POLIMEX-MOSTOSTAL CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
WITH AUDITOR'S OPINION

Warsaw, 23 March 2015

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Consolidated Income Statement
for the year ended 31 December 2014

		Year ended 31 December 2014			Year ended 31 December 2013		
	Note	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Net revenue from sales of products and services as well as goods and materials	14.1	1 725 442	376 755	2 102 197	1 866 479	496 273	2 362 752
Cost of goods sold	14.7	(1 980 799)	(323 021)	(2 303 820)	(1 865 014)	(473 065)	(2 338 079)
Gross profit/(loss) on sales		**(255 357)**	**53 734**	**(201 623)**	**1 465**	**23 208**	**24 673**
Costs to sell		(2 077)	(17 858)	(19 935)	(6 174)	(20 364)	(26 538)
General and administrative expenses		(71 304)	(18 390)	(89 694)	(97 322)	(23 594)	(120 916)
Other operating revenue	14.2	24 798	2 343	27 141	65 640	71 947	137 587
Other operating expenses	14.3	(57 740)	(53 901)	(111 641)	(72 395)	(116 018)	(188 413)
Operating profit/(loss)		**(361 680)**	**(34 072)**	**(395 752)**	**(108 786)**	**(64 821)**	**(173 607)**
Financial revenue	14.4	27 675	9 526	37 201	37 494	9 323	46 817
Financial revenue from conversion of debt into shares	14.5	272 039	–	272 039	–	–	–
Financial expenses	14.6	(83 140)	(11 754)	(94 894)	(108 601)	(26 164)	(134 765)
Share in profit (loss) of associate	21	2 738	–	2 738	3 720	–	3 720
Gross profit/(loss)		**(142 368)**	**(36 300)**	**(178 668)**	**(176 173)**	**(81 662)**	**(257 835)**
Income tax	15	25 555	(113)	25 442	(3 054)	-	(3 054)
Net profit/(loss)		**(116 813)**	**(36 413)**	**(153 226)**	**(179 227)**	**(81 662)**	**(260 889)**
Earnings/(loss) per share (in PLN per share)							
– basic	16	(0.04)	(0.01)	(0.06)	(0.13)	(0.06)	(0.19)
– diluted	16	(0.03)	(0.01)	(0.04)	(0.11)	(0.05)	(0.16)

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014

	Note	Year ended 31 December 2014			Year ended 31 December 2013		
		Continuing operations	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Net loss		**(116 813)**	**(36 413)**	**(153 226)**	**(179 227)**	**(81 662)**	**(260 889)**
Items that will not be reclassified subsequently to profit or loss:							
Change due to revaluation of fixed assets	29.6	(29 980)	–	(29 980)	95 593	–	95 593
Actuarial gains/losses	35	(1 393)	–	(1 393)	–	–	–
Deferred tax	15	5 961	–	5 961	(18 162)	–	(18 162)
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of a foreign operation		(10 370)	–	(10 370)	(689)	–	(689)
Cash flow hedges		–	–	–	(295)	–	(295)
Deferred tax on items that may be reclassified subsequently		–	–	–	56	–	56
Other net comprehensive income for the period		**(35 782)**	**–**	**(35 782)**	**76 503**	**–**	**76 503**
Total comprehensive income		**(152 595)**	**(36 413)**	**(189 008)**	**(102 724)**	**(81 662)**	**(184 386)**
Attributable to:							
Equity holders of the parent		(152 595)	(36 413)	(189 008)	(102 724)	(81 662)	(184 386)
Non-controlling interest		–	–	–	–	–	–

Consolidated Balance Sheet
as at 31 December 2014

	Note	31 December 2014	31 December 2013 *restated*	1 January 2013 *restated*
Assets				
Non-current assets				
Property, plant and equipment	18	111 507	575 772	708 242
Investment property		57	2 640	21 280
Goodwill from consolidation	19	282 694	282 694	282 694
Intangible assets	20	6 394	12 909	16 891
Investments in associates measured using the equity method	21	20 886	19 310	16 737
Financial assets	22	215 501	218 622	274 214
Non-current receivables	23	57 954	51 619	31 195
Deferred tax asset	15.3	212 355	182 634	189 181
Other non-current assets		1 649	1 440	3 190
Total non-current assets		**908 997**	**1 347 640**	**1 543 624**
Current assets				
Inventories	24	6 175	106 318	308 355
Trade and other receivables	25	558 529	695 489	727 813
Receivables from measurement of long-term contracts	26	79 636	270 559	435 341
Income tax receivables		32	284	950
Financial assets	22	6 688	109 158	96 086
Cash	27	677 033	503 272	260 920
Other assets		3 893	12 980	14 307
Total current assets		**1 331 986**	**1 698 060**	**1 843 772**
Assets held for sale	28	**450 614**	**97 476**	**463 007**
Total assets		**2 691 597**	**3 143 176**	**3 850 403**
Equity and liabilities				
Equity				
Share capital	29.1	173 238	58 695	20 846
Share premium		1 297 118	1 184 044	738 237
Supplementary capital	29.2	618 552	618 552	618 552
Unregistered share issue		-	-	412 500
Other capitals	29.3	(85 254)	(85 254)	(85 254)
Reserve capital	29.4	-	32 086	32 086
Reserve capital – convertible bond premium	29.5	29 747	-	-
Accumulated other comprehensive income, including:				
Exchange differences on translation of a foreign operation		(17 140)	(6 770)	(7 839)
Revaluation reserve	29.6	53 174	77 458	1 893
Actuarial gains/losses	35	(1 128)		
Losses brought forward		(1 636 749)	(1 515 609)	(1 253 733)
Non-controlling interest		**-**	**-**	**4 114**
Total equity		**431 558**	**363 202**	**481 402**
Non-current liabilities				
Credit facilities and loans	30	146 417	727	486 330
Long-term bonds	32	135 388	-	143 874
Provisions	34	266 141	36 070	113 877
Liabilities due to employee benefits	35	10 742	9 488	56 154
Other liabilities	33	314 267	256 127	357 998
Deferred tax liability	15.3	160	6 283	13 833
Accruals		-	-	3 504
Total non-current liabilities		**873 115**	**308 695**	**1 175 570**
Current liabilities				
Credit facilities and loans	30	415	752 254	179 234
Short-term bonds	32	–	126 890	-
Trade and other liabilities	36	564 375	816 620	1 332 727
Liabilities from measurement of long-term contracts	26	434 776	537 299	125 142
Income tax liabilities		1 359	9 654	531
Provisions	34	62 154	135 048	200 715
Liabilities due to employee benefits	35	40 546	81 592	120 394
Deferred income		16 963	11 922	16 004
Total current liabilities		**1 120 588**	**2 471 279**	**1 974 747**
Liabilities directly related to assets held for sale	38	**266 336**	**–**	**218 684**
Total liabilities		**2 260 039**	**2 779 974**	**3 369 001**
Total equity and liabilities		**2 691 597**	**3 143 176**	**3 850 403**

Consolidated Cash Flow Statement
for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Gross profit/(loss)		**(178 668)**	**(257 835)**
Adjustment by:		**153 665**	**202 721**
Share in profit/loss of associates measured using the equity method		(2 738)	(3 720)
Amortization/depreciation	14.7	52 067	68 514
Net interest and dividends		12 841	42 835
Profit on investing activities		219	5 392
Change in receivables	27	132 879	166 520
Change in inventories	27	45 450	155 878
Change in liabilities, except for credit facilities and loans	27	83 309	(58 439)
Change in prepayments/accruals	27	(32 947)	2 184
Change in provisions	27	159 108	(189 606)
Income taxes paid		(23 649)	140
Financial revenue from conversion of debt into shares		(272 039)	-
Other		(835)	13 023
Net cash generated on operating activities		**(25 003)**	**(55 114)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		61 981	39 033
Acquisition of property, plant and equipment and intangible assets		(15 875)	(14 513)
Sale of investment property		-	-
Sale of an organized part of the enterprise		-	65 622
Sale of financial assets, less cash disposed of		(447)	72 009
Acquisition of financial assets		-	(2)
Dividends received		-	1 147
Interest received		838	1 303
Repayment of originated loans		9	24
Originated loans		-	-
Other		1 243	(1 619)
Net cash generated on investing activities		**47 749**	**163 004**
Cash flows from financing activities			
Proceeds from issue of bonds		140 000	-
Payments on redemption of bonds		-	(1 000)
Proceeds from issue of shares		-	50 000
Payment of finance lease liabilities		(1 667)	(10 946)
Proceeds from credit facilities/loans taken out		1 310	380 133
Repayment of credit facilities/loans		(535)	(272 698)
Interest paid		(4 762)	(17 886)
Other		16 669	6 859
Net cash generated on financing activities		**151 015**	**134 462**
Net increase/(decrease) in cash and cash equivalents		173 761	242 352
Net exchange differences		474	1 808
Opening balance of cash	27	**503 272**	**260 920**
Closing balance of cash	27	**677 033**	**503 272**
Cash presented in the consolidated cash flow statement		**677 033**	**503 272**
– including restricted cash		503 448	271 396

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

	Share capital	Share premium	Unregistered share issue	Other capitals	Reserve capital	Reserve capital – convertible bond premium	Supplementary capital	Accumulated other comprehensive income	Retained earnings/losses brought forward	Total	Non-controlling interest	Total equity
As at 1 January 2014	**58 695**	**1 184 044**	**–**	**(85 254)**	**32 086**	**–**	**618 552**	**70 688**	**(1 515 609)**	**363 202**	**–**	**363 202**
Profit/(loss) for the period	–	–	–	–	–	–	–	–	(153 226)	(153 226)	–	(153 226)
Deferred tax	–	–	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–	–	(35 782)		(35 782)	–	(35 782)
Comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(35 782)**	**(153 226)**	**(189 008)**	**–**	**(189 008)**
Conversion of debt into shares	114 543	113 074	–	–	–	–	–	–	–	227 617	–	227 617
Equity component of a convertible instrument – measurement of bonds	–	–	–	–	–	29 747	–	–	–	29 747	–	29 747
Reclassification of measurement of executive share options	–	–	–	–	(32 086)	–	–	–	32 086	–	–	–
										–	–	–
As at 31 December 2014	**173 238**	**1 297 118**	**–**	**(85 254)**	**–**	**29 747**	**618 552**	**34 906**	**(1 636 749)**	**431 558**	**–**	**431 558**

Consolidated Statement of Changes in Equity for the year ended 31 December 2013

	Share capital	Share premium	Unregistered share issue	Other capitals	Reserve capital	Supplementary capital	Accumulated other comprehensive income	Retained earnings/losses brought forward	Total	Non-controlling interest	Total equity
As at 1 January 2013	**20 846**	**738 237**	**412 500**	**(85 254)**	**32 086**	**618 552**	**(5 946)**	**(1 253 733)**	**477 288**	**4 114**	**481 402**
Profit/(Loss) for the period	-	-	-	-	-	-	-	(261 873)	(261 873)	984	(260 889)
Other comprehensive income	–	–	–	–	–	–	76 503		76 503		76 503
Comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**76 503**	**(261 873)**	**(185 370)**	**984**	**(184 386)**
Share issue registration	37 849	445 807	(412 500)	–	–	–	–	–	71 156	–	71 156
Consolidation adjustments due to sale/liquidation of subsidiaries	–	–	–	–	–	–	131	(131)	–	(5 098)	(5 098)
Other adjustments to subsidiaries' equity	–	–	–	–	–	–	–	128	128	–	128
									–		
As at 31 December 2013	**58 695**	**1 184 044**	**–**	**(85 254)**	**32 086**	**618 552**	**70 688**	**(1 515 609)**	**363 202**	**–**	**363 202**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADDITIONAL NOTES

1. General information

The Polimex-Mostostal Capital Group ("Group") consists of Polimex-Mostostal S.A. ("Parent", "Company") and its subsidiaries. The consolidated financial statements of the Group cover the year ended 31 December 2014 and contain comparative data for the year ended 31 December 2013 as well as restated data for the year ended 31 December 2013.
Polimex-Mostostal S.A. operates based on Articles of Association adopted by a notarized deed on 18 May 1993 (Rep. A No. 4056/93), with subsequent amendments. The Company's registered office is located at ul. Młynarska 42 in Warsaw. The Company was registered with 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. was assigned statistical number REGON 710252031.
The duration of the Parent and of the Group Companies is unlimited.
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 management and advisory services provided to the Group Companies. The Group's business includes construction and assembly works, installation of industrial equipment and facilities, manufacturing, real property development and property management services. Polimex-Mostostal S.A. and the Group operate in the following segments: Production, Industry, Power Engineering, Petrochemistry, Infrastructure Construction and Other.
Following satisfaction of the conditions set out in IFRS 5 with respect to classification of assets as held for sale and presentation of discontinued operations, and due to the fact that the Extraordinary Shareholders' Meeting approved, on 4 December 2014, the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, the *Production* segment was reclassified to discontinued operations in the 2014 financial year (comparative data for 2013 has been presented).
The *Production* segment also includes the following subsidiaries of Polimex – Mostostal: Stalfa Sp. z o.o., ZKM Ukraine, Zakład Usług Technicznych Sp. z o.o. and Polimex - Mostostal Ukraine. The net profit/loss and assets of the aforesaid companies have been presented as discontinued operations and assets held for sale.
The Parent's sale of an organized part of the enterprise and 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. Assets assigned to the aforesaid segment are presented as assets held for sale as at 31 December 2014.

2. Going concern

Debt restructuring

On 21 December 2012, the Company and its subsidiaries, Polimex-Development Kraków (now: Polimex Energetyka Sp. z o.o.), Polimex-Mostostal Development Sp. z o.o. (now: Naftoremont-Naftobudowa Sp. z o.o.) and BR Development Sp. z o.o. (a company from the Polimex Energetyka Capital Group) concluded a Financial Debt Service Agreement ("FDSA") with their Financing Banks and the Bond Holders (the Banks and the Bond Holders collectively referred to as the "Creditors"), which laid down the principles for servicing the Company's debt to the Creditors. In the reporting period, in the course of negotiations, the Company and the Creditors drafted a set of agreements setting out the terms on which the restructuring process at the Company and the Capital Group, including debt restructuring, would be continued.

On 23 June 2014, the Company signed a preliminary agreement with the Creditors, which set out the terms and conditions and defined the stages of the financial restructuring process. It was agreed that the Company would carry out an organizational restructuring process with a view to establishing a holding structure. The key activities of the Group will include industrial construction for the power engineering and petrochemistry sectors. The parties

committed to execute an annex to the FDSA of 21 December 2012, which would reflect the terms and conditions set out in the preliminary agreement. Annex No. 6 to the FDSA was signed on 30 July 2014, and subsequently amended by Annex No. 7 to the FDSA of 11 September 2014. The key conditions set out in the amendments to the FDSA introduced by Annex No. 6 in relation to the 3rd stage of the restructuring process are as follows:

Operational and asset restructuring process:

The Company will continue the operational and financial restructuring process through:

a) further reorganization of the Capital Group and optimization of its operating expenses; in particular, two key subsidiaries of the Company will be established in the Group and they will operate in: (i) the Power Engineering and (ii) Petrochemistry segments (collectively referred to as the "Segment Companies");

b) continuation of disposal of assets (in particular real property owned by the Company, shares in subsidiaries and other assets) that are not necessary to carry out the core business operations. The Company is obliged to obtain the total of PLN 473 million from the disposal by 31 December 2015.

Capital injection:

a) No later than by 31 August 2014, the Company will issue bonds in the total amount of PLN 140 million ("Bonds") addressed to Agencja Rozwoju Przemysłu S.A. ("ARP") or other entities. A portion of bonds issued will be convertible into the Company's shares so that ARP may reach the threshold of 33% of votes at the General Meeting of the Company, taking into account dilution resulting from the Conversion (see the "Debt Conversion" section below). The convertible bonds will be converted into the Company's shares at the issue price of PLN 0.04 per share.

b) The Bonds will mature within five years and they will be collateralized on the same terms and with the same seniority as amounts due to other Creditors under the New Guarantee Facility provided to the Company. In particular, the Bonds and the New Guarantee Facility will be collateralized with pledges on the shares in the Segment Companies.

c) Payment of interest on the Bonds will be deferred until 31 March 2017, whereas a portion of interest accrued on the Bonds will be payable at their maturity date.

d) The Bonds will be issued to secure funds for payment for the capital of the Segment Companies to fund their initial working capital and to increase the working capital of the Company.

Debt Conversion:

a) The Creditors committed to convert their receivables from the Company totaling at least PLN 470 million into its share capital ("Conversion").

b) For purposes of the Conversion, the Company will issue new shares at the average issue price of PLN 0.175 per share issued under the Conversion program.

New Guarantee Facility:

The agreement whereby funding has been provided to the Company by the Banks under the New Guarantee Facility (see Report No. 132/2012) will be amended so that the New Guarantee Facility limit offered by the Banks is PLN 60 million, with a proviso that the new limit will not be funded by Bank Millennium S.A.. The Segment Companies will be the only entities entitled to use the new limit.

