings classified to Level 3 of fair value hierarchy has been based on income and comparison approach.

	Level 3	**Fair value as at 31 December 2016**
Plots of land occupied by warehouse, industrial and office facilities	5 946	5 946
Land	15 374	15 374
Total	**21 320**	**21 320**

(in PLN '000)

The following information is material with regard to investment property held for sale classified to level 3 of fair value hierarchy:

Description	Fair value as at 31 December 2016	Measurement method	Non-observable data	Scope of non-observable data (probability-weighted average)	Relationship between non-observable data and fair value
Plots of land occupied by warehouse, production and office facilities	5 946	income approach, investment method, simple capitalization method	Capitalization rate	The capitalization rate applied included the capitalization of potential income, type of real property and market conditions and ranged from 9.6 % to 11.5%.	A slight increase in the applied capitalization rate would result in a significant decrease in the fair value of real property (and vice versa).
			Rent rate	The monthly market rent rate was applied, including the intended use of the property (office and administration, warehouse), differences in location and individual factors, such as size, comparison to other properties - at the average rate - PLN 8.50 to PLN 35 per square meter per month for office and administration buildings or office, administration and warehouse buildings.	A significant increase in the market rent rate would result in a material increase in fair value (and vice versa).
Land (plots of land occupied by warehouse, production and office facilities)	15 374	comparison approach - comparing in pairs; comparison approach - average price adjustment method	average price per square meter, adjusting coefficient	- average price per square meter of comparable properties PLN 151.59 (Łódź county) - average price per square meter of comparable properties PLN 139.58 (Stalowa Wola county) - average price per square meter of comparable properties PLN 343.72 (Warsaw county) - average price per square meter of comparable properties PLN 103.03 (Gdańsk county) - average price per square meter of comparable properties PLN 158.31 (Kraków county) with adjusting coefficient of 0.90	An increase in the average price per square meter results in an increase in the property value (and vice versa).

22. Equity

22.1. Share capital

As at 31 December 2016 the share capital of the parent amounted to PLN 173,237,604 and was divided into 86,618,802 shares with the par value of PLN 2 each. The shares were fully paid.

Share capital ('000 shares)	Balance as at 31 December 2016	Balance as at 31 December 2015
Ordinary A series shares	86 619	86 619

In 2015 the Company completed the reverse stock split process involving the reverse split of each 50 shares with the previous nominal value of PLN 0.04 into one share with the new nominal value of PLN 2. Company's shares returned to the continuous trading system following a decision by Management Board of Warsaw Stock Exchange of 4 January 2016.

On 28 December 2016, the Extraordinary General Meeting of the Company adopted a resolution to increase the share capital, with no rights issue offered, through the issue of T series shares, and to amend the Articles of Association. Under the said resolution, the Company's share capital will be increased by no less than PLN 2 and no more than PLN 300,000,000, through the issue of no less than 1 and no more than 150,000,000 ordinary shares with the par value of PLN 2 each. The T series shares will be taken up through a private placement, in the form of private offers addressed by the Company's Management Board to the potential subscribers, with no rights issue offered. The T series shares are to be fully covered with cash contributions before the share capital increase is registered.

In relation to the planned issue of shares, Article 9.1 of the Company's Articles of Association was amended as follows: "The share capital of the Company amounts to not less than PLN 173,237,606 and not more than PLN 473,237,604 and is divided into 86,618,802 ordinary bearer A series shares with the par value of PLN 2 each, as well as not less than one and not more than 150,000,000 ordinary bearer T series shares with the par value of PLN 2 each." (Resolution of Extraordinary Shareholders' Meeting no. 4; Current Report no. 64/2016). Investors assumed T series shares after 31 December 2016. Detailed information is provided in Note 39.

Shareholders' rights

One vote at the General Meeting is attached to each share. Each series have the same preference as to dividends and return on equity. According to information published as stock market communiques, the structure of shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of votes is as follows:

Significant shareholders as at 31 December 2016:

No.	Shareholder	**Number of** shares/ votes	**Percentage interest:** in the share capital/ total number of votes
1.	Bank Polska Kasa Opieki S.A.	15 076 137	17.41%
2.	NEPTUN – FIZAN	12 143 833	14.02%
3.	PZU Fundusz Inwestycji Niepublicznych BIS 1	12 000 001	13.85%
4.	SPV Operator Sp. z o.o.	6 000 001	6.93%
5.	Other shareholders	41 398 830	47.79%
	Total number of shares issued	**86 618 802**	**100.00%**

(in PLN '000)

22.2. Supplementary capital

Under Article 396.1 of the Code of Commercial Companies, supplementary capital has to be recognized for purposes of absorbing losses, with at least 8% of profit for the financial year allocated until the capital represents at least one-third of the share capital. The supplementary capital is not distributable. As at 31 December 2016, the supplementary capital totaled PLN 306,762 thousand.

22.3. Other capitals

Other capitals in the amount of PLN (85,254) thousand relate to the effect of settlement of business combination with subsidiaries: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o. o. with the registered office in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o. o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquirees) performed pursuant to Article 492.1.1 of the Code of Commercial Companies through transferring of all their assets to Polimex-Mostostal S.A.

22.4. Equity component of issued bonds convertible into shares

As at 31 December 2016, the equity component of bonds convertible to shares amounted to PLN 29,734 thousand (PLN 29,734 thousand as at 31 December 2015). Detailed information regarding the bonds is provided in Note 25.

22.5. Revaluation reserve

Accumulated other comprehensive income includes revaluation reserve, actuarial gains/losses and exchange differences on translation of a foreign operation.

23. Credit facilities and loans

	Balance as at 31 December 2016	**Balance as at 31 December 2015**
Short-term, including:	**129 577**	**150 000**
Bank loans	129 126	150 000
Loans	451	–
Long-term, including:	**140 272**	**137 408**
Bank loans	140 272	135 684
Loans	–	1 724
Total credit facilities and loans	**269 849**	**287 408**

Interest rates by period	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average for credit facilities (PLN)	WIBOR 1M + 2.43 p.p.	WIBOR 1M + 2.4354 p.p.
	WIBOR 3M + 1.25 p.p.	WIBOR 3M + 1.3303 p.p.