Annex No. 2 to the Loan Agreement on the New Guarantee Facility and the related Revolving Loan was executed on 11 September 2014. Pursuant to the Annex, the Banks (except for Bank Millennium S.A.) will provide a limit of PLN 60 million under the New Guarantee Facility to the Segment Companies. Under the New Guarantee Facility (NGF) Agreement amended by Annex No. 2, the Company and the Segment Companies granted a cross-guarantee

to the Banks for the liabilities arising therefrom. The limit under the New Guarantee Facility will be made available to the Segment Companies once the Conversion has been effected (Current Report No. 139/2014 of 12 September 2014).

Transaction Close:

a) The Bonds will be issued, the Conversion effected and the New Guarantee Facility provided to the Segment Companies on the terms referred to in the section "Other significant provisions of Annex No. 6" at the same date, provided that:

a. the Creditors and ARP (or other entities acquiring the Bonds) enter into the creditors' agreement;

b. the parties to the FDSA sign documents whereby registered pledges are set up on the shares in the Segment Companies;

c. the Company, ARP (or other entities acquiring the Bonds) sign the documents whereby collateral is pledged for the Bonds;

d. the Company files valid applications (with the required fees paid) for registration of the collateral referred to in b. and c. with the competent registers;

e. ARP (or other entities acquiring the Bonds) submit a binding, irrevocable and unconditional offer to the Company (except for the requirement to effect the Conversion and provide the New Guarantee Facility in accordance with the "New Guarantee Facility" section above) to acquire the Bonds in the full amount;

f. the competent court registers the change in the Company's Articles of Association with regard to a contingent increase in its share capital equal to the value of issued Bonds which are convertible into the Company's shares (see Draft Resolution No. 6 of the General Meeting – Current Report No. 89/2014 of 3 July 2014);

g. the Company's General Meeting adopts a resolution on the issue of the Company's shares for Conversion purposes (see Draft Resolution No. 5 of the General Meeting – Current Report No. 89/2014 of 3 July 2014);

h. the collateral provided in the form of registered pledges on the shares in the Segment Companies is entered into the register of pledges;

i. the Company and PKO BP enter into an escrow account agreement for purposes of the Bond issue.

b) Should the Company fail to issue the Bonds by 31 August 2014, (i) interest on the loans falling within the scope of the FDSA; (ii) interest on the Bond Holders' receivables falling within the scope of the FDSA and (iii) interest on recourse claims related to payments under guarantees given by the banks being parties to the FDSA and, if applicable, on recourse claims related to sureties given to those banks:

a. accrued until 31 August 2014, will be payable as of 1 September 2014;

b. accrued from 1 September 2014 to the Bond issue date, will be payable on the 30th day of each calendar month.

Other significant provisions of Annex No. 6:

a) The remaining amounts due to the Creditors being parties to the FDSA, which have not been Converted, will finally be repaid by 31 December 2019 or by the final Bond redemption date (whichever earlier) ("Final Repayment Date") in accordance with the schedule agreed with the Creditors in the FDSA.

b) Payment of interest on amounts due which have not been Converted will be deferred until 31 March 2017, with the portion of interest accrued on the aforesaid amounts being payable at the Final Repayment Date.

c) Interest accrued by the Conversion date and recourse claims related to guarantees given by the Banks, occurring by the Conversion date, has been deferred until the Final Repayment Date.

d) Recourse claims related to guarantees given by the Banks at the request of the Company (other than those given under the New Guarantee Facility) will be paid on the previous terms, as set out in the FDSA (i.e. in 12 monthly installments), with a proviso that any recourse claims filed by the Banks in relation to guarantees given at the Company's request in relation to contracts for construction of A1 and A4 motorways and S69 expressway will be paid at the Final Repayment Date in accordance with the schedule agreed with the Creditors.

e) By signing the Annex, the Creditors have waived, unconditionally and for an indefinite period, any rights arising from a default on the FDSA that occurred by 23 June 2014.

f) As of the date of the Annex, Polimex-Mostostal Development Sp. z o.o. (now: Naftoremont-Naftobudowa Sp. z o. o.), Polimex-Development Kraków Sp. z o.o. (now: Polimex Energetyka Sp. z o.o.) and BR Development Sp. z o.o. (a company from the Polimex Energetyka Capital Group), the Company's subsidiaries, have been released from their obligations under the sureties given by them to the Creditors in relation to the Company's liabilities to the Creditors.

On 11 September 2014, Annex No. 7 to the FDSA was signed. According to the Annex and representations of the creditors regarding, among other things, extension of the time limit for the close of the 3rd stage of the restructuring process, as defined in the Annex, the time limit for the close of the 3rd stage of the restructuring process (including the Conversion) was extended until 17 September 2014 (Current Report No. 139/2014 of 12 September 2014).

In accordance with the procedure defined in the FDSA, the final date for the close of the 3rd stage of the restructuring process was set at 24 September 2014.

Conclusion of the Creditors' Agreement

On 12 September 2014, an agreement was made by the Creditors and the entities acquiring the New Bonds (including ARP) ("Creditors' Agreement"). The main objective of the Creditors' Agreement was to define the relations among the Creditors and the New Bond holders, including formulation of the rules applicable to possible satisfaction of their claims with the use of the collateral provided to secure payment of their receivables and the rules applicable to distribution of funds obtained through the use of the collateral and enforcement of other payments to satisfy their claims.

New Bond purchase offers and their acceptance

On 12 September 2014, the Company submitted offers concerning the purchase of the New Bonds, i.e. convertible bonds with the total par value of PLN 81.5 million and ordinary bonds with the total par value of PLN 58.5 million, totaling PLN 140 million, to investors (including Agencja Rozwoju Przemysłu S.A.), which were accepted by the investors with a proviso that the payment will be made and the Bonds will be issued within five business days of the Conversion date. In accordance with the New Bond issue documents, the Company will be obliged to pay the underwriting commission to the investors in the amount specified in the New Bond issue documents after the New Bond issue date.

Security instruments setting up pledges on the shares in the Segment Companies

On 12 September 2014, the Company entered into a registered pledge agreement concerning the shares in the Segment Companies with ARP as the pledge administrator for the benefit of the New Bond holders and the Creditors, whereby registered pledges will be set up on the shares in the Segment Companies as of the registration date to secure payment of the receivables of the Creditors and the New Bond holders.

Additionally, the Company signed ordinary and financial pledge agreements with the Creditors and the future New Bond holders, whereby ordinary and financial pledges have been set up

(or will be set up as of the dates of the agreements with the respective Creditors) on the shares in the Segment Companies to secure payment of the receivables of the Creditors and the New Bond holders.

Satisfaction of conditions precedent for the close of the 3rd stage of the restructuring process

Considering the events presented above and the Company's being informed of registration of the contingent increase in the Company's share capital by the competent court of registration in accordance with section g. "Transaction Close" above, the following conditions for the payment for and issue of the New Bonds, Conversion and provision of the New Guarantee Facility to the Segment Companies remained to be fulfilled:

(a) pledging appropriate collateral for the New Guarantee Facility by the Segment Companies and the Company's change of the existing collateral for the New Guarantee Facility, as appropriate;

(b) the Company's filing of applications for collateral registration in the form of registered pledges;

(c) entering the collateral in the form of registered pledges on the shares in the Segment Companies in the register of pledges; and

(d) the Company's signing of an escrow account agreement with PKO BP for purposes of the New Bond issue.

The conditions precedent necessary to close the 3rd stage of the restructuring process, as specified in (b) and (c) above, were fulfilled on 16 September 2014 (Current Report No. 140/2014 of 17 September 2014).

The remaining conditions precedent, as specified in (a) and (d) above, were fulfilled on 23 September 2014. Therefore, the close of the 3rd stage of the restructuring process was planned for 24 September 2014 (Current Report No. 146/2014 of 23 September 2014).

Close of the 3rd stage of the restructuring process

On 24 September 2014, the following activities were performed as part of the close of the 3rd stage of the financial debt restructuring process:

1) Conversion of debt into the Company's share capital

The Company's creditors being parties to the Financial Debt Service Agreement of 21 December 2012 ("FDSA") entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,074.10. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.

The share purchase agreements are significant agreements as the value of receivables converted by the Company's creditors into the Company's share capital exceeds 10% of the revenue earned by the Company's Capital Group over the past four quarters.

2) Provision of the New Guarantee Facility to the Segment Companies

The banks being parties to the agreement on the new guarantee facility provided Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o., the Company's subsidiaries operating in the power engineering and petrochemistry sectors (hereinafter collectively referred to as the "Segment Companies") with access to the New Guarantee Facility limit of PLN 60 million.

3) Satisfaction of conditions necessary for payment for the New Bonds and their issue

As e.g. the creditors' receivables were converted into the Company's share capital, all the conditions necessary for the investors' payment for the new bonds with the total par

value of PLN 140 million ("New Bonds") were fulfilled. The payment will be made and the New Bonds issued within five business days.

4) The Company's acquisition of the increased value of the shares in the Segment Companies

On 24 September 2014, the Company, as the sole shareholder of the Segment Companies, adopted resolutions on increasing the capital of the Segment Companies and made declarations concerning its acquisition of the following shares in the Segment Companies:

a) the Company acquired the increased par value of 30,199 shares held in Polimex Energetyka Sp. z o.o. before, where the par value of each share was increased from PLN 500.00 to PLN 716.00 in exchange for a cash contribution of PLN 65,000,000.00; and

b) the Company acquired the increased par value of 3,672 shares held in Naftoremont–Naftobudowa Sp. z o.o. before, where the par value of each share was increased from PLN 2,723.00 to PLN 3,132.00 in exchange for a cash contribution of PLN 15,000,000.00.

Under the FDSA, the increased value of the shares in the Segment Companies acquired by the Company was paid for using the funds obtained through the New Bond issue on 1 October 2014.

As at 31 December 2014, no Events of Default related to the FDSA had occurred.

Conversion

On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each ("R Series Shares") through a private placement.

The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.

Debt was converted into the Company's shares under agreements made with the Company's creditors and bond holders on a case-by-case basis. On 24 September 2014, R Series Share purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.The increase in the Company's share capital was registered with the National Court Register on 22 October 2014.

New Bond issue

As the new bonds had been paid for by the investors, on 1 October 2014 the Company issued 163 A series, convertible, dematerialized bearer bonds with the par value of PLN 500,000.00 each and the total par value of PLN 81,500,000.00 ("A Series Bonds") as well as 585 B series, ordinary, dematerialized bearer bonds with the par value of PLN 100,000.00 each and the total par value of PLN 58,500,000.00 ("B Series Bonds", collectively with A Series Bonds referred to as the "New Bonds"). The proceeds of the issue of A Series Bonds were earmarked for payment of the issue price of the increased par value of the shares in Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o. The proceeds of the issue of B Series Bonds were used to increase the working capital of the Parent. The aforesaid funds were transferred to the Company's bank account on 1 October 2014.

Sale of real property

The following agreements had been concluded by 31 December 2014 as part of the asset restructuring process:

1. sale of the right of perpetual usufruct of the land located at ul. Czackiego 15/17 in Warsaw and the title to a separate real property (office building) at a gross price of PLN 30,750,000.00;

2. sale of (i) the right of perpetual usufruct of land located at ul. Inżynierska 8R and Inżynierska 8 in Lublin, with the total area of 6,318 m2, including the buildings and equipment located there, to which a separate title had been held; (ii) the share in the right of perpetual usufruct representing 6318/22850 of the land located in Lublin and marked as plot no. 65/16 with the area of 1,281 m2, at the total gross selling price of PLN 3,097,602.25;

3. sale of (i) the right of perpetual usufruct of land registered as record parcel no. 24/5, located at ul. Elektryczna 2A in Warsaw, with the area of 999.00 m2 and (ii) the title to the building located there, which is a separate real property marked with the number 2A at ul. Elektryczna in Warsaw, at a gross price of PLN 10,701,000.00;

4. sale of land with the area of 0.0595 ha, located at ul. Wita Stwosza 3 in Katowice, Bogucice-Zawodzie, at a gross price of PLN 7,380,000.00;

5. sale of land located at ul. Piłsudskiego in Kraków, marked as plot no. 129/2, with the area of 0.0286 ha, at a net price of PLN 2,900,000.00 by Polimex Development Kraków Sp. z o.o., the Company's subsidiary, as the seller;

6. sale of the right of perpetual usufruct of real property, including the related rights, located at ul. Generała Jankego Zygmunta Waltera in Katowice, at a net price of PLN 13,500,000.00 by Polimex Development Kraków Sp. z o.o. (now: Polimex Energetyka Sp. z o.o.), the Company's subsidiary, as the seller;

7. sale of land located at ul. Garbarska in Lublin, at a net price of PLN 9,700,000.00;

8. sale of real property with buildings being separate real properties, including any structures and equipment located there and constituting separate real properties, located in Ostrołęka, the Masovian Region, at a total gross price of PLN 3,444,000.00;

9. conditional sale of land located at ul. Pomorska 34, 34c and 35 in Szczecin, including office buildings, a non-residential building and a warehouse building constituting separate real properties, at a total gross price of PLN 3,813,000.00;

10. conditional sale of land located in Bielkowo, the commune of Kobylanka, Stargard poviat in the West Pomeranian Region, including residential buildings, at a total net price of PLN 10,500,000.00;

11. sale of the right of perpetual usufruct of land in Stalowa Wola, including the title to the buildings and structures located there, at a total gross price of PLN 4,243,500.00;

12. conditional sale of the right of perpetual usufruct of undeveloped land located in Warsaw, by Naftoremont – Naftobudowa Sp. z o.o., the Company's subsidiary, as the seller, at a net price of PLN 3,900,000.00.

The following agreements were signed between the end of the reporting period and the date of the consolidated financial statements:

1. a transfer agreement related to the sale of real property in Bielkowo (see 10 above);

2. agreement on conditional sale of the right of perpetual usufruct of developed land located in Stalowa Wola, at a net price of PLN 6,600,000.00;

3. agreement on conditional sale of real property and the right of perpetual usufruct of real property located in Jasło.

Under all of the real property or premises sale agreements, the seller's liability for warranty, as set out in Articles 556-576 of the Civil Code, has been modified in accordance with Article 558.1 so that irrespective of any rights resulting from the warranty set out in Articles 556-576 of the Civil Code, the seller assumes liability for losses (insofar as they are actual) suffered by the buyer due to false, incomplete, inaccurate or erroneous representations and warranties given by the seller. The liability for damages is a warranty for risk, regardless of the seller's fault and the actual knowledge possessed by the parties to the agreement. The warranty liability of the seller is limited to the gross selling price set in the agreement and any claims on that basis may be filed within three years of the date of the agreement whereby the title to the real property or premises is transferred.

Additionally, in 2014 the Company completed an IPO of Torpol, its subsidiary. The whole block of shares in Torpol (15,570,000) was sold at PLN 8.00 per share. The sale transaction was completed in July 2014 with the transaction value of PLN 124,560,000.00.

Additionally, the Company sold 4,861 shares in the capital of Energomontaż-Północ – Technika Spawalnicza and Laboratorium Sp. z o.o. (Warsaw), representing 100% of the share capital, at a price of PLN 8,021,000.00.

At the beginning of December 2014, the Extraordinary Shareholders' Meeting of Polimex-Mostostal approved the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, as well as Polimex-Mostostal ZUT located in Siedlce. The scope of activities carried out by Polimex in Siedlce in the *Production* segment includes manufacturing anti-corrosion and hot-dip zinc coating, grids as well as steel products, such as steel structures, silos, tanks, chimneys or gas passes. The entity employs ca. 1,500 people. Polimex-Mostostal ZUT is an engineering and manufacturing company established in 1998. It is a wholly-owned subsidiary of Polimex and employs more than 100 people. The scope of its activities includes manufacturing anchors, processing metals and providing design and general construction services.

The aforesaid divestments formed part of the operational and asset restructuring process related to the FDSA with the creditors, and were carried out to fulfil the Company's obligations under the Annexes to the FDSA. The Company is planning to continue the activities aimed at selling those assets which are not key for its operations. In addition to real property, the assets sold will include shares in subsidiaries, redundant property or organized parts of the enterprise in accordance with Annex No. 6 to FDSA by 31 December 2015.

Going concern and risks

As the standing of the Parent is of crucial importance for the Group's ability to continue as a going concern, the analysis below was conducted on the basis of the data of the Parent.

In the period of 12 months of 2014, the Company's operating loss totaled PLN 416,046,000.00, including an operating loss attributable to discontinued operations of PLN 30,677,000.00. As at 31 December 2014, equity totaled PLN 117,193,000.00 and the net working capital (including assets held for sale and the related liabilities) was positive and amounted to PLN 277,085,000.00. Equity is positive as in September 2014 debt was converted into shares (an increase in equity of PLN 227,617,000.00), the New Bonds were measured (an increase in equity of PLN 29,747,000.00) and the shares in Torpol, a subsidiary, were sold. The increased value of the net working capital as compared to 31 December 2013, when it was negative and amounted to PLN 742,236,000.00, is attributable to reclassification of loan and bond liabilities to non-current liabilities following cancellation of the events of default related to the FDSA as at 31 December 2014 and implementation of an effective liquidity policy.

Other potential risks identified by the Company:

- liquidity conditional on meeting the divestment schedule, in particular disposal of the former Mostostal Siedlce and Polimex-Mostostal ZUT located in Siedlce (the sales process is carried

out by Polimex-Mostostal and Towarzystwo Finansowe Silesia, controlled by the State Treasury);

- ongoing negotiations concerning the amounts due from/to the Directorate General for National Roads and Motorways (DGNRM) and the consortium members as well as final settlements under road construction contracts fulfilled at the request of DGNRM, where, 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 for DGNRM, may be subject to changes;

- the industry risk related to fulfilment of material contracts, including scenarios where it may not be ruled out that the Company will not be able to earn the anticipated revenue and margins from contracts in progress and planned.

The aforesaid factors may hinder generation of operating profit sufficient for the Company to service the debt falling within the scope of the FDSA, thus indicating a risk to the Company's ability to continue as a going concern.

In response to identified risks, the organizational structure has been redesigned, duplicate functions eliminated and the Company's operating model changed into a contract-based one. This enabled a substantial improvement of operational efficiency and a considerable reduction of fixed costs, in particular general and administrative expenses (a drop by more than 30% in 2014), which is already reflected in the performance delivered in 2014 and will be shown in the performance in 2015. Polimex-Mostostal focuses on fulfilment of power engineering contracts, including extension of *Elektrownia Kozienice* and *Elektrownia Opole*, as well as petrochemical and technical service contracts. The holding will focus on specialist engineering and design in the power engineering and petrochemistry sectors, with a considerable share of its own contractor services, and technical service.
Although the Company has terminated the motorway contracts, it is planning to use its subsidiary, PRINŻ-1, to carry out minor road construction orders where it will act as a general contractor on national and regional roads as well as a subcontractor under motorway and expressway construction contracts.
Under the operational restructuring program adopted by Polimex-Mostostal, those assets which are not key for its operations will continue to be sold. The aforesaid assets will include shares in subsidiaries, redundant property or organized parts of the enterprise. As part of the abovementioned process, Polimex-Mostostal has entered into negotiations with Towarzystwo Finansowe Silesia, controlled by the State Treasury, over disposal of the former Mostostal Siedlce and Polimex-Mostostal ZUT located in Siedlce (in accordance with the applicable legal regulations, Polimex notified the Polish Financial Supervision Authority of the confidential negotiations in advance). At the beginning of December 2014, the Extraordinary Shareholders' Meeting of Polimex-Mostostal approved the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce. On 5 March 2015, the Company announced that the Office of Competition and Consumer Protection granted its consent for Towarzystwo Finansowe Silesia to assume control of two assets of Polimex-Mostostal. The process is planned to be closed within the next quarter.

Considering the potential risk of delays in the schedule of disposal of the aforementioned assets, the Management Board has undertaken a number of initiatives to considerably reduce the liquidity risk so that the said factors do not affect timely repayment of the debt of falling within the scope of the FDSA:

- a capital injection ensuring efficient working capital management. The Company's liquidity was considerably improved, which resulted in a drop in past due liabilities almost by a half, i.e. from PLN 184 million as at 31 December 2013 to PLN 100 million a year later. The current balance of past due liabilities is considerably below PLN 80 million. Additionally, initiatives were undertaken with a view to centralizing finance management at the Group level as well as optimizing interest income and expense through efficient structure management;

- operational restructuring in order to cut operating expenses through a reduction in general and administrative expenses, organizational structure and contract portfolio optimization as well

as realization of savings on the aforesaid basis, which should affect profitability of the Company's day-to-day business and profit on contracts;

- divestment program involving the Company's sale of assets not related to its core business, specifically real property as part of the 2nd stage of the package sale. What is important, real property is being sold on the basis of offers already received by the Company, while the preliminary agreements are being finalized and final ones concluded. Within the next year, the Company expect additional proceeds of PLN 73 million only from sales of real property;
- the creditors' commitment to release collateral so that the disposal, i.e. divestment program may be implemented. The proceeds from disposal of assets which are not related to the core business will primarily be used for funding the Company's day-to-day operations;
- implementation of key projects for the Polish power industry – construction of a new block in *Elektrownia Kozienice* and block 5 and 6 in *Elektrownia Opole* based on the introduced project finance structures that ensure fully secure funding for the projects through advance and ongoing payments from the client (at present, the total balance of free cash from the projects exceeds PLN 0.5 billion);
- approval of the prospectus drafted by Polimex-Mostostal SA, upon authorization of the Polish Financial Supervision Authority (PFSA), on 11 March 2015, which denotes the Company's satisfaction of the condition set out in the FDSA. A high level of the Company and the Group's debt (more than PLN 0.5 billion) was reduced, which is of crucial importance, in particular, for the Company and the Group's ability to secure funding from financial institutions, in particular, in the form of bank guarantees, extend the due dates or require prepayments from the contracting parties as well as the ability to use some of the cash proceeds as capital expenditure;
- the creditors' possible conversion of bonds, including the issue of 163 A series, convertible, floating-rate, dematerialized, collateralized bearer bonds with the total par value of up to PLN 81.5 million;
- the provisions set forth in agreements with banks, which reduce the Company's risk related to the beneficiaries' use of bank guarantees. If bank guarantees are used, the banks committed, in accordance with the Financial Debt Service Agreement and individual representations of banks which have given guarantees at the request of the Company but are not parties to the Financial Debt Service Agreement, to accept the Company's payment of the resulting liabilities in 12 equal monthly installments;
- deferment of repayment of the Company's debt for 2017-2019, the same as in the case of debt servicing, which gives the Company sufficient time to complete the organizational restructuring process aimed at establishment of a holding structure in addition to enabling the Company to rebuild and strengthen its market position as a reliable business partner. Debt servicing is conditional on successful completion of the operational restructuring process, as specified in the FDSA, including disposal of redundant assets.

The Management Board of the Company is of the opinion that the aforesaid initiatives are a sufficient basis for concluding that the situation of the Company will gradually improve despite the existence of circumstances indicating a risk to its ability to continue as a going concern. Therefore, the financial statements have been prepared on the assumption that the Company and the Group Companies will continue as a going concern in the foreseeable future.

3. Composition of the Group

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

No.	Entity	Registered office	Scope of business	Company's percentage interest in capital	
				31 December 2014 (%)	31 December 2013 (%)
	Subsidiaries				
1	Polimex GmbH (*)	Ratingen - Germany	Technical services and supplies provided in the capacity of an agent	100.00	100.00
2	Polimex Projekt Opole Sp. z o.o. (*)	Warsaw	Construction works, sales, consulting and advisory services	100.00	100.00
3	Naf Industriemontage GmbH (***)	Berlin	Construction and assembly services	100.00	100.00
4	Polimex Energetyka Sp. z o.o. (*)	Warsaw	Construction works	100.00	100.00
5	Sinopol Trade Center Sp. z o.o. (***)	Płock	Wholesale trade	50.00	50.00
6	Modułowe Systemy Specjalistyczne in liquidation Sp. z o.o. (***)	Płock	Metal structure manufacturing	100.00	100.00
7	Stalfa Sp. z o.o.(*)	Sokołów Podlaski	Metal product manufacturing	100.00	100.00
8	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Technical services	100.00	100.00
9	Polimex-Mostostal Ukraine SAZ (*)	Kiev	Housing construction	100.00	100.00
10	Czerwonograd ZKM (*)	Chervonohrad, Ukraine	Metal structure manufacturing	99.61	99.61
11	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Housing construction	100.00	100.00
12	Naftoremont – Naftobudowa Sp. z o.o. (*)	Warsaw	Construction works	100.00	100.00
13	Torpol SA.(Capital Group) (***)	Poznań	Comprehensive development of transport infrastructure	0.00	100.00
14	Polimex Venture Development Sp. z o.o. (*)	Warsaw	Property sales, administration and management	100.00	100.00
15	Energomontaż-Magyarorszag Sp. z o.o. in liquidation (***)	Budapest	Construction and assembly works, services, sales	100.00	100.00
16	Energomontaż-Północ-Technika Spawalnicza I Laboratorium Sp. z o.o.(***)	Warsaw	R&D	-	99.96

17	Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (***)	Gliwice	Construction, urban and technological design	99.57	99.57
18	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. in liquidation (***)	Płock	Housing and industrial construction, repairs	-	100.00
19	Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.(***) in liquidation bankruptcy	Zielona Góra	Construction and design of overhead power lines and transformer stations	100.00	100.00
20	Polimex Engineering Sp. z o.o. (*)	Kraków	Construction design	100.00	100.00
21	S.C. Coifer Impex SRL in liquidation (***)	Romania	Steel structure manufacturing	100.00	100.00
22	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design	99.97	99.97
23	PRInż – 1 Sp. z o.o.(*)	Sosnowiec	Road construction	95.46	91.06
24	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*)	Bielsko Biała	Services including water and sewage treatment, technical and economic analyses concerning improvement of existing or construction of new facilities	100.00	100.00
25	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Specialized and general construction	100.00	100.00
26	Grande Meccanica SpA (*)	Narni, Italy	Manufacturing, construction	100.00	100.00
27	Mostostal Siedlce Sp. z o.o. (***)	Siedlce	Production	100.00	100.00
28	Polimex Projekt Kozienice Sp. z o.o. (***)	Warsaw	Construction works, sales, consulting and advisory services	100.00	100.00
	Associates				
29	Polimex - Sices Polska Sp. z o.o. (**) in liquidation	Warsaw	Assembly works	-	50.00
30	Energomontaż – Północ Bełchatów Sp. z o.o.(**) (Capital Group)	Bełchatów	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 2014, the Group'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 99% of shares in its subsidiaries and may manage their operations. The associates which are not consolidated are either in liquidation

and the Parent does not exercise any control over such entities (Naf Industriemontage GmbH, Modułowe Systemy Specjalistyczne in liquidation Sp. z o.o.) or are immaterial from the perspective of consolidation at the Group level (Sinopol Trade Center Sp. z o.o., Mostostal Siedlce Sp. z o.o., Polimex Projekt Kozienice Sp. z o.o.). The materiality threshold for eliminating 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 more than 30% of shares and may appoint one member of the Supervisory Board.

Changes in the composition of the Group in 2014:

- sale of all shares held in Torpol S.A. On 1 July 2014, the Management Board of the Company adopted Resolution No. 73/14 regarding public subscription for shares in Torpol S.A., its subsidiary. Pursuant to the Resolution, the total of 15,570,000 (fifteen million five hundred and seventy thousand) A series shares were allocated in accordance with the A series share allocation principles laid down in the prospectus of Torpol S.A. approved by the Polish Financial Supervision Authority on 13 June 2014. The transaction was settled in July 2014;
- sale of all shares held in Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o. On 22 July 2014, a share sale agreement was concluded by the Company and Inspecta Holding Polska Sp. z o.o. with its registered office in Warsaw, whereby 4,861 shares in the share capital of Energomontaż – Północ – Technika Spawalnicza i Laboratorium Sp. z o.o. with its registered office in Warsaw, accounting for 100% of its share capital, were sold. The selling price was PLN 8,021,000.00;
- liquidation of Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. in liquidation on 30 June 2014 and Polimex - Sices Polska Sp. z o.o. in liquidation on 30 October 2014 (dates of liquidation reports).

As a result of the aforementioned changes, the Torpol S.A. Capital Group and Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o. as well as the liquidated companies, i.e. Polimex - Sices Polska Sp. z o.o. in liquidation and Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. in liquidation, were not consolidated as at 31 December 2014.

The figures related to their elimination from consolidation have been presented in Note 14.4.

4. Composition of the Management Board and Supervisory Board of the Parent

Composition of the Company’s Management Board as at 31 December 2014:

Maciej Stańczuk	Acting Chairperson of the Board
Joanna Makowiecka – Gaca	Vice-Chairperson of the Board
Krzysztof Cetnar	Vice-Chairperson of the Board

During the reporting period and by the date of approval of these financial statements for publication, the following changes occurred in the composition of the Management Board:

2014-02-06	The Supervisory Board appointed Maciej Stańczuk to the position of Vice-Chairperson of the Management Board effective from 7 February 2014 for a three-year individual term of office (Resolution No. 30/XI of the Supervisory Board, WSE Communiqué No. 22/2014).
2014-02-12	The Supervisory Board dismissed Arkadiusz Kropidłowski from the position of Vice-Chairperson of the Management Board effective from the date of the resolution (Resolution No. 31/XI of the Supervisory Board, WSE

	Communiqué No. 28/2014).
2014-05-09	Gregor Sobisch resigned from the position of Chairperson of the Management Board effective from the date of the resignation (WSE Communiqué No. 53/2014).
2014-05-09	The Supervisory Board appointed Maciej Stańczuk to the position of Acting Chairperson of the Management Board effective from the date of the resolution (Resolution No. 37/XI of the Supervisory Board, WSE Communiqué No. 54/2014).
2014-05-09	The Supervisory Board appointed Bogusław Piekarski to the position of Vice-Chairperson of the Management Board effective from the date of the resolution for a three-year individual term of office (Resolution No. 38/XI of the Supervisory Board, WSE Communiqué No. 55/2014).
2014-06-05	The Supervisory Board appointed Krzysztof Cetnar to the position of Vice-Chairperson of the Management Board effective from 6 June 2014 for a three-year individual term of office (Resolution No. 42/XI of the Supervisory Board, WSE Communiqué No. 68/2014).
2014-10-17	Bogusław Piekarski resigned from the position of Vice-Chairperson of the Management Board effective from 31 January 2015 (WSE Communiqué No. 157/2014).
2014-10-29	The Supervisory Board dismissed Bogusław Piekarski from the position of Vice-Chairperson of the Management Board, COO, and delegated his responsibilities to Maciej Stańczuk, Acting Chairperson of the Management Board (WSE Communiqué No. 169/2014). At the same time, the Management Board adopted a resolution on appointment of Jacek Czerwonka, Power Engineering Segment Head, to the position of Management Board's plenipotentiary for operations.
2015-02-13	The Supervisory Board appointed Jacek Czerwonka to the position of Vice-Chairperson, COO (Resolution No. 92/XI of 13 February 2015).

Composition of the Supervisory Board as at 31 December 2014:

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

During the reporting period and by the date of approval of these financial statements for publication, the following changes occurred in the composition of the Supervisory Board:

2014-05-30	Ryszard Engel resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 63/2014).
2014-06-24	Jerzy Góra resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 76/2014).
2014-06-24	The General Meeting of Polimex-Mostostal S.A. appointed Jarosław Kochaniak (Resolution No. 28 of the General Meeting) and Adam Ambrozik (Resolution No. 29 of the General Meeting) to the positions of members of the Supervisory Board (joint WSE Communiqué No. 79/2014).
2014-09-12	Artur Jędrzejewski resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 138/2014).
2014-12-01	Dariusz Krawczyk resigned from the position of member of the Supervisory

	Board effective from the date of the nearest General Meeting, i.e. 4 December 2014 (WSE Communiqué No. 193/2014).
2014-12-04	The Extraordinary Shareholders' Meeting of Polimex-Mostostal S.A. appointed Krzysztof Kaczmarczyk (Resolution No. 4 of the General Meeting) and Andrzej Zwara (Resolution No. 5 of the General Meeting) to the positions of members of the Supervisory Board (WSE Communiqué No. 200/2014).
2015-02-16	The Extraordinary Shareholders' Meeting of Polimex-Mostostal S.A. appointed Andrzej Sokolewicz (Resolution No. 5 of the General Meeting) to the position of member of the Supervisory Board.

On 4 June 2014, the Supervisory Board appointed Andrzej Kasperek to the position of Vice-Chairman of the Supervisory Board and on 11 July 2014 Adam Ambrozik was appointed its Chairman. Jerzy Góra acted as Chairman of the Supervisory Board until 24 June 2014.

5. Approval of the financial statements

The consolidated financial statements of the Polimex-Mostostal Group for the year ended 31 December 2014 were approved by the Management Board for publication on 23 March 2015.

6. Material values based on professional judgment and estimates

6.1. Professional judgment

The following issues were largely influenced by the professional judgment of the management in addition to accounting estimates in application of the accounting policy:

Classification of leases

The Group is a party to lease agreements classified either as operating or finance leases. For purposes of classification, the Group determined whether the agreement transferred substantially all the risks and rewards of ownership of the asset onto the lessee.

Identification of embedded derivative instruments

As at the date of the contract, the management of the Group verifies whether the economic characteristics and risks of the host contract and the embedded derivative in a foreign currency are not closely related.

Classification of financial assets

At the end of each reporting period, the Group verifies whether its financial assets are held-to-maturity investments.

6.2. Uncertainty of 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.

Impairment of assets

The Group tests its fixed assets for impairment if any indications of impairment of such assets exist. It requires estimating the value in use of a cash generating unit which the fixed assets form part of. 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 15.3

The Group 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.

Fair value of financial instruments, Note 45

The fair value of financial instruments for which no active market exists is determined using appropriate measurement methods. While selecting appropriate methods and assumptions, the Group relies on its professional judgment.

Revenue recognition, Note 26

The Groups applies the percentage stage-of-completion method while accounting for long-term contracts. Its application 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 Group recognizes the effects of changes in estimates in the next period profit or loss. Should the stage of completion determined in this manner be 1% higher, the Parent's revenue would increase by PLN 71,353,000.00 and expenses by PLN 82,239,000.00.

Amortization/depreciation rates

Amortization/depreciation rates are determined based on the estimated useful life of property, plant and equipment and intangible assets. Every year, the Group verifies the adopted useful lives based on its current estimates.