(in PLN '000)

24. Assets pledged as collateral

	31 December 2016	31 December 2015
Property, plant and equipment	320 118	347 815
Inventory	61 050	40 953
Investment property	3 813	5 711
Contingent assignment of receivables to lease companies	–	3 321
Other	1 644	4 583
Assets held for sale	85 832	74 187
Total	**472 457**	**476 570**

Assets held for sale include property, plant and equipment of PLN 60,650 thousand and inventories of PLN 25,182 thousand (in 2015: property, plant and equipment of PLN 56,553 thousand and inventories of PLN 17,634 thousand).

25. Bonds

	31 December 2016	31 December 2015
Liabilities due to issue of E and F series bonds	25 679	25 015
Liabilities due to issue of A and B series bonds	134 657	122 337
Total	**160 336**	**147 352**

A and B series bonds were issued on 1 October 2014 and are convertible to Company's shares. The total proceeds from the issue amounted to PLN 140,000 thousand. Upon initial recognition of the bonds, the equity component of PLN 29,747 thousand was recognized in equity, while the recognized liabilities amounted to PLN 108,292 thousand and issue guarantee commissions amounted to PLN 1,960 thousand.

Conversion may be effected at any time by the bond redemption date (30 September 2019). Otherwise, the bonds will be redeemed on 30 September 2019 at the unit price of PLN 2. Interest calculated as WIBOR 3M plus 3 p.p. p.a. will be payable on a quarterly basis until the conversion or bond redemption date. The change in the bond issue terms that took place after the end of the reporting period is presented in Note 39.

	31 December 2016	31 December 2015
Opening balance of liability	122 337	111 054
Interest accrued at the effective interest rate of 10.1% (10.7% in 2015)	12 320	11 269
Adjustment of the equity component	–	14
Closing balance of liability	**134 657**	**122 337**

26. Other long-term liabilities

	31 December 2016	31 December 2015
Leases	-	58
Long-term guarantees	3 178	4 424
Advance payments received under energy contracts	47 620	109 916
Other	9 986	9 494
Total	**60 784**	**123 892**

(in PLN '000)

27. Provisions

`	Provisions for warranty repairs	Restructuring provision	Provision for court cases	Provision for liquidated damages	Provision for contract costs	Provision for losses	Provision for sureties	Other provisions	Total
Balance as at 1 January 2016	**71 296**	**3 073**	**19 972**	**42 328**	**164 146**	**1 995**	**494**	**34**	**303 338**
Deconsolidated subsidiary	846	3 577	(289)	-	-	838	-	-	**4 972**
Recognized in the financial year	18 969	10 553	918	300	-	42 799	-	60	**73 599**
Used	(7 264)	(9 087)	(495)	(9 722)	(13 397)	(21 618)	(334)	-	**(61 917)**
Derecognized	(476)	(393)	(251)	(8 456)	-	(403)	(142)	(21)	**(10 142)**
Exchange differences	-	-	-	-	-	-	-	1	**1**
As at 31 December 2016	**83 371**	**7 723**	**19 855**	**24 450**	**150 749**	**23 611**	**18**	**74**	**309 851**
Short-term as at 31 December 2016	22 722	7 723	19 255	10 672	31 011	23 611	-	74	**115 068**
Long-term as at 31 December 2016	60 649	-	600	13 778	119 738	-	18	-	**194 783**
Balance as at 1 January 2015**	**73 021**	**12 312**	**33 486**	**33 365**	**144 720**	**15 587**	**14 143**	**1 661**	**328 295**
Deconsolidated subsidiary	-	-	-	-	-	-	-	(415)	**(415)**
Recognized in the financial year	17 160	328	492	12 134	50 448	201	960	1 538	**83 261**
Used	(14 870)	(2 596)	(9 642)	(2 621)	(31 022)	(13 857)	(16 330)	(25)	**(90 963)**
Derecognized	(4 015)	(6 971)	(4 435)	(550)	-	-	1 721	(762)	**(15 012)**
Reclassification	-	-	71	-	-	64	-	(1 963)	**(1 828)**
As at 31 December 2015	**71 296**	**3 073**	**19 972**	**42 328**	**164 146**	**1 995**	**494**	**34**	**303 338**
Short-term as at 31 December 2015	16 865	3 073	4 414	22 041	-	1 995	25	34	**48 447**
Long-term as at 31 December 2015	54 431	-	15 558	20 287	164 146	-	469	-	**254 891**

* In relation to a contract performed for DGNRM in a consortium, in the annual financial statements, the Company has presented on a separate basis receivables from DGNRM of PLN 49.9 million invoiced in February 2015 and provisions for liabilities to sub-contractors arising from performed works in the amount of PLN 50.5 million. Effects of the above amounts on profit/loss is immaterial; the contract has generated a loss and according to IAS 11 the negative margin was fully recognized in previous years.

** As at 1 January 2015 the amount of PLN 26,67 thousand was reclassified from provisions for guarantee repairs to provisions for liquidated damages.

(in PLN '000)

28. Liabilities due to employee benefits

	31 December 2016	31 December 2015
Payroll liabilities	17 076	14 947
Social insurance	8 996	15 073
Bonuses and benefits	13 704	21 138
Unused annual leave	11 853	10 832
Jubilee benefits	–	25
Pension and disability benefits	1 078	421
Current liabilities due to employee benefits	**52 707**	**62 436**
Pension and disability benefits	12 706	14 352
Non-current liabilities due to employee benefits	**12 706**	**14 352**

Upon retirement, employees receive pension benefits from the Group in such amounts as specified in the Collective Labor Agreement. Therefore, based on a professional actuarial valuation, the Group recognizes a provision for the present value of the liability due to retirement, jubilee and other post-employment benefits.