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

Provisions for employee benefits are estimated using actuarial methods. The underlying assumptions have been presented in Note 35.1.

Provision for warranty repairs, Note 34

Provisions for warranty repairs are recognized in the course of contract fulfilment, 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 34

The Group 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 34

Provisions for the effects of pending court proceedings are recognized when action 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 34

The amounts of liquidated damages are estimated by the technical staff responsible for construction contract fulfilment, 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 34

Provisions for contract costs are related to the final settlement of road construction contracts. Detailed information has been presented in Note 14.1.

Provision for expected losses on construction contracts, Note 34

At the end of each reporting period, the Group 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 34

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 and receivables, Note 25.2

At the end of each reporting period, the Group reviews the impairment loss on redundant materials considering the number of days on stock and their potential use in the future and the impairment loss on receivables considering the past due period.

7. Measurement and presentation currency

The Polish zloty (PLN) is the measurement currency of the Parent and other entities covered by these consolidated financial statements and the presentation currency, except for the following companies: Czerwonograd ZKM, Ukraine; Polimex-Mostostal, Ukraine; Depolma GmbH, Germany; Polimex-Mostostal Wschód Sp. z o.o., Russia, as well as Grande Meccanica S.p.A, Italy.

8. Basis for preparation of the consolidated financial statements

These consolidated financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS), as endorsed by the European Union. As at the date of approval of these financial statements for publication, taking into account the IFRS implementation process in the EU and the Group’s operations, as regards the accounting principles applied by the Group, the implemented IFRS do not differ from those endorsed by the EU.

The IFRS include standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

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 (“Polish Accounting Standards”). 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.

These consolidated financial statements have been prepared on the historical cost basis, except investment property, derivative financial instruments, available-for-sale financial assets and some classes of property, plant and equipment, which are measured at fair value.

The carrying amount of hedged assets and liabilities is adjusted by changes in the fair value which are attributable to the risk against which such assets and liabilities are hedged.

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

The consolidated financial statements have been prepared on the assumption that the Group Companies will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances that would indicate a risk to the Group Companies’ ability to continue as a going concern, except those in liquidation or bankruptcy, i.e. Polimex GmbH, were identified.

9. Summary of significant accounting policies

The accounting principles (policies) used for preparation of these financial statements are consistent with those adopted for preparation of the financial statements of the Company for the year ended 31 December 2013, except for the following revised standards and new interpretations applicable to annual periods beginning on or after 1 January 2014:

- IFRS 10 *Consolidated Financial Statements*, endorsed by the EU on 11 December 2012;
- IFRS 11 *Joint Arrangements*, endorsed by the EU on 11 December 2012;
- IFRS 12 *Disclosure of Interests in Other Entities,* endorsed by the EU on 11 December 2012;
- IAS 27 (2011) *Separate Financial Statements*, endorsed by the EU on 11 December 2012;
- IAS 28 (2011) *Investments in Associates and Joint Ventures*, endorsed by the EU on 11 December 2012;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities – transition guidance*, endorsed by the EU on 4 April 2013;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements – Investment Entities*, endorsed by the EU on 20 November 2013;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, endorsed by the EU on 13 December 2012;
- Revised IAS 36 *Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets*, endorsed by the EU on 19 December 2013;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*, endorsed by the EU on 19 December 2013.

Adoption of the above regulations did not result in any significant changes in the Group's accounting policies or presentation of data in the financial statements.

Presentation and accounting policy changes

In the current period, the Group changed the presentation of consortium contracts where the Group Companies act as consortium leaders. Before, total assets and liabilities (i.e. trade receivables, cash and trade liabilities) related to consortium contract fulfilment were presented as the Group's assets and liabilities on the balance sheet.

Having reviewed the provisions of the consortium contracts, the Group decided not to present a portion of assets and liabilities attributable to consortium members on the balance sheet, in accordance with IFRS 11. Only assets and liabilities attributable to the Group's share in the jointly controlled operations are presented on the balance sheet. Detailed information concerning the aforesaid changes has been presented in the table below.

Additionally, the Group changed the presentation of its liabilities due to employee benefits. Liabilities due to employee benefits include: salaries and wages, social security, bonuses and awards, unused annual leave, retirement and disability benefits as well as jubilee benefits. The aforesaid presentation change is aimed at separating all liabilities related to employee benefits defined under IAS 19 as one item in the financial statements.

Additionally, the balance sheet as at 31 December 2013 and 31 December 2014 presents separately receivables and liabilities due to measurement of long-term contracts. The said change was introduced with a view to facilitating identification of receivables and liabilities arising from IAS 11 measurement.

Other changes in wording:

- on the balance sheet, *Prepayments* (2013) have been changed into *Other assets* (2014);

- on the balance sheet, *Non-current liabilities* (2013) have been changed into *Other liabilities* (2014);
- on the balance sheet, *Accruals* (2013) have been changed into *Deferred income* (2014).

Effect of the aforementioned changes on the consolidated balance sheet as at 31 December 2013:

	Balance as at 31 December 2013 (approved)	Change in presentation of receivables and liabilities under consortium contracts	Change in presentation of receivables and liabilities due to employee benefits	Change in presentation of receivables and liabilities due to measurement of long-term contracts	Balance as at 31 December 2013 (restated)	Balance as at 1 January 2013 (approved)	Change in presentation of receivables and liabilities due to employee benefits	Change in presentation of receivables and liabilities due to measurement of long-term contracts	Balance as at 1 January 2013 (restated)
Current assets	**1 901 792**	**(203 732)**	**-**	**-**	**1 698 060**	**1 843 772**	**-**	**-**	**1 843 772**
Trade and other receivables	1 071 501	(105 453)	-	(270 559)	695 489	1 163 154	-	(435 341)	727 813
Receivables from measurement of long-term contracts	-	-	-	270 559	270 559	-	-	435 341	435 341
Current financial assets	109 904	(746)	-	-	109 158	96 086	-	-	96 086
Cash and cash equivalents	600 805	(97 533)	-	-	503 272	260 920	-	-	260 920
Current liabilities	**2 675 011**	**(203 732)**	**-**	**-**	**2 471 279**	**1 974 747**	**-**	**-**	**1 974 747**
Trade and other liabilities	1 613 113	(203 732)	(55 462)	(537 299)	816 620	1 545 764	(87 895)	(125 142)	1 332 727
Liabilities from measurement of long-term contracts	-	-	-	537 299	537 299			125 142	125 142
Short-term provisions	139 724	-	(4 676)	-	135 048	201 410	(695)	-	200 715
Current liabilities due to employee benefits	-	-	81 592	-	81 592	-	120 394	-	120 394
Accruals	33 376	-	(21 454)		11 922	47 808	(31 804)	-	16 004
Long-term provisions	45 558	-	(9 488)	-	36 070	170 031	(56 154)	-	113 877
Non-current liabilities due to employee benefits	-	-	9 488	-	9 488	-	56 154	-	56 154

The aforesaid changes were reflected in the Notes to the financial statements and the cash flow statement. In the cash flow statement, the presentation changes did not affect the value of cash flows from investing and financing activities. The effect of the changes on cash flows from operating activities was PLN (97,533,000.00) on "Gross loss adjustments", "Cash generated on operating activities" and "Closing balance of cash", i.e. as at 31 December 2013.

10. Effect of new standards and interpretations on the financial statements of the Group

While approving these financial statements, the Group did not apply the following standards, revised standards and interpretations that had been published by the International Accounting Standards Board and endorsed for use in the EU, but which had not yet entered into force:

- 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 (applicable to annual periods beginning on or after 1 February 2015);
- Revised standards “IFRS Improvements (2011-2013)” – amendments to standards resulting from the annual improvements process (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 18 December 2014 (applicable to annual periods beginning on or after 1 January 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);
- IFRIC 21 *Levies*, endorsed by the EU on 13 June 2014 (applicable to annual periods beginning on or after 17 June 2014).

Standards and interpretations adopted by the International Accounting Standards Board, which had not been endorsed by the EC as at 31 December 2014 and consequently, were not applied to these financial statements:

- IFRS 9 *Financial Instruments* (applicable to annual periods beginning on or after 1 January 2018);
- IFRS 14 *Regulatory Deferral Accounts* (applicable to annual periods beginning on or after 1 January 2016);
- IFRS 15 *Revenue from Contracts with Customers* (applicable to annual periods beginning on or after 1 January 2017);
- 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* (applicable to annual periods beginning on or after 1 January 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* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture – Agriculture: Bearer Plants* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 27 *Separate Financial Statements – Equity Method in Separate Financial Statements* (applicable to annual periods beginning on or after 1 January 2016);
- 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 (applicable to annual periods beginning on or after 1 January 2016).

As at the date of these consolidated financial statements, the Management Board of the Parent had been evaluating the effect of the revised IFRS 9 and IFRS 15 on the financial statements. The remaining standards and revised standards would not have had a significant effect on the financial statements if they had been adopted by the Group as at the end of the reporting period.

11. Adjustment of error

No errors were adjusted in the reporting period.

12. Significant accounting principles

12.1. Consolidation principles

These consolidated financial statements include the financial statements of Polimex-Mostostal S.A. and the financial statements of its subsidiaries, each prepared for the year ended 31 December 2014. The financial statements of the subsidiaries, taking into account the adjustments made to bring them into line with the IFRS, are prepared for the same reporting period as the financial statements of the Parent, in line with consistent accounting principles 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 controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

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.

12.2. 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.

12.3. Interests in joint ventures

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

12.4. 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 are recognized as financial revenue (expenses) or, if so required by the accounting principles (policy), 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.

The following exchange rates have been applied for the purpose of balance sheet measurement:

	31 December 2014	31 December 2013
EUR	4.2623	4.1472
UAH	0.2246	0.3706
RUB	0.0602	0.0914

EUR, 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 2014	Year ended 31 December 2013
EUR	4.1893	4.2110
UAH	0.2637	0.3887
RUB	0.0602	0.0990

12.5. 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. office buildings, production and repair plants. The aforesaid asset class has been measured at fair value since October 2013.

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.

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

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

Type	Period
Buildings and structures	20-40 years
Technical equipment and machines	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 and, if necessary, adjusted as of the beginning of the most recently ended financial year.

An item of property, plant and equipment may be derecognized from the balance sheet upon disposal or if no economic benefits are expected from further use of the asset. Any gains or losses (calculated as the difference between possible net proceeds from sale and the carrying amount of the item) resulting from derecognition of the asset from the balance sheet are charged to profit or loss for the period of the derecognition.

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.

12.6. Investment property

Initially, investment property is recognized at cost, including transaction costs. The carrying amount of an asset includes the cost of replacement of a part of investment property when incurred, provided that the recognition criteria are met, and does not include costs of the day-to-day maintenance of the real property.

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 in the period when they arise.

Investment property is derecognized from the balance sheet when it is sold or when such property is decommissioned and no future benefits are expected from its sale. All gains and losses resulting from derecognition of investment property from the balance sheet are charged to profit or loss in the period of such derecognition.

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 Group becomes investment property, the Groups applies the principles described in the *Property, plant and equipment* section until the day when the real property changes its designation.

12.7. Intangible assets

Intangible assets acquired in a separate transaction or developed (if they meet the recognition criteria for the cost of research and development) are initially recognized at cost. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of the combination. Following initial recognition, intangible assets are recognized at cost less amortization and impairment losses. Expenditure on internally developed intangible assets, except for capitalized R&D expenditure, is not capitalized but expensed in the period in which it is incurred.

The Group determines whether the useful life of intangible assets is limited or unlimited. 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 period and method of amortization of intangible assets with a limited useful life are reviewed at least at the end of each financial year. Changes in the estimated useful life

or the manner of consuming economic benefits arising from a given asset are recognized through a change in the amortization period or method, respectively, and treated as estimated value changes. Amortization of intangible assets with a limited useful life is charged to profit or loss under the category which corresponds to the function of the asset.

Intangible assets with an unlimited useful life and intangible assets which are not used are tested for impairment once a year, at the level of individual assets or cash generating units.

The useful lives are reviewed on an annual basis and, if necessary, adjusted with effect as of the beginning of the financial year just ended.

R&D expenses

R&D expenses are charged to profit or loss when incurred. Expenses related to R&D carried out in a given project are carried forward to the following period, if they are considered recoverable in the future. Following initial recognition of R&D expenses, the historical cost model is used. It requires that assets be recognized at cost less accumulated amortization and accumulated impairment losses. Any expenses carried forward are amortized over the period when sales revenue is expected to be generated under the project.

R&D expenses are tested for impairment annually (if an asset has not been commissioned yet) or more frequently (if indications that the carrying amount may not be recoverable occur during the reporting year).

Summary of principles applied to intangible assets in the Group:

	Patents and licenses	**R&D expenses**	**Computer software**
Useful lives	Unlimited. For patents and licenses used based on a fixed-term contract, the period includes an additional period over which they may be used	5 years	From 2 to 10 years
Amortization method	Assets with unlimited useful life are not amortized or revalued. Other items are amortized using the straight-line method	Straight-line method	Straight-line method
Developed internally or acquired	Acquired	Developed internally	Acquired
Impairment test	Unlimited useful life – on an annual basis and if indications of impairment exist. Other – annual impairment test	Annually (for assets which have not been commissioned yet) and when indications of impairment exist	Annual assessment whether indications of impairment exist

Gains or losses arising from derecognition of intangible assets from the balance sheet are measured at the difference between the net proceeds from sale and the carrying amount of the asset, and they are recognized in profit or loss upon derecognition.

12.7.1 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 in 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.

12.8. 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: the fair value of the leased fixed asset or the present value of the minimum lease payments. Lease 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 of the fixed asset 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. 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 Group retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Initial direct expenses incurred in the course of negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period when they become due.

12.9. 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.

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. The recoverable amount is determined for individual assets, unless a given asset does not generate cash flows which are largely independent of those generated by other assets or groups of assets. 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 time of estimation of the value in use, projected cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on assets used

for purposes of continuing operations are charged to expenses which correspond to the function of the asset which has been impaired.

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. If there is such indication, the Group estimates the recoverable amount of the asset. The prior impairment loss is reversed only when the estimations used to determine the recoverable amount of the asset have changed since the recognition of the last impairment loss. Then, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount of the asset which would have been determined (less depreciation), had the Group not recognized an impairment loss on the asset before. The reversal of an impairment loss on the asset is immediately recognized as revenue in profit or loss. Upon reversal of an impairment loss, in subsequent periods depreciation of a given asset is adjusted so that during the remaining useful life of the asset its verified carrying amount reduced by the residual value can be systematically written down.

12.10. 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.

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

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

Held-to-maturity financial assets are quoted instruments.

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.

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:

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

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;

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 inconsistency of treatment when both measurement and principles of recognizing gains or losses are subject to separate regulations; (ii) or when these assets belong to a group of financial assets managed and evaluated based on their fair value in line with a documented risk management strategy; (iii) or when the financial assets include embedded derivatives that should be recognized separately.

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.

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 Group 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.

12.12. 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.

12.12.1 *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 Group 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 Group 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.

12.12.2 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.

12.12.3 Available-for-sale financial assets

If there is any objective indication that an available-for-sale financial asset may be impaired, the difference between the cost of the asset (less any repayment of the principal and amortization) and its present fair value, less any impairment losses previously charged to profit or loss, is derecognized from equity and reclassified to profit or loss. Reversal of impairment losses on equity instruments classified as available for sale cannot be charged to profit or loss. If, in the subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively linked to an event occurring after the impairment loss was charged to profit or loss, the amount of the reversed impairment loss is charged to profit or loss.

12.13. Embedded derivative instruments

Embedded derivative instruments are separated from the contracts and treated as derivatives if all of the following conditions are satisfied:

- the economic characteristics and risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract; and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- a hybrid (combined) instrument is not measured at fair value and changes in its fair value are not recognized in profit or loss.

Embedded derivatives are presented in a similar manner to separate derivatives which are not designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risk of an embedded foreign currency derivative are closely related to the economic characteristics and risk of the host contract also comprises situations where the currency of the host contract is a currency typical of purchase or sales contracts involving non-financial items on a specific transaction market.

The Group verifies whether a given embedded derivative should be separated or not upon its initial recognition.

12.14. Derivative financial instruments and hedges

Derivatives used by the Group for purposes of hedging 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.

In hedge accounting, hedges are classified as:

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

Foreign currency hedges related to a firm commitment are accounted for as cash flow hedges.

At the inception of the hedge, the Group formally designates and documents the hedging relationship, the risk management objective and the hedging strategy. That said documentation should include identification of the hedging instrument, the hedged item or transaction, the nature of risk hedged and the method of assessment of the hedging instrument’s effectiveness in offsetting the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk. The hedge is expected to be highly effective in offsetting changes in the fair value or cash flows. The effectiveness of the hedge is assessed on an ongoing basis to determine if the hedge has been highly effective in all reporting periods for which it had been established.

12.14.1 Fair value hedges

Fair value hedges are hedges of the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment, or their identified portion that are attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted by gains and/or losses due to changes in the fair value resulting from the hedged risk. The hedging instrument is measured at fair value and any gains and losses related to the hedging instrument and the hedged item are charged to profit or loss.

When an unrecognized firm commitment is designated as the hedged item, the subsequent cumulative changes in the fair value of the firm commitment resulting from the hedged risk are recognized as an asset or liability, while the resulting gains or losses are recognized in profit or loss. Changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Group no longer applies hedge accounting if the hedging instrument expires, is sold, terminated or exercised, if the hedging relationship no longer meets the criteria of hedge accounting or if the hedging relationship is cancelled. Any adjustment to the carrying amount of the hedged financial instrument for which the effective interest method is used is amortized and the resulting charges are recognized in profit or loss. Amortization may be recognized as soon as the adjustment is made, but no later than when the hedged item ceases to be adjusted by changes in its fair value resulting from the hedged risk.

12.14.2 Cash flow hedges

Cash flow hedges are hedges of the exposure to changes in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. A portion of gains or losses related to the hedging instrument that is an effective hedge is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

If a hedged forecast transaction subsequently results in recognition of a financial asset or liability, the related gains or losses that were recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same period or in periods during which the asset acquired or liability assumed affects profit or loss.

If a hedged forecast transaction subsequently results in recognition of a non-financial asset or liability, or a forecast transaction involving a non-financial asset or liability becomes a firm commitment for which a fair value hedge is planned to be used, the gains or losses recognized previously in other comprehensive income are reclassified from equity to profit or loss in the same period or in periods during which the non-financial asset acquired or liability assumed affects profit or loss.

Gains or losses resulting from changes in the fair value of derivatives which do not qualify for hedge accounting are charged directly to net profit or loss for the current period.

The Group no longer applies hedge accounting if the hedging instrument expires, is sold, terminated or exercised, or if it no longer meets the criteria for application of special hedge accounting principles. In such a case, the total gain or loss on a hedging instrument, which was initially recognized in other comprehensive income and accumulated in equity, is still recognized in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the total net gain or loss accumulated in equity is charged to net profit or loss for the period.

12.14.3 Hedges of shares in the net assets of foreign operations

Hedges of shares in the net assets of foreign operations, including those of monetary items treated as a share in the net assets, are recognized in accordance with the same principles as cash flow hedges. Any gains or losses on a hedging instrument related to the effective portion of the hedge are recognized in comprehensive income, while those related to the ineffective portion of the hedge are recognized in profit or loss. Upon disposal of a foreign operation, the gains or losses recognized before in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

12.15. Inventories

Inventories are measured at the lower of: cost and the net realizable value.

The costs incurred to bring inventory items to their present location and condition – both with respect to the current and prior year – are recognized as follows:

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.

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.

12.16. 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.

Receivables from the state treasury are presented as other non-financial assets, except for CIT receivables, which are a separate item on the balance sheet.

12.17. Cash and cash equivalents

Cash and short-term deposits recognized on the balance sheet include cash at bank and in hand and short-term deposits with original maturity of up to three months.

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

12.18. Credit facilities, loans and debt securities

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.

When determining the amortized cost, costs incurred to obtain the loan or credit facility as well as discounts or premiums related to the liability are taken into consideration.

Revenue and expenses are charged to profit or loss at the time of derecognition of the liability from the balance sheet as well as following settlement using the effective interest method.

12.19. Other assets

Prepaid expenses are presented at the amount of costs already incurred and relating to the following years. 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.

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.

12.20. Trade and other liabilities

Current trade liabilities are recognized at the amount due.

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities and those initially classified as measured at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for purposes of being sold in the near future. Derivatives, including separated embedded instruments, are also classified as held for trading, unless they are designated as effective hedging instruments. Upon initial recognition, financial liabilities 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 liabilities form part of a group of financial liabilities that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain embedded derivatives which should be recognized separately. As at 31 December 2013, no financial liabilities had been classified as measured at fair value through profit or loss (as compared to none as at 31 December 2012).

Financial liabilities measured at fair value through profit or loss are measured at fair value, considering their market value as at the end of the reporting period, less transaction costs. Any changes in the fair value of such instruments are charged to profit or loss as financial expenses or revenue.

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.

The Group derecognizes a financial liability from its balance sheet upon its expiry, i.e. when the obligation set out in the contract has been fulfilled, cancelled or has expired. 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.

Other non-financial liabilities include in particular VAT liabilities to the tax office and liabilities arising from advance payments received to be settled through delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount due.

12.21. Liabilities due to employee benefits

Employee benefits are any forms of benefits offered by the Group in exchange for work performed by its employees or in relation to termination of employment contracts. Short-term employee benefits (other than those related to employment contract termination) are settled in whole within 12 months of the end of the annual reporting period during which the employees performed the related work. Post-employment benefits (other than those related to employment contract termination and short-term employee benefits) are due upon termination of employment.

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 Group's liability when they occur).

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 benefits are presented in other comprehensive income. Gains and losses related to other benefits paid during the term of the employment contract are charged to profit or loss of the current period.

12.22. 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.

12.23. Retirement and jubilee benefits

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.

Additionally, in line with the rules of the social benefits fund, upon retirement, the Parent's employees are entitled to extra, non-obligatory benefits from the said fund. The Parent recognizes a provision for future liabilities on that basis in order to allocate costs to appropriate periods.

12.24. Share-based payments

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

The Parent 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 Parent 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 Parent 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 Parent 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.

12.24.1 Equity-settled transactions

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the grant date. The fair value is determined by an independent appraiser based on the binominal model. For purposes of measurement of transactions settled in equity instruments, the Group does not take into account any efficiency/performance conditions, except those related to the Parent's share price ("market conditions").

The cost of equity-settled transactions is recognized along with the corresponding increase in equity over the period in which the conditions related to efficiency/performance are satisfied and which ends on the day when specified employees acquire all rights to the benefits (the "vesting date"). 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 Parent as at that date based on the best estimates of the number of equity instruments – will be granted.

The Group 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 (see Note 19).

12.25. 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.

12.26. Revenue

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

The gross margin on contracts fulfilled by the Group 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.

12.26.1 Sales of goods 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.

12.26.2 Provision of services

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 (assessed by the Management Board separately for each contract) is determined at the end of the reporting period using the stage-of-completion method 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 fulfilment 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 Group (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 Group (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.

12.26.3 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.

12.26.4 Dividends

Dividends are recognized as at the record date.

12.26.5 Rental income (operating leases)

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

12.26.6 Government grants

Government grants are recognized at fair value if it is reasonably certain that the grant will be obtained and all related requirements will be satisfied.

If the grant is related to a cost item, it is recognized as revenue in proportion to the costs to be offset. If the grant is related to an asset, its fair value is recognized as deferred income and then gradually transferred to profit or loss in equal annual portions over the estimated useful life of the related asset.

12.27. Taxes

12.27.1 Current tax

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

12.27.2 Deferred tax

For financial reporting purposes, the deferred tax is recognized in line with the balance sheet liability 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.

The deferred tax liability is recognized in relation to all 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.

A deferred tax asset is recognized for all deductible temporary differences, carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the above differences, assets and losses can be utilized:

- except where the deferred tax asset relating to deductible temporary differences arises from the 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 deductible temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, the deferred tax asset is recognized on the balance sheet only to the extent that it is probable that the aforesaid temporary differences will be reversed

in the future and it is probable that future taxable profit will be available against which the above temporary differences can be utilized.

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 which are not recognized in profit or loss is not recognized in profit or loss, either, but 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 offsets its deferred tax asset against the deferred tax liability only if it has an enforceable legal title to offset its current tax receivables with liabilities, whereas the deferred income tax concerns the same taxpayer and the same tax authority.

12.27.3 Value Added Tax

Revenue, expenses, assets and liabilities are recognized less VAT, except for:

- situations where VAT paid at the time of purchase of assets or services is not recoverable from the tax authorities – it is recognized as a portion of the cost of the asset or as a portion of a cost item; and

- receivables and liabilities which are recognized together with VAT.

The net VAT amount recoverable from or due to the tax authorities is recognized on the balance sheet as a portion of receivables or liabilities.

12.28. Net earnings per share

The basic net earnings per share for each period are calculated by dividing the net profit attributable to equity holders of the Parent for the period by the weighted average number of shares in the period. The diluted net earnings per share for each period are calculated by dividing the net profit attributable to equity holders of the Parent for the period by the total weighted average number of ordinary shares in the period and all potential new issue shares.

13. Operating 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:

Production	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	Services related to the power industry. General contractor services related to facilities in the power industry; design, manufacture and sale of power

engineering	boilers; ongoing comprehensive technical services provided to power stations, heat and power stations and industrial plants.
Petrochemistry	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. Key clients include the Directorate General for National Roads and Motorways and PKP Polskie Linie Kolejowe (Polish Railways).
Other	Equipment, transport, lease and rental services, laboratory tests, equipment technical service and other services which are not provided in the aforesaid segments.

The Parent allocates general and administrative expenses to the segments based on a revenue ratio.

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. The Group's funding (including financial revenue and expenses) and income tax are monitored at the Group level and not allocated to each segment.

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 2014 and 31 December 2013. The Management Board of the Parent monitors each segment's performance on an ongoing basis. Since 1 January 2014, due to a change in the organizational structure of the Group, 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.

Year ended 31 December 2014	Production (discontinued operations)	Industry	Power engineering	Infrastructure construction	Petrochemistry	Other	Eliminations	Total operations
Revenue								
Sales to external customers	376 755	124 400	968 837	466 173	115 340	50 692	-	2 102 197
Intersegment sales	109 122	480	501	12 850	10 973	4 699	(138 625)	-
Total segment revenue	485 877	124 880	969 338	479 023	126 313	55 391	(138 625)	2 102 197
Performance								
Amortization/depreciation, including:	25 328	907	3 940	3 181	8 316	10 395	-	52 067
- depreciation of property, plant and equipment	24 181	665	3 336	2 857	7 903	9 602	-	48 544
- amortization of intangible assets	1 147	242	604	324	413	793	-	3 523
Share in profit (loss) of associates	-	-	2 834	-	-	(96)	-	2 738
Segment profit/(loss)	(34 072)	(49 206)	(63 433)	(173 069)	(55 407)	(17 827)	214 346	(178 668)

Year ended 31 December 2014	Production (discontinued operations)	Industry	Power engineering	Infrastructure construction	Petrochemistry	Other	Eliminations	Total operations
Other segment information								
Capital expenditure	10 208	--	5 881	-	5 198	5 582	-	26 869
- on property, plant and equipment	10 198	--	5 806	-	5 152	5 554	-	26 710
- on intangible assets	10	--	75	-	46	28	-	159

In 2014, the Company's key suppliers were: Polimex Projekt Opole Sp. z o.o., Przedsiębiorstwo Robót Inżynieryjnych PRInż - 1 Sp. z o.o., HAMON POLSKA Sp. z o.o., Doprastav S.A. (Branch in Poland), BOBREK Sp. J., Centrala Zaopatrzenia Hutnictwa S.A., IDS-BUD S.A., Biuro Studiów, Projektów i Realizacji ENERGOPROJEKT - KATOWICE S.A., Mostostal Słupca Sp. z o.o. and INSTAL-WARSZAWA S.A. The value of purchases exceeded the threshold of 10% of the Company's total sales revenue only in transactions with Polimex Projekt Opole Sp. z o.o.

In 2014, the Company's key clients were: ENEA Wytwarzanie S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PKN Orlen S.A., the Directorate General for National Roads and Motorways, the City of Tychy, the City of Gdańsk, the Road and Railway Service of Lower Silesia in Wrocław, Molina Sp. z o.o., Hitachi Zosen Inova AG and TOTAL RAFFINADERIJ ANTWERPEN. Sales revenue exceeded the threshold of 10% of the total sales revenue generated by Polimex-Mostostal S.A. in transactions with ENEA Wytwarzanie S.A. and PGE Górnictwo i Energetyka.

Year ended 31 December 2013	Production* (discontinued operations)	Industry	Power engineering	Infrastructure construction	Petrochemistry	Other	Eliminations	Total operations
Revenue								
Sales to external customers	496 273	213 575	596 795	791 382	153 668	111 059	-	2 362 752
Intersegment sales	70 696	3 907	20 100	-	16 660	5 062	(116 425)	-
Total segment revenue	566 969	217 482	616 895	791 382	170 328	116 121	(116 425)	2 362 752
Performance								
Amortization/depreciation, including:	25 771	2 894	8 736	15 337	7 072	8 704	-	68 514
- depreciation of property, plant and equipment	24 673	2 564	7 769	14 413	6 666	7 908	-	63 993
- amortization of intangible assets	1 098	330	967	924	406	796	-	4 521
Share in profit (loss) of associates	-	-	2 884	-	-	836	-	3 720
Segment profit/(loss)	(64 821)	(50 026)	(70 634)	29 501	(36 593)	22 686	(87 948)	(257 835)

Year ended 31 December 2013	Production (discontinued operations)	Industry	Power engineering	Infrastructure construction	Petrochemistry	Other	Eliminations	Total operations
Other segment information								
Capital expenditure	4 252	-	5 099	19 444	361	377	-	29 533
- on property, plant and equipment	3 387	-	4 947	19 153	350	310	-	28 147
- on intangible assets	865	-	152	291	11	67	-	1 386

- The allocation of Polimex – Mostostal Wschód was changed due to presentation of the "Production" segment as discontinued operations in 2013. At present, the company is not classified as held for sale. Therefore, it was presented as "Other" both in 2013 and 2014.

2014

Revenue from intersegment transactions is eliminated upon consolidation. Operating profit does not include financial revenue of PLN 309,240,000.00 and financial expenses of PLN 94,894,000.00 (net balance of financial transactions: PLN 214,346,000.00).

2013

Revenue from intersegment transactions is eliminated upon consolidation. Operating profit does not include financial revenue of PLN 46,817,000.00 and financial expenses of PLN 134,765,000.00 (net balance of financial transactions: PLN -87,948,000.00).

Capital expenditure in 2014 and 2013 corresponds to the increase in property, plant and equipment, intangible assets as well as investment property.

13.1. Geographic information

The tables below present revenue, expenditure and some assets relating to each geographic area of the Group's operations for the year ended 31 December 2014 and 31 December 2013 or as at 31 December 2014 or 31 December 2013.

Year ended 31 December 2014 or as at 31 December 2014	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	1 718 219	383 978	-	2 102 197
Revenue from continuing operations	1 582 256	143 186	-	1 725 442
Revenue from discontinued operations	135 963	240 792	-	376 755
Other geographic area information				
Geographic area assets	1 059 916	138 384	-	1 198 300
Unassigned assets	1 472 411	-	-	1 472 411
Investment in associate	20 886	-	-	20 886
Total assets	2 553 212	138 384	-	2 691 596

Year ended 31 December 2013 or as at 31 December 2013	*Domestic*	*Foreign*	*Eliminations*	*Total*
Revenue				
Sales to external customers	1 774 271	588 481	-	2 362 752
Revenue from continuing operations	1 614 488	251 991	-	1 866 479
Revenue from discontinued operations	159 783	336 490	-	496 273
Other geographic area information				
Geographic area assets	490 481	204 894	-	695 375
Unassigned assets	2 428 491	-	-	2 428 491
Investment in associate	19 310	-	-	19 310
Total assets	2 938 282	204 894		3 143 176

14. Revenue and expenses

14.1. Revenue from sales of goods, services and products, including rental income

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from sales of goods and products	377 994	538 733
Revenue from sales of services	1 718 392	1 810 829
Rental income	5 811	13 190
	2 102 197	**2 362 752**

Including discontinued operations	376 755	496 273

Material contract-related risks

In 2013, the portfolio of contracts fulfilled by Polimex-Mostostal SA included contracts for the Directorate General for 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 A1 motorway between Stryków and Tuszyn, A4 motorway between Rzeszów and Jarosław and S69 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.

Pursuant to Article 649^3.1 of the Civil Code, whereby the Contractor (general contractor) of construction works may request, at any time, that the investor provides a guarantee for payment up to the potential claim related to the fees agreed in the contract as well as additional works or works necessary to fulfil the contract, approved by the investor in writing, on 29 November 2013 the consortia requested such guarantees and DGNRM had 45 days to respond to the aforesaid request. The client failed to provide the security that, according to the Management Board and legal opinions obtained, would secure the interests of the consortium (the guarantees given by DGNRM were conditional and could be revoked at any time) within the time limit prescribed by the law, i.e. 13 January 2014 (inclusive). Therefore, the consortia were forced to terminate the contracts. Once the contracts had been terminated by the consortia, DGNRM did the same and submitted representations concerning its termination of the contracts through the fault of the contractor to the contractors. Consequently, DGNRM imposed liquidated damages on each consortium for delays in performance of the aforesaid contracts, totaling ca. PLN 45 million and for contract termination through the fault of the contractor, equal to PLN 475 million.