28.1. Key actuarial assumptions

	31 December 2016	31 December 2015
Discount rate (%)	3.5%	2.9%
Anticipated inflation rate (%)	2.5%	2.5%
Anticipated pay growth rate (%)	3.5%	3.5%

Costs of benefits recognized in profit or loss and actuarial gains and losses related to pension and disability benefits are presented in the following table.

	Year ended 31 December 2016	Year ended 31 December 2015
Costs of benefits:		
Current service cost	1 701	1 665
Past service cost and (gain)/loss on settlement	(1 861)	(534)
Net interest expense	467	866
Defined-benefit plan cost items recognized in profit or loss	**307**	**1 997**
Revaluation of the net defined-benefit liabilities:		
Actuarial gains and losses resulting from changes in demographic assumptions	1 525	672
Actuarial gains and losses resulting from changes in financial assumptions	(2 331)	(2 830)
Defined-benefit plan cost items recognized in other comprehensive income	**(804)**	**(2 158)**
Total	**(497)**	**(161)**

(in PLN '000)

28.2. Sensitivity analysis

Sensitivity of liabilities to changes in the discount rate and pay growth assumptions (-/+ 0.5 p.p.) in line with IAS 19. The methods and assumptions used for purposes of the sensitivity analysis have not changed as compared to the preceding reporting year.

	Liability due to pension and disability benefits following the change in assumptions
Change in assumptions	
Discount rate decrease by 0.5 p.p.	14 978
Discount rate increase by 0.5 p.p.	13 635
Remuneration growth indicator decrease by 0.5 p.p.	13 670
Remuneration growth indicator increase by 0.5 p.p.	14 934

29. Trade and other liabilities

	31 December 2016	31 December 2015
Trade liabilities		
To related parties	2 603	5 878
To other entities	410 362	521 179
	412 965	**527 057**
Due to taxes, customs duties, social insurance and other		
VAT	606	8 680
Lump-sum withholding tax	4	8
Personal income tax	4 573	4 347
PFRON	344	335
Liabilities due to social insurance premium	5 173	–
Other	42	8
	10 742	**13 378**
Financial liabilities		
Lease liabilities	25	415
Measurement of sureties	–	–
Cost of financial guarantees	27 601	27 662
Other	–	3
	27 626	**28 080**
Other liabilities		
Liabilities due to purchases of fixed assets	625	754
Social fund	1 409	(621)
Accruals	166 133	75 464
Other	4 581	12 266
	172 748	**87 863**
Total current liabilities	**624 081**	**656 378**

Terms of payment of the aforesaid financial liabilities:

Related-party transactions are entered into on arm’s length terms (standard commercial transactions).

Trade liabilities bear no interest and their typical due date ranges from 30 to 180 days.

Other liabilities bear no interest and their typical due date is one month.

The difference between VAT liabilities and receivables is paid to the competent tax authorities in such periods as specified in the tax regulations.

Interest liabilities are typically paid based on approved interest notes.

(in PLN '000)

30. Contingent liabilities

Off-balance sheet items and litigation	**31 December 2016**	**31 December 2015**
	1 601 526	**1 154 554**
- granted guarantees and sureties	1 116 185	657 511
- promissory notes	5 550	4 699
- court cases	452 892	431 165
- other	26 899	61 179

In relation to loan and guarantee agreements concluded, bond liabilities and, in particular, the Agreement on Debt Enforcement Suspension of 24 July 2012, the Debt Service Agreement of 21 December 2012, the Agreement on the New Guarantee Facility and the related revolving loan of 21 December 2012, the Parent and the Group Companies set up mortgages, pledges and liens, made assignments and issued promissory notes to secure payment of liabilities under the aforesaid instruments. As at 31 December 2016, the Group's total exposure related to those instruments was ca. PLN 1,357 million (versus PLN 1,881 million as at 31 December 2015).

As at 31 December 2016, the Parent's total exposure related to those instruments was ca. PLN 1,167 million (versus PLN 1,451 million as at 31 December 2015).

31. Related-party transactions

Related-party transactions are entered into on arm's length terms (standard commercial transactions).

The Company does not collateralize receivables from related parties. Intercompany transactions are settled through payment of liabilities or by offsetting them with receivables.

Aggregate values of related-party transactions for the year ended 31 December 2016, 31 December 2015 and as at that date:

Related party		Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Not consolidated subsidiaries	2016	3 052	10 050	2 596	3 494
Associates	2016	33	5 877	7	373
Total		**3 085**	**15 927**	**2 603**	**3 867**
Not consolidated subsidiaries	2015	-	-	246	-
Associates	2015	3 257	15 874	3	5 875
Total		**3 257**	**15 874**	**249**	**5 875**

(in PLN '000)

32. Remuneration of the Management Board and Supervisory Board of the Parent

	Year ended 31 December 2016	Year ended 31 December 2015
Management Board		
Short-term employee benefits (salaries and related charges)	3 371	3 224
Supervisory Board		
Short-term employee benefits (salaries and related charges)	818	735
Total	**4 189**	**3 959**

Company's shares held by members of the Management and Supervisory Board as at 31 December 2016 and 31 December 2015:

	Balance as at 31 December 2016	Balance as at 31 December 2015
Position	**Number of shares held**	
Member of the Supervisory Board	none	114

From 31 December 2016 until the date of publishing this report, there were no changes in the number of shares or in the shareholding of the Parent or in titles to shares held by members of the supervisory and managing bodies.

33. Risk management objectives and policy

33.1. Interest rate risk

The performance of the Parent and the Polimex-Mostostal Capital 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 Group Companies and the Parent hold cash in their bank accounts and have floating-rate loan liabilities to banks. 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 to hedge themselves against the unfavorable rises in interest expense related to borrowings if they have open treasury limits. As at 31 December 2016 and 31 December 2015, the Group had not entered into any hedging transactions.

In the reporting period, the balance of cash remained at a relatively stable level.

Sensitivity analysis – interest rate changes

	Value at Risk	Increase/decrease by	
		0.50 p.p.	-0.50 p.p.
For the year ended 31 December 2015			
Cash at bank	710 813	3 554	(3 554)
Performance bonds issued by banks	218 234	1 091	(1 091)
Credit facilities and loans taken out	269 849	(1 349)	1 349
Finance lease liabilities	472	(2)	2
Bonds	160 336	(802)	802
Effect on gross profit/loss		**2 492**	**(2 492)**
Deferred tax		(473)	473
Total		**2 019**	**(2 019)**

	Value at Risk	Increase/decrease by	
		0.50 p.p.	-0.50 p.p.
For the year ended 31 December 2015			
Cash at bank	626 145	3 131	(3 131)
Performance bonds issued by banks	217 631	1 088	(1 088)
Credit facilities and loans taken out	287 408	(1 437)	1 437
Finance lease liabilities	472	(2)	2
Bonds	147 352	(737)	737
Effect on gross profit/loss		**2 043**	**-2 043**
Deferred tax		(388)	388
Total		**1 665**	**-1 655**

33.2. 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 Financial Debt Service Agreement, FX derivatives may not be used by the Company as the available credit products. As at 31 December 2016, the Group Companies did not have any active FX derivatives. Therefore, the importance of natural hedges as the only tool for mitigation of the currency risk related to the business activities is growing, also for the Segment Companies.

Changes in the average EUR exchange rate affect revenue in PLN generated under foreign currency contracts. Considering contracts signed and highly probable, the Capital Group estimated its exposure to the currency risk between January and December 2016 as follows:

Item	**Q1 – Q4 2016**
Anticipated foreign currency proceeds (EUR'000 equivalent)	62 704
Anticipated foreign currency payments (EUR'000 equivalent)	8 752
Business exposure to currency risk (EUR'000)	**53 952**

(in PLN '000)

Changes in the aforesaid market parameter will have an ongoing effect on that part of the companies' foreign currency turnover (net proceeds) which is not covered by hedging transactions.

Currency risk exposure*

	31 December 2016			31 December 2015		
	EUR	*USD*	*CZK*	*EUR*	*USD*	*GBP*
Cash	*4 462*	*16*	*–*	*2 761*	*569*	*80*
Trade receivables	14 399	130	279	17 531	853	880
Collateralized bank loans	195	–	–	404	–	–
Trade liabilities	3 167	–	522	5 360	–	5
Gross carrying amount	**15 499**	**146**	**(243)**	**14 528**	**1 422**	**955**
Estimated sales	62 704	233	–	6 991	–	665
Estimated purchases	8 752	233	–	1 103	200	–
Gross exposure	**53 952**	**–**	**–**	**5 888**	**(200)**	**665**
Net exposure	**69 451**	**146**	**(243)**	**20 416**	**1 222**	**1 620**

* Amounts presented in the respective currencies.

Currency risk sensitivity analysis as at 31 December 2016

	Carrying amount	*EUR/PLN*		*USD/PLN*		*CZK/PLN*	
		exchange rate (change 10 %)	*exchange rate (change -10 %)*	*exchange rate (change 10 %)*	*exchange rate (change -10%)*	*exchange rate (change -10%)*	*Exchange rate (change -10 %)*
Cash	19 808	56	(56)	–	–	–	–
Trade and other receivables	64 290	6 370	(6 370)	54	(54)	5	(5)
Trade and other liabilities	(14 096)	(1 401)	1 401	–	–	(9)	9
Credit facilities, loans and other funding sources	(863)	(86)	86	–	–	–	–
Effect on gross profit/loss		**4 939**	**(4 939)**	**54**	**(54)**	**(4)**	**4**
Deferred tax		(938)	938	(10)	10	1	(1)
Effect on net profit/loss		**4 001**	**(4 001)**	**44**	**(44)**	**(3)**	**3**

Currency risk sensitivity analysis as at 31 December 2015

	Carrying amount	EUR/PLN		USD/PLN		GBP/PLN	
		exchange rate (change 10%)	exchange rate (change -10%)	exchange rate (change 10%)	exchange rate (change - 10%)	exchange rate (change 10%)	Exchange rate (change - 10%)
Cash	14 456	1 178	(1 178)	222	(222)	47	(47)
Trade and other receivables	83 134	7 471	(7 471)	333	(333)	509	(509)
Trade and other liabilities	(9 110)	(2 286)	2 286	-	-	(3)	3
Credit facilities, loans and other funding sources	(1 724)	(173)	173	-	-	-	-
Effect on gross profit/loss		**6 190**	**(6 190)**	**555**	**(555)**	**553**	**(553)**
Deferred tax		**(1 176)**	**1 176**	**(105)**	**105**	**(105)**	**105**
Effect on net profit/loss		**5 014**	**(5 014)**	**450**	**(450)**	**448**	**(448)**

33.3. Credit risk

Credit risk of the partners in financial transactions is managed by verifying the financial standing of the existing and prospective partners and monitoring the credit exposure relative to available limits. The said partners should have appropriate rating assigned by the leading rating agencies or guarantees given by institutions meeting the minimum rating requirement. The Group enters into financial transactions with recognized entities that have a good credit standing and diversifies the institutions it cooperates with. For purposes of management of the credit risk of commercial transaction partners, the Group verifies the financial standing of all clients applying for a credit limit and grants such limits depending on the results of the said assessment. The Parent formulates guidelines for the management of the credit risk of commercial transaction partners to ensure appropriate credit analysis and process operational safety standards at the Group level. The maximum value at risk for each class of financial assets is the measure of credit risk. Book values of assets and liabilities represent the maximum credit exposure. According to the Management Board, the risk of financial assets at risk is reflected by appropriate impairment losses. Aging analysis of past due receivables unimpaired as at 31 December 2016 and 31 December 2015 is presented in Note 17.