At the same time, Polimex-Mostostal S.A. and the consortium members filed a claim against DGNRM for payment of liquidated damages totaling over PLN 475 million, exercising the right to impose liquidated damages for contract termination through the fault of the client. Having requested DGNRM to pay the amount of VAT invoices raised in relation to contract termination under Article 649^3 of the Civil Code, Polimex-Mostostal S.A. as the consortium leader filed lawsuits for payment of the aforesaid invoices with the competent business courts, in warrant-for-payment proceedings. Consequently, on 13 May 2014, the District Court of Warsaw issued a warrant for payment under the A4 Rzeszów – Jarosław contract for the benefit of Polimex-Mostostal S.A., totaling PLN 112 million, including statutory interest accrued between 4 February 2014 and the payment date, and decided on a refund of the costs of the proceedings, including attorney fees, to the Company, as well as issuing a warrant for payment under the S69 Bielsko Biała – Żywiec contract, against which DGNRM appealed within the prescribed time limit. Another warrant for payment was issued for the benefit of Polimex-Mostostal S.A. in a decision of the District Court of Warsaw of 22 September 2014 in relation to the S69 Bielsko Biała – Żywiec contract, totaling PLN 40 million, including statutory interest and the costs of the proceedings, against which DGNRM also appealed within the prescribed time limit.

Currently, as a result of the appeals filed against the aforesaid warrants for payment, the court proceedings are being conducted in line with the normal procedure.

Next, the Directorate General for National Roads and Motorways requested the banks that had issued performance bonds for the contracts for construction of A1 motorway between Stryków and Tuszyn (a claim for payment of PLN 29 million filed with Pekao SA), A4 motorway between Rzeszów and Jarosław (a claim for payment of PLN 56 million filed with Pekao SA) and S69 expressway between Bielsko-Biała and Żywiec (a claim for payment of PLN 13 million filed with PKO Bank Polski SA) to make payments under the bank guarantees. Considering legal opinions, the Management Board of Polimex – Mostostal S.A. concluded that DGNRM abused its right resulting from the performance bonds received. Additionally, DGNRM was notified that the consortia had filed applications with the court to secure their claims regarding acknowledgement of the non-existence of the rights of DGNRM to demand payments under the aforesaid guarantees in line with Article 730^1.1 of the Code of Civil Procedure. The applications were refused.

The Management Board of Polimex-Mostostal S.A. was informed by PKO Bank Polski SA that payment had been made to DGNRM under the aforesaid guarantees, while Pekao SA refused to make a payment under the aforementioned bank guarantees given as a performance bond. The reasons for the refusal have not been communicated to the Company.

On 6 May 2014, Polimex-Mostostal S.A. signed a letter of intent with DGNRM setting out the terms of settlements. The letter of intent is related to the disputes over the settlements between the Company and DGNRM resulting from the aforementioned projects, i.e.: (i) construction of A1 motorway between Stryków and Tuszyn; (ii) construction of S69 expressway between Bielsko-Biała and Żywiec; (iii) construction of A4 motorway between Rzeszów and Jarosław; and (iv) construction of A4 motorway between Szarów and Brzesko. In particular, Polimex-Mostostal and DGNRM declared: (i) the intention to cooperate with respect to settlements with the subcontractors, suppliers and service providers engaged on the aforesaid projects; (ii) the intention to enter into negotiations over amicable agreement on the amount of their counterclaims.

On 5 November 2014, Polimex-Mostostal S.A. filed a suit for payment in warrant-for-payment proceedings against DGNRM with the District Court of Warsaw. The suit concerns DGNRM's default on payment of the fees for construction works performed under a contract for construction of A4 motorway between Rzeszów and Jarosław to the consortium. The disputed value is PLN 60 million, including statutory interest accrued between 30 October 2014 and the payment date.

On 3 December 2014, the Company was served a statement of counter-claim filed by DGNRM against the consortium of Polimex-Mostostal S.A., Doprastav a.s., MSF Engenharia S.A. and MSF Polska Sp. z o.o., concerning the contract for construction of A1 motorway between Stryków and Tuszyn. The disputed value is PLN 192 million, including statutory default interest accrued between 1 November 2014 and the payment date. The counter-claim filed by DGNRM concerns payment of liquidated damages due to DGNRM's termination of the contract, including interest accrued on the aforesaid amount, liquidated damages for a failure to perform specific construction works within the agreed schedule as well as amounts due as recourse claims of DGNRM due to DGNRM's direct payment of the fees to the consortium subcontractors in line with Article 647^1.5 of the Civil Code.

The Company has questioned the reasons for filing the counter-claim in whole.

According to the Company, DGNRM's request for payment of the aforesaid amount is baseless as it was the consortium including Polimex-Mostostal S.A. and Doprastav a.s., MSF Engenharia S.A. and MSF Polska Sp. z o.o. that had terminated the contract effectively. Contract termination by DGNRM at a later date than the date of the representation submitted by the consortium was ineffective. Hence, a demand for payment under the counter-claim should be considered baseless.

As at 31 December 2014, the Management Board of Polimex-Mostostal S.A. had analyzed the risks related to termination of the contracts concluded with DGNRM and estimated the profit/loss relative to the contract objectives, taking into account the financial risk resulting from joint and several liability under the consortium contracts. The related costs recognized in Q4 2014 totaled PLN 79 million.

Additionally, on 27 January 2015, the District Court of Warsaw issued a verdict in a suit filed by the consortium composed of Polimex-Mostostal S.A., Doprastav a.s. and Metrostav a.s. on 7 May 2012 against DGNRM, refusing the consortium's claim for payment of PLN 114 million, including statutory interest, on the basis of increased fees of the contractor

under the contract for construction of A4 motorway between Szarów and Brzesko due to changes made by the investor in the scope of works in the context of significant changes in the market prices of materials.

At present, Polimex-Mostostal S.A. 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.

A significant risk for the Group's revenue from contracts is also posed by contract termination by a subcontractor, PRInż.

On 19 August 2014, Przedsiębiorstwo Robót Inżynieryjnych PRinż – 1 Sp. z o.o.("PRInż") and Mota-Engil Central Europe S.A. ("Mota-Engil") entered into a subcontractor contract related to the contract entitled "Continued construction of S69 expressway Bielsko-Biała – Żywiec - Zwardoń, from "Mikuszowice" interchange ("Żywiecka/Bystrzańska") to Żywiec" (the "Contract"). The contract value is PLN 35 million, and ca. 25% of works had been completed by the termination date. Pursuant to the Contract, the Company commenced the construction works, during which it was discovered that the technical documentation provided to the Company by Mota-Engil Central Europe S.A. was incomplete and had to be supplemented. The Company prepared the missing technical documents on its own and at its own expense so that works could be continued and the Contract fulfilled on time. On 18 December 2014, the Company was requested under Article 636.1 of the Civil Code to remove delays in work performance within seven days of the date of the relevant notice or the Contract would be terminated by Mota-Engil Central Europe S.A. According to the Company, the charges of Mota-Engil were baseless and not supported by the actual status of works performed. In its letter of 29 December 2014, the Company addressed the charges filed by Mota-Engil and proposed that negotiations aimed at amicable resolution of the dispute be entered into considering the schedule of works. On the same day, Mota-Engil notified the Company of its termination of the Contract under Article 636.1 and Article 635 of the Civil Code. PRInż considers the claims and Contract termination by Mota-Engil as baseless, inconsistent with the facts and harmful to the reputation of the Company. After the end of the reporting period, on 19 January 2015, the Company filed an application for measures for claim safeguarding with the District Court of Kraków, Business Division. On 3 February 2015, the Court issued a decision on safeguarding the Company's claims by ordering Mota-Engil not to exercise its rights under the bank guarantee of 3 September 2014 during the period of the proceedings.

14.2. Other operating revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Derecognized provisions for costs	12 478	30 116
Gain on disposal of property, plant and equipment	160	23 203
Gain on fair value measurement of investment property	3 279	24 251
Refunded court fees	128	223
Accrued liquidated damages	-	29 008
Damages and penalties received	4 105	1 261
Sale of scrap	-	104
Gain/loss on elimination of subsidiary from consolidation	-	24 130
Grants	-	53
Cancellation of trade liabilities	3 733	696
Other	3 258	4 542
	27 141	**137 587**
Including discontinued operations	2 343	71 947

14.3. Other operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Recognition of provision for disputes and employee cases	16 190	2 834
Recognition of provision for contract costs	17 373	26 011
Recognition of provisions for other costs	-	11 863
Loss on disposal of property, plant and equipment	8 610	24
Damages and penalties	6 713	21 237
Recourse claims	-	4 192
Court fees	5 956	2 811
Donations	33	112
Accident repairs	820	442
Liquidation and impairment of materials and fixed assets	13 664	62 217
Impairment of assets held for sale	9 970	-
Derecognized receivables	28	946
Liquidation of current assets	19 641	-
Gain/loss on elimination of subsidiaries from consolidation		40 426
Costs of amicable settlement	4 767	-
Other	7 876	15 298
	111 641	**188 413**
Including discontinued operations	53 901	116 018

14.4. Financial revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from measuring and exercising derivative instruments	-	6 832
Revenue from bank interest	18 040	8 929
Default interest on receivables	828	1 456
Gain on elimination of subsidiaries and associates from consolidation	10 077	7 838
Dividend income	4	143
Exchange gains	6 665	2 188
Discount of receivables/liabilities and sureties	-	11 350
Other	1 587	8 081
Total financial revenue	**37 201**	**46 817**
Including discontinued operations	9 526	9 323

The gain resulting from losing control of Torpol S.A. and Energomontaż-Północ – Technika Spawalnicza i Laboratorium Sp. z o.o. (subsidiaries) and the loss on liquidation of Sices Polska Sp. z o.o. (associate) have been recognized as *Gain on elimination of subsidiaries and associates from consolidation*. Other information concerning assets disposed of:

	Torpol S.A.	Energomontaż-Północ – Technika Spawalnicza i Laboratorium Sp. z o.o.	Sices Polska Sp. z o.o.
Gain on elimination of subsidiaries and associates from consolidation	5 518	4 700	(100)
Cash flows relating to loss of control	121 445	7 055	1 062
Cash and cash equivalents	132 340	290	2 190
Assets, excluding cash and cash equivalents	356 900	6 871	-
Liabilities	361 376	4 902	52

14.5. Financial revenue from conversion of debt into shares

On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each ("R Series Shares") through a private placement.

The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.

Debt was converted into the Company's shares under agreements made with the Company's creditors and bond holders on a case-by-case basis. On 24 September 2014, R Series Share purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.The increase in the Company's share capital was registered with the National Court Register on 22 October 2014.

In compliance with IFRIC 19, the R series shares issued have been measured at fair value as at the payment date, i.e. PLN 0.08 each, and recognized as equity. The difference between the value of financial liabilities derecognized from the balance sheet and the fair value of the equity item has been recognized in profit or loss at PLN 272,039,000.00.

14.6. Financial expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Interest on bank loans and credit facilities	24 806	42 848
Interest and fees on bonds	5 554	7 837
Interest on other liabilities	12 634	12 533
Financial expenses under finance lease agreements	893	2 904
Exchange losses	2 422	2 956
Bank fees on guarantees and loans	1 048	3 106
Revaluation of financial assets	3 345	10 945
Loss on disposal of financial assets	-	48 421
Provisions and expenses	38 348	-
Other	5 844	3 215
Total financial expenses	**94 894**	**134 765**
Including discontinued operations	11 754	26 164

The major part of provisions and financial expenses concern provisions recognized for the risk related to payments under bank guarantees.

14.7. Expenses by type

	Year ended 31 December 2014	Year ended 31 December 2013
Amortization/depreciation	52 067	68 514
Consumption of materials and energy	441 205	714 052
External, including construction, services	1 227 243	1 274 720
Taxes and charges	18 223	25 701
Costs of employee benefits	401 525	637 165
Other expenses by type	218 359	48 410
Total expenses by type	**2 358 622**	**2 768 562**
Items recognized as costs to sell	(19 935)	(26 538)
Items recognized as general and administrative expenses	(89 694)	(120 916)
Value of goods and materials sold	8 289	26 124
Change in products	46 549	(308 512)
Cost of supplies for internal purposes	(11)	(641)
Cost of goods sold	**2 303 820**	**2 338 079**
Including discontinued operations	323 021	473 065

14.8. Amortization and depreciation expense, and impairment losses recognized in profit or loss

	Year ended 31 December 2014	Year ended 31 December 2013
Items recognized as cost of goods sold	**47 420**	**63 039**
Depreciation of fixed assets	44 848	59 541
Amortization of intangible assets	2 572	3 498
Items recognized as costs to sell	**1 403**	**1 058**
Depreciation of fixed assets	1 251	975
Amortization of intangible assets	152	83
Items recognized as general and administrative expenses	**3 244**	**4 417**
Depreciation of fixed assets	2 445	3 477
Amortization of intangible assets	799	940
Total amortization, depreciation and impairment losses	**52 067**	**68 514**

14.9. Costs of employee benefits

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries and wages	297 363	512 031
Costs of social security	56 887	91 259
Costs of share-based payments	38	-
Costs of retirement benefits	1 164	2 285
Jubilee benefits	9 066	1 389
Other post-employment benefits	7 962	135
Appropriations to the Social Benefits Fund	4 971	8 289
Other (incl. work clothes and cleaning detergents)	24 074	21 777
Total costs of employee benefits	**401 525**	**637 165**

15. Income tax

15.1. Tax charge

Key items of the tax charge for the year ended 31 December 2014 and 31 December 2013:

	Year ended 31 December 2014	Year ended 31 December 2013
Consolidated profit or loss		
Current income tax	(16 248)	(21 195)
Current income tax charge	(15 816)	(21 195)
Prior year tax adjustments	(175)	-
Other	(257)	-
Deferred income tax	41 803	(18 141)
Related to recognition and reversal of temporary differences	41 803	(18 141)
Tax charge relating to continuing operations, recognized in consolidated profit or loss	**25 555**	**(3 054)**
Consolidated statement of comprehensive income		
Deferred income tax	5 961	(18 106)

Related to recognition and reversal of temporary differences	5 961	(18 106)
Tax charge/benefit recognized in other comprehensive income	**5 961**	**(18 106)**

15.2. Effective tax rate

Reconciliation of the Group's income tax on gross profit/loss before tax at the statutory tax rate with income tax determined by reference to the effective tax rate for the year ended 31 December 2014 and 31 December 2013:

	Year ended 31 December 2014	Year ended 31 December 2013
Gross profit/(loss) before tax on continuing operations	(142 368)	(176 173)
Profit/(loss) before tax on discontinued operations	(36 300)	(81 662)
Gross profit/(loss) before tax	**(178 668)**	**(257 835)**
Tax at the statutory tax rate in Poland, i.e. 19% in 2014 (2013: 19%)	**33 947**	**48 989**
Prior year current income tax adjustments	154	(35)
Unrecognized tax losses	(10 447)	(14 155)
Use of previously unrecognized tax losses	5 894	1 627
Tax investment credits	(5 476)	(5 476)
Non-deductible expenses*	(42 976)	(30 094)
Revenue not included in the tax base	59 619	5 233
Other	(31 668)	(9 143)
Recognition of deferred tax asset not recognized in prior years	16 508	-
Tax at the effective rate of 17.95% for the year ended 31 December 2014 and 1.18% for the year ended 31 December 2013	25 555	(3 054)
Income tax relating to continuing operations, recognized in consolidated profit or loss	25 555	(3 054)

15.3. Deferred income tax

Deferred income tax arises from the following items:

	Continuing operations				Discontinued operations			
	Balance sheet		Income statement		Balance sheet		Income statement	
Deferred tax liability	**As at 31.12.2014**	**As at 31.12.2013**	**Year ended 31 December 2014**	**Year ended 31 December 2013**	**As at 31.12.2014**	**As at 31.12.2013**	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Accelerated tax amortization/depreciation	12 724	7 840	4 884	(1 962)	1 380	1 518	(138)	–
Fair value measurement of fixed assets	–	25 979	(25 979)	(15)	–	–	–	–
Fair value measurement of investment property	802	1 648	(846)	251	667	31	636	–
Right of perpetual usufruct of land	(169)	829	(998)	322	(169)	196	(365)	–
Exchange differences	1 765	570	1 195	28	87		87	–
Measurement of long-term contracts	16 907	4 686	12 221	(1 447)	1 353	1 869	(516)	–
Leases	302	337	(35)	676	–	–	–	–
Sale of subsidiaries		14 120	(14 120)					
Other – measurement of options, discount, interest, SEZ	5 599	6 865	(1 266)	(5 415)	20	–	20	–
Deferred tax liability	**37 930**	**62 874**	**(24 944)**	**(7 562)**	**3 338**	**3 614**	**(276)**	**–**
Presentation of deferred tax asset	(37 770)	(56 591)						
Deferred tax asset								
Employee benefits	6 417	10 032	(3 615)	(10 968)	1 598	–	1 598	–
Exchange losses	–	2 349	(2 349)	1 726	–	–	–	–
Impairment losses on inventories	1 699	4 813	(3 114)	(1 228)	413	1 516	(1 103)	–
Measurement of long-term contracts	105 634	105 691	(57)	(5 946)	1 147	1 914	(767)	–
Impairment losses on receivables	21 806	16 259	5 547	5 737	65	–	65	–
Provisions for costs	40 091	5 957	34 134	2 157	–	3	(3)	–
Past-due liabilities	10 320	20 110	(9 790)	21 879	–	–	–	–
Differences between carrying amount and tax value of fixed assets	–	9 444	(9 444)	8 093	–	–	–	–
Fair value measurement of investments	–	4 232	(4 232)	2 611	–	–	–	–
Tax losses deductible from future taxable income	48 822	19 766	29 056	(17 772)	–	–	–	–
Restructuring provision	2 339		2 339	(3 183)	–	–	–	–
Trademark	–	–	–		–	–	–	–
Sale of subsidiaries	–	31 101	(31 101)					
Other (provision for loss, unused annual leave)	12 997	9 471	3 526	7 473	3	–	3	–
Deferred tax asset	**250 125**	**239 225**	**10 900**	**10 579**	**3 226**	**3 433**	**(207)**	**–**
Presentation of deferred tax asset	(37 770)	(56 591)						
Total deferred tax asset	**212 355**	**182 634**						
Total deferred tax liability	**160**	**6 283**						

Deferred tax on items directly affecting equity amounted to PLN 5,961,000.00 (vs. PLN 18,162,000.00 in 2013). As at 31 December 2014, the Group had recognized impairment losses on receivables of PLN 111,156,000.00, for which no deferred tax asset had been recognized as the probability of classification of the related cost as tax-deductible expense was low.

Despite a tax loss incurred by the Parent in the prior and current financial years, totaling PLN 265,396,000.00, according to the Management Board, the deferred tax asset on the balance sheet will be used almost in whole thanks to the taxable profit that will be generated in the future and effective tax planning at the Group level.

Investments in Special Economic Zones

On 23 July 2008, the Company obtained permit no. 171/ARP S.A./2008 to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN). On 26 February 2010, the Minister of Economy issued decision no. NR 45/IW/10 amending the terms of the aforesaid permit. The state aid available in the future may be used in whole between 1 April 2011 and 15 November 2017 provided that the terms and conditions of the said permit are satisfied and the profitability of SEZ operations reaches a specified level.

On 27 June 2011, the Company received the Issuer audit report approved on 22 June 2011 and relating to an audit conducted between 24 and 25 May 2011 by the Manager of the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN). According to the report, the terms and conditions of permit no. 171/ARP S.A./2008 of 23 July 2008, as amended, to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN), are complied with by Polimex-Mostostal S.A.

The discounted value of the tax credit to be used by Polimex-Mostostal S.A. as a result of its satisfaction of the investment condition was PLN 72 million, and the maximum (nominal) value of the credit to be used was estimated at PLN 103 million on 31 March 2011.

As the terms and conditions of the permit had formally been satisfied, the Company began to use the credit allowed as from Q2 2011. By 30 June 2013, the accrued tax credit was PLN 5.5 million (nominal value). Considering the economic slowdown, which posed a risk that the financial projections for 2013-2017 would not be realized, the organizational and financial restructuring process at the Company resulting in headcount reduction, which is one of the key terms of the permit, in line with the prudence principle, the Company decided to write down the tax asset recognized before in the amount of PLN 38.3 million as at 31 December 2012.

In August 2014, the Company received a notice of instigation of proceedings concerning revocation of permit no. 171/ARP S.A./2008 to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN).Considering the aforesaid administrative proceedings aimed at revocation of the SEZ permit granted to the Company, the risk that a decision on permit revocation as a result of the Company's failure to satisfy its terms and conditions will be issued is considered high. No administrative decision concerning the aforesaid proceedings had been issued by the date of these consolidated financial statements.

16. Earnings per share

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

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

Presented below is information on earnings and shares used as the basis for calculation of basic and diluted earnings per share (before retrospective adjustment related to R series share and New Bond issue):

	Year ended 31 December 2014		Year ended 31 December 2013	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Net loss	**(116 813)**	**(36 413)**	**(179 227)**	**(81 662)**
Net loss adjustment – interest expense on New Bonds	2 762	-	-	-
Net loss after adjustment, for purposes of calculation of diluted loss per share	(114 051)	-	-	-
Basic loss per share (PLN):				
number of shares registered as at the end of the reporting period	4 330 940 142	4 330 940 142	1 467 368 290	1 467 368 290
weighted average number of ordinary shares used for purposes of calculation of basic loss per share	2 667 714 847	2 667 714 847	1 346 765 765	1 346 765 765
basic loss per share	(0.04)	(0.01)	(0.13)	(0.06)
Diluted loss per share (PLN):				
dilutive potential ordinary shares	2 294 130 422	2 294 130 422	273 165 435	273 165 435
weighted average number of ordinary shares used for purposes of calculation of diluted loss per share	3 432 324 721	3 432 324 721	1 619 931 200	1 619 931 200
Diluted loss per share	(0.03)	(0.01)	(0.11)	(0.05)
Net earnings/(loss) attributable to:				
Equity holders of the parent	(116 813)	(36 413)	(179 227)	(81 662)
Non-controlling interest	-	-	-	-
Total comprehensive income attributable to:				
Equity holders of the parent	(152 595)	(36 413)	(102 724)	(81 662)
Non-controlling interest	-	-	-	-

Potential ordinary shares include O and S series shares.

17. Dividends paid and proposed

The Company did not declare or pay any dividends in 2013 and 2014.

No dividends are planned to be paid in 2015 for the financial year ended 31 December 2014.

18. Property, plant and equipment

As at 31 December 2014	*Land and buildings*	*Equipment and machines*	*Vehicles*	*Other fixed assets*	*Fixed assets under construction*	*Advance payments for fixed assets under construction*	*Total*
Net value as at 1 January 2014	267 212	206 622	51 465	10 732	39 741	-	575 772
Revaluation	(44 099)	(5 481)	(360)	(235)	(22 134)	(1)	(72 310)
Increase	3 978	12 172	3 193	7 842	10 352	50	37 587
Decrease	(10 021)	(4 051)	(1 643)	(720)	(20 665)	(47)	(37 147)
Sale of subsidiaries	(5 096)	(38 196)	(25 120)	(1 593)	(13)	-	(70 018)
Reclassification to assets held for sale	(147 549)	(114 078)	(4 975)	(861)	(6 368)	(2)	(273 833)
Depreciation for the period	(12 852)	(25 302)	(6 783)	(3 607)	-	-	(48 544)
Net value as at 31 December 2014	**51 573**	**31 686**	**15 777**	**11 558**	**913**	**-**	**111 507**
As at 1 January 2014							
Gross value	356 337	440 844	114 379	46 422	53 708	-	1 011 690
Depreciation and impairment loss	(89 125)	(234 222)	(62 914)	(35 690)	(13 967)	-	(435 918)
Net value	267 212	206 622	51 465	10 732	39 741	-	575 772
As at 31 December 2014							
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 2013	*Land and buildings*	*Equipment and machines*	*Vehicles*	*Other fixed assets*	*Fixed assets under construction*	*Advance payments for fixed assets under construction*	*Total*
Net value as at 1 January 2013	329 872	251 872	61 644	16 385	48 469	-	708 242
Revaluation	54 473	299	70	1	-	-	54 843
Increase	4 575	11 488	4 287	1 577	7 427	2	29 356
Decrease	(7 716)	(11 804)	(2 039)	(2 565)	(1 207)	(2)	(25 333)
Reclassification to assets held for sale	(40 541)	24	-	(43)	(10)	-	(40 570)
Elimination of subsidiary from consolidation	(57 682)	(11 585)	(1 898)	(614)	(1 521)	-	(73 300)
Impairment loss	18	(74)	-	-	(13 417)	-	(13 473)
Depreciation for the period	(15 787)	(33 598)	(10 599)	(4 009)	-	-	(63 993)
Net value as at 31 December 2013	**267 212**	**206 622**	**51 465**	**10 732**	**39 741**	**-**	**575 772**
As at 1 January 2013							
Gross value	430 232	491 210	122 524	51 375	49 258	-	1 144 599
Depreciation and impairment loss	(100 360)	(239 338)	(60 880)	(34 990)	(789)	-	(436 357)
Net value	329 872	251 872	61 644	16 385	48 469	-	708 242
As at 31 December 2013							
Gross value	356 337	440 844	114 379	46 422	53 708	-	1 011 690
Depreciation and impairment loss	(89 125)	(234 222)	(62 914)	(35 690)	(13 967)	-	(435 918)
Net value	267 212	206 622	51 465	10 732	39 741	-	575 772

In 2014 and 2013, there were no impairment losses on property, plant and equipment that would be material individually.

In 2014, impairment losses on property, plant and equipment were recognized following their reclassification to assets held for sale (see Note 28).

As at 31 December 2014, impairment losses totaled PLN 72,310,000.00 (vs. PLN 54,843,000.00 in 2013). The amount recognized in profit or loss in 2014 was PLN 37,256,000.00 and the amount recognized in the statement of comprehensive income was PLN 29,980,000.00. Impairment losses on property, plant and equipment totaling PLN 22,346,000.00 were recognized in *Other*, while impairment losses of PLN 30,978,000.00 in the *Production* segment. No impairment losses on property, plant and equipment were reversed in 2014 or 2013.

Net exchange differences recognized as a decrease in the balance of property, plant and equipment, resulting from translation of the financial statements of foreign subsidiaries from the functional to the presentation currency (PLN), totaled PLN 12,360,000.00 in 2014 (vs. PLN 447,000.00 in 2013).

The carrying amount of machines and equipment used as at 31 December 2014 under finance lease and buy-back lease agreements was PLN 2,934,000.00 (as compared to PLN 43,442,000.00 as at 31 December 2013).

The carrying amount of property, plant and equipment pledged as collateral as at 31 December 2014 was PLN 399,269,000.00, including PLN 300,171,000.00 related to available-for-sale assets (as compared to PLN 416,254,000.00 as at 31 December 2013).

As of 1 October 2013, the accounting policy was modified in the context of changes to the valuation model for a specific group of fixed assets, in accordance with IAS 16 *Property, Plant and Equipment*. In conformity with the said standard, the accounting policy was modified prospectively.

The change consists in replacement of the cost model with the revaluation model. It was introduced for the class of fixed assets designated as real property. The abovementioned class includes all real property and structures permanently attached to land (office buildings, production and repair plants). The valuation model change does not affect other fixed assets, such as machines and equipment, which are not permanently attached to the real property. The Company has obtained independent valuations performed by recognized appraisers for each real property affected by the aforesaid changes as at 23 October and 31 October 2013.

The value of the said fixed assets determined using the cost model would be PLN 187,846,000.00 as at 31 December 2014.

18.1. Liabilities under finance and buy-back lease agreements

As at 31 December 2014 and 31 December 2013, the future minimum lease payments under the agreements and the present value of the net minimum lease payments were as follows (a considerable change in the balance of finance lease liabilities as at 31 December 2014 vs. 31 December 2013 results from elimination of a subsidiary, Torpol S.A., from consolidation):

	As at 31 December 2014		As at 31 December 2013	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Up to 1 year	925	897	11 427	9 719
From 1 to 5 years	36	34	25 469	21 932
Over 5 years	-	-	8 346	7 624
Total minimum lease payments	961	931	45 242	39 275
Less financial expenses	(30)	-	(5 967)	-
Present value of minimum lease payments, including:	931	931	39 275	39 275
Short-term	897	-	9 719	-
Long-term	34	-	29 556	-

19. Goodwill from consolidation

	31 December 2014	31 December 2013
Energomontaż Północ S.A. Group (incorporated in 2010)	282 694	282 694
Total	**282 694**	**282 694**
Goodwill as at 1 January 2014	**282 694**	**282 694**
Increase due to consolidation following acquisition		
Decrease due to elimination of subsidiary from consolidation	-	-
Increase/Decrease due to adjustment to goodwill in subsidiaries	-	-
Goodwill as at 31 December 2014	**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 2014. An operating segment before aggregation is the lowest level at which goodwill is monitored by the Management Board of the Group.

Goodwill for 2014 was allocated to the following operating segments (PLN'000):

Segment	Value (DCF)	Book value*	Weighted average cost of capital (WACC)**	Weighted average cost of capital (WACC)***	Fixed growth rate after projection period	Goodwill in the consolidated financial statements
Power engineering	372 993	369 329	12.5%	15.59%	0.0%	282 694

* book value = goodwill + fixed assets + intangible assets + net working capital
** after tax, as used for purposes of valuation
*** before tax

Discounted cash flows for the power engineering segment were estimated at PLN 372,993,000.00. Valuation was performed based on the following assumptions: average EBIT margin: 2%, weighted average cost of capital (WACC): 12.5%, growth rate after projection period: 0.0%. 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 financial statements.

Sensitivity analysis

The carrying amount corresponds to the recoverable amount using a discount rate of 12.66% and the growth rate after projection period of -0.4%.

20. Intangible assets

As at 31 December 2014	R&D expenses	Patents and licenses	Computer software	Goodwill	Other	Total
Net value as at 1 January 2014	-	-	10 033	-	2 876	12 909
Increase	-	-	148	-	11	159
Decrease	-	-	(19)	-	(1)	(20)
Elimination of subsidiary from consolidation	-	-	(202)	-	(1 614)	(1 816)
Amortization for the period	-	-	(3 170)	-	(353)	(3 523)
Reclassification to assets held for sale	-	-	(455)	-	(860)	(1 315)
As at 31 December 2014	**-**	**-**	**6 335**	**-**	**59**	**6 394**
As at 1 January 2014						
Gross value	-	-	36 631	3 179	4 134	43 944
Amortization and impairment loss	-	-	(26 598)	(3 179)	(1 258)	(31 035)
Net value	**-**	**-**	**10 033**	**-**	**2 876**	**12 909**
As at 31 December 2014						
Gross value	-	-	34 665	-	1 420	36 085
Amortization and impairment loss	-	-	(27 932)	-	(501)	(28 433)
Gross value of assets held for sale	-	-	(3 926)	-	(1 108)	(5 034)
Amortization and impairment loss on assets held for sale	-	-	3 528	-	248	3 776
Net value	**-**	**-**	**6 335**		**59**	**6 394**

As at 31 December 2013	R&D expenses	Patents and licenses	Computer software	Goodwill	Other	Total
Net value as at 1 January 2013	-	388	13 998	-	2 505	16 891
Increase	-	-	434	-	952	1 386
Decrease	-	-	(287)	-	-	(287)
Elimination of subsidiary from consolidation	-	(211)	(349)	-	-	(560)
Amortization for the period	-	(177)	(3 763)	-	(581)	(4 521)
As at 31 December 2013	-	-	10 033	-	2 876	12 909
As at 1 January 2013						
Gross value	-	2 394	39 062	6 102	3 181	50 739
Amortization and impairment loss	-	(2 006)	(25 064)	(6 102)	(676)	(33 848)
Net value	-	388	13 998	-	2 505	16 891
As at 31 December 2013						
Gross value	-	-	36 631	3 179	4 134	43 944
Amortization and impairment loss	-	-	(26 598)	(3 179)	(1 258)	(31 035)
Net value	-	-	10 033	-	2 876	12 909

21. Investments in associates measured using the equity method

As at 31 December 2013, the Group held a 50% interest in Polimex-Sices Polska Sp. z o.o. with its registered office in Warsaw, which was wound up on 30 October 2014. The core business of the entity included general construction works related to buildings. Condensed information concerning the investment in Polimex-Sices Polska Sp. z o.o.:

	31 December 2014	31 December 2013
Current assets	-	2 652
Non-current assets	-	7
Current liabilities	-	143
Non-current liabilities and provisions	-	-
Net assets	-	2 223
Revenue	-	10 731
Profit on continuing operations	(206)	1 667
Total comprehensive income	(206)	1 667
Share in profit (loss) of associate	-	836

The Group holds a 32.82% interest in Energomontaż-Północ-Bełchatów Sp. z o.o. with its registered office in Bełchatów, the core business of which includes specialist construction and assembly services. Energomontaż-Północ-Bełchatów Sp. z o.o. is the parent of the Energomontaż-Północ-Bełchatów Group. Consolidated financial information of the group:

	31 December 2014	31 December 2013
Current assets	87 323	76 215
Non-current assets	19 074	18 470
Current liabilities	31 532	27 839
Non-current liabilities and provisions	41 298	10 122
Minority interest	1 903	1 721
Negative goodwill of controlled entities	-	-
Net assets	63 195	55 003
Sales revenue	148 838	144 076
Net profit on continuing operations	8 636	8 787
Total comprehensive income	8 636	8 787
Share in profit of associate*	2 834	2 884

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

22. Financial assets

Non-current financial assets	31 December 2014	31 December 2013
Shares	504	2 876
Other financial assets*	214 997	215 746
Total	**215 501**	**218 622**

* including performance bonds issued by banks in relation to contracts in progress, totaling PLN 214,969,000.00 (vs. PLN 215,746,000.00 in 2013).

Current financial assets	31 December 2014	31 December 2013
Other financial assets*	-	102 557
Loans	87	-
Derivative financial instruments	6 601	6 601
Total	**6 688**	**109 158**

* performance bonds issued by banks in relation to contracts in progress

22.1. Changes in non-current financial assets – shares

	31 December 2014	31 December 2013
Opening balance	**2 876**	**1 114**
Increase	**-**	**1 970**
Purchase of shares	-	20
Derecognition of impairment losses	-	115
Other	-	1 835
Decrease	**(2 372)**	**(208)**
Liquidation of the company	500	-
Other	1 872	208
Closing balance	**504**	**2 876**

23. Non-current receivables

	31 December 2014	31 December 2013
Receivables due to performance bonds and guarantee payments	57 386	51 619
Other receivables	568	-
Total	**57 954**	**51 619**

24. Inventories

	31 December 2014	31 December 2013
Materials (at cost)	5 637	75 106
Goods	235	249
Advance payments for materials	303	14
Work in progress (at cost)	-	14 964
Finished products:	-	15 985
At cost	-	15 985
Total inventories, at the lower of: cost and net realizable value	6 175	106 318

The value of inventories expensed in the reporting period was PLN 26,129,000.00 (vs. PLN 148,972,000.00 in 2013). No impairment losses were recognized on inventories in 2014 (as compared to PLN 20,680,000.00 in 2013). In 2014, the amount of reversed impairment losses on inventories expensed in the period was PLN 17,487,000.00 (vs. PLN 0.00 in 2013). The said reversal resulted from sale of development property.