Risk concentration occurs in the Capital Group in relation to material receivables from domestic power engineering companies. Since these companies are controlled by the State Treasury and play a critical role in domestic power system, the Group believes its credit risk posed by these clients is immaterial. Credit risk related to liquid funds and derivatives is limited since Group’s counterparties are banks holding top positions in credit rating by international rating agencies.

The Group’s receivables under some contracts are pledged as collateral for credit instruments and bank guarantees.

33.4. Liquidity risk

According to the Group, its exposure to liquidity risk is relatively high. In order to maintain liquidity in the nearest future, the Group 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. In 2014, having signed Annex No. 6 and Annex No. 7 to the Financial Debt Service Agreement and issued the New Bonds, the Group improved its liquidity. However, the Financial Debt Service Agreement and the Terms of Issue of the Bonds impose a number of obligations on the Parent 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 Group’s default on the obligations under the Financial Debt Service Agreement and the Terms of Issue may result in acceleration of the Group’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 operations of the Group Companies 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. Although during the previous year, the pressure has diminished considerably, submission of bankruptcy petitions in the case of disputed claims or payment delinquencies may not be ruled out.

Conclusion of a set of agreements (3rd stage of the restructuring process) with the creditors and New Bond holders in 2014 is a mechanism minimizing the financial risks, including the liquidity risk. The Group enters into negotiations with its creditors with the objective to restructure its commercial debt and manage liquidity risk.

The Management Board of the Parent has monitored the Company’s and Group’s liquidity on an ongoing basis, while cash flow projections are updated on a quarterly basis. Sales of real property and financial assets (disinvestment) is a short-term source of funding the Company’s operations. In a longer term perspective, an intercompany funding and cash flow system will be established to include loans, profit distribution and dividends. Demand for cash in the amount arising from the cash flow budget is met by divestment processes initiated by the Management Board and allocation of free cash flows in the Capital Group. In the fourth quarter of 2016, considering the day-to-day financial needs and difficulties in obtaining sufficient guarantees necessary to win and deliver construction contracts, the Management Board of the Parent employed measures aimed at obtaining a capital injection for the Parent. On 24 November 2016, the Management Board adopted a specific resolution to employ measures aimed to increase the share capital of the Parent through the issue of T series shares by way of a private placement with no rights issue offered. The Company was to receive a supply of capital through an increase in its share capital by no more than PLN 300,000,000 through the issue of no more than 150,000,000 T series shares by way of a private placement with no rights issue offered, without the necessity to launch a public offering.

On 27 December 2016, the Parent signed a letter of intent with ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with its registered office in Warsaw and PGNiG Technologie Spółka Akcyjna with its registered office in Warsaw (the "Investors"), whereby the Investors expressed their intent to consider a potential investment in the Company and entered into negotiations with the Company with a view to making arrangements as to the detailed transaction parameters. The Extraordinary General Meeting of 28 December 2016 adopted a resolution to issue T series shares to be offered to the Investors. The process of providing the Parent with a capital injection of PLN 300 million was completed in January 2017.

The Group has undertaken measures minimizing the liquidity risk. Sales of assets that do not qualify to core business operations of the Company and the Group (i.e. not used in the Power Engineering, Petrochemistry or Production) due to their relatively low contribution to the achievement of strategic objectives and Management Board’s focus on key business areas, are the key measure.

The sales of assets are continued under the disposal plan agreed with creditors in the Financial Debt Service Agreement. In 2016, total proceeds from sales of assets amounted to PLN 5.9 million.

Along with sales of assets included in the disposal plan, the Company identifies additional non-current and financial assets considered redundant by the Company and Capital Group as a result of the adopted strategy. Implementation of the plan to sell these assets under a revised disposal plan contributes to improvement of the current liquidity of the Company and reduction of future liquidity risk.

The current portfolio of the Group's contracts less sales attributable to consortium members is worth ca. PLN 2.75 billion (and includes only concluded contracts). The current order portfolio value: PLN 1.85 billion in 2017; PLN 0.70 billion in 2018; PLN 0.20 billion in 2019.

(in PLN '000)

The Group's financial liabilities as at 31 December 2016 and 31 December 2015 by maturity based on contractual, non-discounted payments:

Liquidity risk

31 December 2016	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Credit facilities and loans	–	6	131 668	138 175	–	269 849
Bonds	–	–	–	158 412	–	158 412
Other long-term liabilities including:	–	–	–	101 036	381	101 417
- Leases	–	–	–	33	–	33
Trade and other liabilities including:	28 270	347 677	100 704	–	–	476 651
- Leases	–	7	18	–	–	25
	28 270	**346 053**	**232 372**	**399 547**	**381**	**1 006 623**

31 December 2015	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Credit facilities and loans	-	150 000	-	137 408	-	287 408
Bonds	-	-	-	151 165	-	151 165
Other long-term liabilities including:	-	-	-	165 485	876	166 361
- Leases	-	-	-	57	-	57
Trade and other liabilities including:	16 153	360 564	206 846	74	91	583 728
- Leases	-	9	406	-	-	415
	16 153	**510 564**	**206 846**	**450 319**	**967**	**1 184 849**

34. Financial instruments

34.1. Classification of financial instruments

	31 December 2016		**31 December 2015**	
	Available-for-sale financial assets	**Originated loans and receivables**	**Available-for-sale financial assets**	**Originated loans and receivables**
Financial assets				
Long-term shares	604	-	617	-
Other financial assets	-	218 890	-	217 662
- long-term (performance bonds issued by banks)	-	218 699	-	216 508
- short-term (including loans)	-	191	-	1 154
Trade receivables	-	280 972	-	393 837
Performance bonds related to construction contracts	-	98 716	-	117 633
Cash and cash equivalents	-	710 813	-	626 145

(in PLN '000)

	31 December 2016	31 December 2015
	Financial liabilities measured at amortized cost	**Financial liabilities measured at amortized cost**
Financial liabilities		
Bonds	160 336	147 352
Credit facilities and loans, including:		
- long-term with floating interest rate	140 272	137 408
- short-term with floating interest rate	129 577	150 000
Other long-term liabilities including:	60 752	123 892
- Finance leases and leases with purchase option	--	58
- performance bonds	3 178	4 424
- Other	57 574	119 410
Trade liabilities	412 965	452 983
Performance bonds related to construction contracts	85 163	72 699
Short-term leases	33	417

34.2. Revenue, expenses, gains and losses recognized in profit or loss – by categories of financial instruments

Year ended 31 December 2016

	Interest income / (expense)	*Exchange gains / (losses)*	*Derecognition / (recognition) of impairment losses*	*Measurement gains / (losses)*	*Other*	*Total*
Financial assets						
Available-for-sale financial assets	–	–	(16)	–	–	**(16)**
Loans and receivables	4 758	7 455	1 059	(1)	187	**13 458**
Financial liabilities						
Financial liabilities measured at amortized cost	(18 849)	(2 590)	–	(93)	(6 385)	**(27 917)**
Total	**(14 091)**	**4 865**	**1 043**	**(94)**	**(6 198)**	**(14 475)**

(in PLN '000)

Year ended 31 December 2015

	Interest income / (expense)	*Exchange gains / (losses)*	*Derecognition / (recognition) of impairment losses*	*Measurement gains / (losses)*	*Other*	*Total*
Financial assets						
Loans and receivables	8 036	(2 396)	7 526	(228)	18	**12 956**
Financial assets measured at fair value through profit or loss (derivatives)	–	–	–	(6 601)	–	**(6 601)**
Financial liabilities						
Financial liabilities measured at amortized cost	(21 357)	(12)	(96)	(4)	(4 370)	**(25 839)**
Total	**(13 321)**	**(2 408)**	**7 430**	**(6 833)**	**(4 352)**	**(19 484)**

35. Fair values of financial instruments by categories

According to the Management Board, the carrying amounts of financial assets and liabilities recognized in the consolidated financial statements are similar to their fair values.

For the purpose of financial reporting, fair value measurements are classified in three levels depending on whether the fair input data for fair value calculation are observable or not, and on the importance of the input data in the fair value measurement as a whole. The levels are as follows:

• Level 1: input data are (unadjusted) prices quoted on active markets for identical assets or liabilities, available for the entity as at the measurement date.

• Level 2: input data other than the quotations classified as Level 1, which are observable for assets or liabilities directly or indirectly.

• Level 3: input data is non-observable information used for measurement of an asset or liability.

The Group classifies shares in related parties as available-for-sale financial assets or as financial assets, since no market quotations exist for these equity instruments and their fair value cannot be reliably measured.

The Group is a party to an Investment Certificate Call Option Agreement made with PKO BP S.A. on 7 November 2013, as amended, which will specify the future purchase/settlement amount depending on the prices in the real property market. If the minimum rate of return on the investment is not achieved by the investor, the Group will be obliged to offset a specified portion of the loss. Should the value of the real estate portfolio increase, the Group has guaranteed participation in a portion of profit above the rate of return guaranteed for the investor.

In the reporting period, no change occurred in measurement of this instrument, involving discounting of projected speed of real property portfolio value increase in the transaction horizon. As at 31 December 2016, the value of the instrument was PLN 0 (PLN 0 as at 31 December 2015).

36. Capital management

The primary objective of the Group's capital management is to maintain a good credit rating and a safe level of equity ratios to support the Group's operations and increase the shareholder value.

The Parent is subject to external capital requirements regarding the amount of its equity.

Under the FDSA, the Parent is obliged to maintain positive equity as at the end of each calendar month. A failure to maintain positive equity is considered an event of default under the FDSA. If such an event of default occurs and continues, the said Agreement may be terminated.

As at 31 December 2016 and 31 December 2015, the Parent's equity was positive.

The Group's equity is monitored based on the leverage ratio, which is determined as net debt relative to total equity plus net debt. Net debt includes interest-bearing credit facilities and loans increased by trade and other liabilities, less cash and cash equivalents.

(in PLN '000)

	31 December 2016	31 December 2015
Credit facilities, loans and bonds	430 185	434 760
Trade and other liabilities	768 398	852 969
Less cash and cash equivalents	626 145	626 145
Net debt	572 437	661 584
Equity	540 851	540 851
Equity and net debt	**1 113 288**	**1 202 435**
Leverage ratio (Net debt / equity and net debt)	51%	55%

37. Headcount structure

The average headcount in the Group in 2016 and 2015:

	31 December 2016	**31 December 2015**
Management Board of the Parent	3	3
Management Boards of the Group Companies	13	13
Support function	220	552
Operations function	4 376	4 446
Total	**4 612**	**5 014**

38. Proceedings regarding receivables and liabilities held before courts

In 2013, the portfolio of contracts fulfilled by Polimex-Mostostal S.A. included contracts for the Directorate General of National Roads and Motorways (DGNRM) concluded in conformity with the Public Procurement Law. Due to the client's (DGNRM) material default on the contracts, including dismissal of legitimate claims filed by the consortia of contractors as well as delinquencies in payment of the fees due to the contractors for works performed in and before 2013, and mainly due to a failure to provide security for payment of the fees for construction works totaling more than PLN 2 billion, as required by law, within the prescribed time limit of 45 days, the consortia with Polimex-Mostostal S.A. as a member terminated the contracts. Considering that the value of the works falling within the scope of the contracts was significant (more than PLN 2 billion), there was a considerable risk of a gradual increase in the value of such claims and of no security for payment being provided to the consortia. Additionally, the financial claims filed with DGNRM and its prolonged approval of additional costs incurred by the consortia did not guarantee that the aforesaid amounts would be received without lengthy litigation. As the measures taken to ensure receipt of security for payment of their receivables appeared to be ineffective, on 14 January 2014 the consortia submitted, in line with Article 649^3 of the Civil Code, representations on termination of the contracts concluded with DGNRM for construction of A-1 motorway between Stryków and Tuszyn, A-4 motorway between Rzeszów and Jarosław and S-69 expressway between Bielsko-Biała and Żywiec. With a view to resolving the issue amicably, the consortia frequently requested DGNRM to remedy the breach so that the construction works could be continued. The frequent proposals to resolve the issue amicably were discussed thoroughly in the correspondence between the contractors and the client. As at 31 December 2016, the total amount claimed by the Consortium at court from DGNRM is PLN 648.1 million.

The Parent is holding negotiations concerning the amounts due from/to DGNRM and the consortium members as well as final settlements under road construction contracts completed at the request of DGNRM. According to the Management Board, the financial settlements may not be closed due to the pending disputes with DGNRM and the bankruptcy proceedings of the consortium members. Consequently, the assumptions made for purposes of measurement, hence the final profit/loss on contracts performed at the request of DGNRM, may be subject to changes.

Below please find key court proceedings pending as at 31 December 2016 with the total value of at least 2 percent of the consolidated sales revenue of the Polimex-Mostostal Capital Group for the last four quarters, i.e. PLN 53.7 million, as well as action against or brought by DGNRM.

Action brought by the Company:

- 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 A-2 motorway between Stryków and Konotopa as a result of rising prices of liquid fuels and asphalt. The next hearing was scheduled for 20 August 2015. On 30 September 2015 a decision was issued dismissing the Consortium's claim in whole. The appeal was lodged on 8 October 2015. The appellate hearing was scheduled for 16 March 2017.
- 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 51%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A-4 motorway between Rzeszów and Jarosław through the fault of the client. On 13 May 2014, the Court issued a warrant for payment in the warrant-for-payment 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 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 Consortium claiming the amount of PLN 249,476,370 (described under Actions brought against the Company). 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. Doprastav served a response to the complaint. In a decision of 23 June 2016 the Appellate Court in Warsaw suspended the complaint proceedings until the cassation appeal of the State Treasury - General Directorate for National Roads and Motorways filed against a decision of the Appellate Court in Warsaw of 29 September 2015 (file no. VI ACz 1234/15) is analyzed.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 176,954,030. The share of Polimex-Mostostal S.A. in the consortium is 37%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A-1 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 a.s. On 29 May 2015 DGNRM filed a complaint against the Court decision to dismiss the counterclaim against Doprastav a.s. 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. On 8 April 2016 ST - DGNRM filed a cassation appeal against the decision of the Appellate Court. On 17 June 2016 Doprastav filed a response to the cassation appeal.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 78,810,045. The share of Polimex-

Mostostal S.A. in the consortium is 50.5%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of S-69 expressway between Mikuszowice and Żywiec through the fault of the client. The court commissioned a construction expert's opinion. The opinion has been pending.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 32,170,164. The Company's share in the Consortium is 50.5%. The claim regards the payment of invoiced receivables arising from the construction contract no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010 concerning construction of expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec and the construction contract no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A-1 motorway from the Sośnica (A-1/A-4) interchange, along with A-1 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. The share of Polimex-Mostostal S.A. in the consortium is 21%. 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 contact for construction of A-4 motorway between Stryków and Konotopa. At present, the case is being analyzed by 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 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 from Europa Centralna Sp. z o.o. as an equivalent of the bank guarantee paid to the respondent and additionally PLN 1,277,414 of the fee for working at the construction site after 18 October 2012.

Action brought against the Company:

- Action brought by the State Treasury - General Directorate for National Roads and Motorways The claim regards the payment of a portion of damages for Client's withdrawal from the construction contract no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010 concerning construction of expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec and the construction contract no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A-1 motorway from the Sośnica (A-1/A-4) interchange, along with A-1 motorway between Sośnica and Maciejów (including the interchange) (km: 510+530.00 to km 518-734.34) with liquidated damages for not keeping the Completion Deadline. This is a counterclaim. The value of the litigation is PLN 61,792,041. Serving a letter of 23 June 2016, DGNRM extended the counterclaim to the amount of PLN 62,624,332.15.
- Action brought by the State Treasury - General Directorate for National Roads and Motorways The claim regards the payment of a portion of 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 through 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 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 Tuszyn 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 192,611,294.

39. Events after the end of the reporting period

- On 18 January 2017 the Management Board of the Company passed a resolution that determined the issue price of T series shares at PLN 2 and decided to offer 150,000,000 T series shares in the following manner:
  - 37,500,000 T series shares to be offered to ENEA Spółka Akcyjna with the registered office in Poznań;
  - 37,500,000 T series shares to be offered to ENERGA Spółka Akcyjna with the registered office in Gdańsk;
  - 37,500,000 T series shares to be offered to PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warsaw;
  - 37,500,000 T series shares to be offered to PGNiG Technologie Spółka Akcyjna with the registered office in Krosno (Current Report no. 3/2017).

- On 18 January 2017 the Company, ENEA Spółka Akcyjna with the registered office in Poznań, ENERGA Spółka Akcyjna with the registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warsaw and PGNiG Technologie Spółka Akcyjna with the registered office in Krosno concluded an investment agreement that determined detailed parameters of capital involvement of the Investors and mutual rights and obligations of the parties. Subject to Conditions Precedent, the Investors have committed to invest in the Company. The investment shall involve each Investor assuming 37,500,000 T series shares at the issue price of PLN 2 each (Current Report no. 4/2017).

- On 18 January 2017 the Condition Precedent determined in the Investment Agreement was met (as defined in the Current Report no. 4/2017). The Company, Bankowe Towarzystwo Kapitałowe S.A. and Towarzystwo Finansowe “Silesia” Sp. z o.o. concluded an agreement obliging the Company to change the terms of issue of A series bonds and determining the change of issue terms provided that Towarzystwo Finansowe “Silesia” acquires 146 Bonds (Current Report no. 5/2017).

- On 18 January 2017 Supervisory Board of the Company passed resolutions in which: it approved the issue price of T series shares as determined by the Company and consented to offer these shares to subscribers indicated by the Management Board, at the same time approving the number of T series shares offered to each subscriber (Current Report no. 6.2017).

- On 19 January 2017, an agreement was concluded by the Company, Polimex Energetyka Sp. z o.o., Naftoremont - Naftobudowa Sp. z o.o. and Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Sp. k., Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., Bank Ochrony Środowiska S.A., PKO Parasolowy FIO, Unifundusze SFIO, Unifundusze FIO, Bank Millennium S.A., Agencja Rozwoju Przemysłu S.A. and Bankowe Towarzystwo Kapitałowe S.A. and with Towarzystwo Finansowe "Silesia” Sp. z o.o. to modify the terms of funding provided to the Polimex-Mostostal Capital Group.
  The purpose of the Agreement was to obtain relevant consents from the Creditors to allow the Company to obtain a capital injection and a related consensus regarding the scope of changes in agreements concluded between the Company and the Creditors, TFS purchasing 146 convertible bonds from ARP and the Company issuing new convertible bonds (Current Report no. 7/2017).

- On 19 January 2019, Extraordinary Shareholders’ Meeting decided to amend the Company’s Articles of Association and changed the composition of the Supervisory Board. The resolutions come into force as of the date of assuming T series shares by entities to which the Company’s offer is addressed pursuant to the Resolution no. 4 of Extraordinary Shareholders' Meeting of 28 December 2016 and upon a consent of the Supervisory Board regarding the issue price (Current Report no. 9/2017).

- On 20 January 2017 the Company received a notification from SPV Operator Sp. z o.o. with the registered office in Katowice, in which SPV Operator Sp. z o.o. (a subsidiary of Agencja Rozwoju Przemysłu S.A.) informed that it had sold 6,000,001 ordinary bearer shares in Polimex-Mostostal S.A. (Current Report no. 10/2017).

- On 20 January 2017 when, following the satisfaction of the Conditions Precedent set out in the Investment Agreement and consequently, all the Investors' acceptance of the offers to acquire T series shares issued by the Company, made by the Company to each Investor, the Company and the Investors entered into a subscription agreement whereby the Investors took up all the shares they had been offered, i.e. the total of 150,000,000 shares totaling PLN 300,000,000 (definitions as per Current Report no. 4/2017). Therefore, in relation to Current Report no. 9/2017, the condition precedent indicated in resolutions regarding dismissal and appointment of Supervisory Board Members of the Company was fulfilled. At the same time, pursuant to Current Report no. 5/2017, as a result of TFS acquiring 146 A series bonds, the Company, TFS and BTK concluded an annex amending the bond issue terms within the scope indicated in that Current Report (definitions as per Current Report no. 5/2017) (Current Report no. 11/2017).

- On 20 January 2017 the Management Board of Polimex-Mostostal S.A. announced that following the assumption of T series shares by the Investors, resolutions of the Extraordinary Shareholders' Meeting of 19 January 2017 came into force (Current Report no. 12/2017).

- On 3 February 2017, the Management Board of Polimex-Mostostal S.A. announced that amendments to the Company's Articles of Association introduced by Resolution no. 4 of the Extraordinary Shareholders' Meeting of 19 January 2017 (published by the Company in Current Report no. 9/2017) had been registered (Current Report no. 16/2017).

- On 21 February 2017 with reference to Current Reports no. 64/2016, 3/2017, 6/2017 and 11/2017 the Management Board of Polimex-Mostostal S.A. announced that changes in the share capital of the Company had been registered. Following the registration of the change, the Company's share capital amounts to PLN 473 237 604 (in words: four hundred seventy three million two hundred thirty seven thousand six hundred and four). Following the registration of the change, the share capital consists of 236 618 802 shares that entitle to 236 618 802 votes at the General Meeting (Current Report no. 18/2017).

- On 23 February 2017 the Management Board of Polimex-Mostostal S.A. announced that following the court registration of an increase in its share capital, ENEA Spółka Akcyjna with the registered office in Poznań, ENERGA Spółka Akcyjna with the registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warsaw and PGNiG Technologie Spółka Akcyjna with the registered office in Krosno (the "Investors") are entitled to exercise the total of 156,000,001 votes at the GSM of the Company, accounting for 65.9% of the total number of votes. This has resulted in establishing a parent relationship between the Investors and the Company, i.e. the Investors acting jointly and in agreement have become parent companies of the Company, which has become their subsidiary (Current Report no. 19/2017).

- On 9 March 2017, Extraordinary Shareholders' Meeting passed the following resolutions: (i) approving amendments to Rules of the Supervisory Board; (ii) consenting to contribute an Organized Part of the Enterprise named Polimex-Mostostal S.A. Zakład Konstrukcji Stalowych in Rudnik on the San to Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered office in Siedlce; (iii) regarding the issue of C series bonds convertible to U series shares and a contingent increase in the share capital in the form of issuing U series shares, with no rights issue offered with regard to the convertible bonds and U series shares, as well as regarding amendments to the Articles of Associatioin (Current Report no. 29/2017).

(in PLN '000)

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS			
Date	Full name	Position/Role	Signature
24 March 2017	Antoni Józwowicz	Chairman of the Management Board	
24 March 2017	Tomasz Rawecki	Vice-Chairman of the Management Board	
24 March 2017	Andrzej Juszczyński	Vice-Chairman of the Management Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS			
Date	Full name	Position/Role	Signature
24 March 2017	Sławomir Czech	Chief Financial Officer/ Chief Accountant Polimex Centrum Usług Wspólnych Sp. z o.o.	