As at 31 December 2014, liens were established on the Parent's inventories, including those presented as held for sale (PLN 58,337,000.00 as at 31 December 2013), in the total amount of PLN 33,655,000.00 as collateral for loan agreements.

As at 31 December 2014, liens were established on the inventories of Stalfa, including those presented as held for sale with the total carrying amount of PLN 8,925,000.00 (PLN 7,184,000.00 as at 31 December 2013), as security for payment of liabilities.

As at 31 December 2014 and 31 December 2013, mortgages were established on inventories of the Polimex Energetyka Group, as collateral for loan liabilities of the entity and guarantees for the loan liabilities of the Parent.

The Capital Group does not have any inventories expected to be used in a period longer than 12 months.

25. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables	528 355	638 644
including: trade receivables from related parties	-	-
Receivables from the state treasury	22 061	10 540
Other receivables from third parties	8 113	46 305
Total receivables (net)	558 529	695 489
Impairment loss on receivables	253 690	132 599
Gross receivables	812 219	828 088

Trade receivables bear no interest and the due date is typically from 30 to 180 days.

The terms of related-party transactions have been presented in Note 41.

The Group has a policy in place whereby sales transactions are made only with verified clients. According to the management, there is no credit risk other than that reflected in impairment losses on bad debts related to the Group's trade receivables.

25.1. Trade receivables (gross and net) with due date after the end of the reporting period

	31 December 2014	31 December 2013
Up to 1 month, gross	268 323	157 148
Impairment losses on receivables up to 1 month	484	13 213
Up to 1 month, net	267 839	143 935
Over 1 month and up to 3 months, gross	160 119	152 613
Impairment losses on receivables over 1 month and up to 3 months	71	-
Over 1 month and up to 3 months, net	160 048	152 613
Over 3 months and up to 6 months, gross	18 018	30 869
Impairment losses on receivables over 3 months and up to 6 months	4 471	1 325
Over 3 months and up to 6 months, net	13 547	29 544
Over 6 months and up to 1 year, gross	24 184	57 389
Impairment losses on receivables over 6 months and up to 1 year	3 034	18
Over 6 months and up to 1 year, net	21 150	57 371
Past due receivables, gross	310 469	373 042
Impairment losses on past due receivables	244 698	117 861
Past due receivables, net	65 771	255 181
Total trade receivables (gross)	**781 113**	**771 061**
Impairment losses on trade receivables	252 758	132 417
Total trade receivables (net)	**528 355**	**638 644**

25.2. Trade receivables by delinquency period

	31 December 2014	31 December 2013
Past due up to 1 month, gross	40 948	56 705

Impairment losses on past due receivables up to 1 month	26 333	7
Past due up to 1 month, net	14 615	56 698
Past due over 1 month and up to 3 months, gross	12 628	72 045
Impairment losses on past due receivables over 1 month and up to 3 months	2 364	20 145
Past due over 1 month and up to 3 months, net	10 264	51 900
Past due over 3 months and up to 6 months, gross	24 290	47 058
Impairment losses on past due receivables over 3 months and up to 6 months	3 798	8 819
Past due over 3 months and up to 6 months, net	20 492	38 239
Past due over 6 months and up to 1 year, gross	76 363	87 283
Impairment losses on past due receivables over 6 months and up to 1 year	65 911	33 042
Past due over 6 months and up to 1 year, net	10 452	54 241
Past due over 1 year, gross	156 240	109 952
Impairment losses on past due receivables over 1 year	146 292	55 849
Past due over 1 year, net	9 948	54 103
Total past due trade receivables (gross)	310 469	373 042
impairment losses on trade receivables	244 698	117 861
Total past due trade receivables (net)	65 771	255 181

Changes in impairment losses on receivables:

	31 December 2014	31 December 2013
Opening balance of impairment losses	132 417	111 915
Increase, including:	**163 474**	**98 795**
- recognition of impairment losses on receivables	162 145	98 781
- changes in the Group structure	-	-
- other	1 329	14
Decrease, including:	**44 879**	**78 293**
- use	16 965	16 336
- payment of receivables	13 928	48 919
- changes in the Group structure	13 038	13 019
- derecognition	948	19
Reclassification	3 406	-
Derecognition of unused amounts	(1 660)	-
Closing balance of impairment losses	**252 758**	**132 417**

26. Long-term construction contracts

Contracts in progress at the end of the reporting period:

	Year ended 31 December 2014	Year ended 31 December 2013
Costs incurred plus recognized gains less losses incurred by the end of the reporting period	3 330 604	6 221 635
Less: invoices raised considering the stage of completion	(3 685 744)	(6 488 375)
Total	**(355 140)**	**(266 740)**
Recognized in the consolidated financial statements as amounts due:		
From clients under construction contracts (receivables)	79 636	270 559
To clients under construction contracts (liabilities)	(434 776)	(537 299)
	(355 140)	**(266 740)**

As at 31 December 2014, amounts retained by clients in relation to construction works totaled PLN 91.6 million (vs. PLN 70.6 million in 2013). Advance payments received from clients in relation to construction works amounted to PLN 436.6 million (as compared to PLN 266.7 million in 2013).

27. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash in hand and at bank	670 555	225 421
Deposits	6 478	6 455
Total cash, including:	**677 033**	**503 272**
Restricted cash	503 448	271 396

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. The fair value of cash and cash equivalents as at 31 December 2014 was PLN 677,033,000.00 as compared to PLN 503,272,000.00 as at 31 December 2013.

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

	Year ended 31 December 2014
Change in inventories as per balance sheet	**100 143**
Adjustment due to reclassification of inventories from discontinued operations	(39 863)
Adjustment due to reclassification of inventories of subsidiaries sold and held for sale Sold	(14 830)
Change in inventories as per cash flow statement	**45 450**

	Year ended 31 December 2014
Change in receivables as per balance sheet	**321 548**
Adjustment to receivables due to performance bonds	2 551

Adjustment by receivables of sold entities (Torpol, TSiL)	(230 617)
Adjustment by receivables from discontinued operations	(50 929)
Adjustment by receivables of entities held for sale	(10 984)
Adjustment by advance payments relating to long-term contracts	101 310
Change in receivables as per cash flow statement	**132 879**

	Year ended 31 December 2014
Change in prepayments/accruals as per balance sheet	**(27 158)**
Adjustment by prepayments/accruals of subsidiaries eliminated from consolidation	(5 789)
Change in prepayments/accruals as per cash flow statement	**(32 947)**

	Year ended 31 December 2014
Change in liabilities as per balance sheet	**(295 343)**
Adjustment by liabilities due to investment purchases	(1 825)
Adjustment by lease liabilities	1 667
Adjustment by liabilities of sold entities (Torpol, TSiL)	281 321
Adjustment by liabilities from discontinued operations	57 491
Adjustment by liabilities of entities held for sals	27 194
Adjustment by conversion of guarantee liabilities into shares	12 804
Change in liabilities as per cash flow statement	**83 309**

	Year ended 31 December 2014
Change in loan liabilities as per balance sheet	**(606 149)**
Adjustment by accrued interest liabilities	(20 896)
Adjustment of loan liabilities by debt conversion	382 059
Adjustment by liabilities of subsidiaries eliminated from consolidation	245 761
Change in loan liabilities as per cash flow statement	775

	Year ended 31 December 2014
Change in provisions as per balance sheet	**157 177**
Adjustment due to elimination of subsidiary from consolidation	1 931
Change in provisions as per cash flow statement	159 108

Other	**(835)**

Other in operating activities of the cash flow statement for the year ended 31 December 2014 includes in particular:

- derecognition of impairment losses on non-current assets or their measurement	20 355
- reclassification of cash to assets held for sale	(16 730)
- other	(4 460)

	Year ended 31 December 2013
Change in inventories as per balance sheet	**202 037**
Adjustment due to sale of an organized part of the enterprise	(5 500)
Elimination of subsidiary from consolidation	(5 343)
Adjustment due to reclassification of inventories of subsidiaries held for sale	(35 316)
Change in inventories as per cash flow statement	155 878

	Year ended 31 December 2013
Change in receivables as per balance sheet	**176 682**
Adjustment by receivables of subsidiary eliminated from consolidation	(61 599)
Adjustment to receivables due to performance bonds	370
Adjustment by receivables of a sold entity (Energop)	2 530
Adjustment by advance payments relating to long-term contracts	48 537
Change in receivables as per cash flow statement	166 520

	Year ended 31 December 2013
Change in prepayments/accruals as per balance sheet	**4 764**
Adjustment by prepayments/accruals of subsidiaries eliminated from consolidation	(2 580)
Change in prepayments/accruals as per cash flow statement	2 184

	Year ended 31 December 2013
Change in liabilities as per balance sheet	**(243 713)**
Adjustment by liabilities due to investment purchases	(1 210)
Adjustment by lease liabilities	10 946
Adjustment due to elimination of subsidiaries from consolidation	87 578
Adjustment by liabilities due to sale of subsidiaries and investment property	86 960
Adjustment by liabilities due to bond redemption	1 000
Change in liabilities as per cash flow statement	(58 439)

	Year ended 31 December 2013
Change in loan liabilities as per balance sheet	**87 417**
Adjustment by accrued interest liabilities	(28 326)
Adjustment by liabilities of subsidiaries eliminated from consolidation	48 344
Change in loan liabilities as per cash flow statement	107 435

	Year ended 31 December 2013
Change in provisions as per balance sheet	**(200 323)**
Adjustment due to elimination of subsidiary from consolidation	10 717
Change in provisions as per cash flow statement	(189 606)

28. Assets held for sale

	31 December 2014	31 December 2013
Non-current assets	**307 424**	**61 926**
Property, plant and equipment	300 173	52 420
Intangible assets	325	-
Investment property	5 802	9 506
Financial assets	39	-
Non-current receivables	754	-
Deferred tax asset	261	-
Other non-current assets	70	-
Current assets	**143 190**	**35 550**
Inventories	64 155	35 550
Trade and other receivables	54 527	-
Receivables from measurement of long-term contracts	7 122	-
Income tax receivables	162	-
Prepayments	460	-
Cash and cash equivalents	16 720	-
Financial assets	44	-
Total assets held for sale	**450 614**	**97 476**

Under the Financial Debt Service Agreement of 21 December 2012, the Issuer committed to sell specific assets to obtain proceeds of not less than PLN 600 million by 31 December 2015. The assets sold include shares in subsidiaries, redundant property, organized parts of the enterprise as well as development and investment property, including selected property used for operating purposes. The table above presents financial information on sale transactions involving assets held for sale (Note 49), entered into after the end of the reporting period, and planned to be sold within one year of the end of the reporting period.

As at 31 December 2014, the *Production* segment assets were presented as assets held for sale due to the planned sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, as well as subsidiaries classified to the *Production* segment, i.e. Stalfa Sp. z o.o., ZKM Ukraine, Zakład Usług Technicznych Sp. z o.o. and Polimex - Mostostal Ukraine. The Parent's sale of an organized part of the enterprise and 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.

The total impairment loss upon initial recognition of assets held for sale at fair value was PLN 44,892,000.00, including PLN 33,203,000.00 recognized as other operating expenses and PLN 11,689,000.00 as other comprehensive income.

29. Equity

29.1. Share capital

As at 31 December 2014, the share capital totaled PLN 173,237,605.68 and was divided into 4,330,940,142 shares with the par value of PLN 0.04 each.

Share capital (in '000 shares)	31 December 2014	31 December 2013
Ordinary A series shares	55 386	55 386
Ordinary B series shares	36 532	36 532
Ordinary C series shares	8 580	8 580
Ordinary D series shares	13 499	13 499
Ordinary E series shares	43 499	43 499
Ordinary F series shares	223 716	223 716
Ordinary G series shares	236	236
Ordinary H series shares	25 823	25 823
Ordinary I series shares	57 321	57 321
Ordinary K series shares	38 733	38 733
Ordinary L series shares	17 829	17 829
Ordinary M series shares	416 667	416 667
Ordinary N1 series shares	396 154	396 154
Ordinary P series shares	133 393	133 393
Ordinary R series shares	2 863 572	-
Total	**4 330 940**	**1 467 368**

As at 31 December 2014 and 31 December 2013, all issued shares had the par value of PLN 0.04. They had been fully paid up.

On 12 November 2013, the Extraordinary Shareholders' Meeting adopted a resolution increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 5,335,748.08, through the issue of no less than 1 and no more than 133,393,702 P series ordinary bearer shares with the par value of PLN 0.04 each ("P Series Shares"). The increase in the Company's share capital through the issue of P Series Shares was registered in the Register of Entrepreneurs of the National Court Register on 19 December 2013.

On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each, through a private placement.

The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.

Debt was converted into the Company's shares under agreements made with the Company's creditors and bond holders on a case-by-case basis. On 24 September 2014, R Series Share Purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.

The costs of issue of R Series Shares, totaling PLN 1,469,000.00, were recognized as a decrease in the share premium.

Following registration of the share capital increase, as at the date of the current report, the Company's share capital amounted to PLN 173,237,605.68 and was divided into 4,330,940,142 shares with the par value of PLN 0.04 each, with 4,330,940,142 voting rights to be exercised at the Company's General Meeting attached. The increase in the share capital through the issue of R Series Shares was registered in the Register of Entrepreneurs of the National Court Register on 22 October 2014.

On 17 March 2015, the Management Board of the Warsaw Stock Exchange adopted a resolution on admission of R series ordinary bearer shares and their introduction to trading on the main market of the Warsaw Stock Exchange. At the Company's request, 2,863,571,852 R series ordinary bearer shares with the par value of PLN 0.04 each were admitted to trading

on the main market. The Management Board of the Warsaw Stock Exchange decided to introduce the shares to trading on the main market as of 20 March 2015 in line with the ordinary procedure, provided that they are registered with the National Depository for Securities on 20 March 2015.

On 18 March 2015, the National Depository for Securities announced that the aforesaid shares would be registered in the depository. The shares were registered by the National Depository for Securities on 20 March 2015.

29.1.1 Shareholders' rights

One voting right that may be exercised 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:

29.1.2 Significant shareholders as at 31 December 2014

On 29 August 2014, Agencja Rozwoju Przemysłu S.A. sold all shares held in the Company to its subsidiary, SPV Operator Sp. z o.o.

On 24 September 2014, loan and bond liabilities as well as recourse claims were converted into shares and the newly issued R series shares were allocated. The total of 2,863,571,852 shares were issued and acquired by the existing creditors and bond holders of the Company.

On 22 October 2014, the Business Court at the National Court Register registered a change in the amount of the share capital of Polimex-Mostostal S.A.

Following the aforesaid conversion, the registered share capital amounted to PLN 173,237,605.68 and was divided into 4,330,940,142 shares with the par value of PLN 0.04 each. As at the date of these financial statements being signed, the Company's equity holders included:

Equity holder	Number of shares/votes	Percentage interest in the share capital/ total number of votes at the General Meeting*
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	1 061 971 808	24.52%
Bank Polska Kasa Opieki S.A.	753 806 838	17.41%
SPV Operator Sp. z o.o.	300 000 001	6.92%
Pioneer Pekao Investment Management SA	254 494 744	5.88%
Other – less than 5% of the share capital	1 960 666 751	45.27%
Total number of shares (all issues)	**4 330 940 142**	**100.00%**

29.2. Supplementary capital

Under Article 396.1 of the Code of Commercial Companies, supplementary capital has to be recognized for purposes of covering 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.

29.3. Other capitals

Other capitals of the Group are used for purposes of accounting for business combinations with the subsidiaries, as referred to in Note 31.1, totaling PLN (85,254,000.00).

29.4. Reserve capital

Warrants – G series shares

The reserve capital was recognized in relation to Resolution No. 2 of the Extraordinary Shareholders' Meeting of Polimex-Mostostal S.A. of 31 January 2006, whereby an Incentive Scheme for the executives of Polimex-Mostostal S.A. was established. The terms of the Incentive Scheme were partly modified by Resolution No. 39 of the General Meeting of Polimex-Mostostal S.A. of 28 June 2007.

For purposes of the Incentive Scheme, the Company's share capital was increased conditionally by no more than PLN 762,417.00 (seven hundred and sixty-two thousand four hundred and seventeen) through the issue of no more than 19,060,425 (nineteen million sixty thousand four hundred and twenty-five) G series bearer shares with the par value of PLN 0.04 each. The share capital was increased for purposes of granting rights to G series shares to holders of subscription warrants issued pursuant to resolutions of the General Meeting of 31 January 2006.

The total of 19,060,425 bearer subscription warrants were issued. One bearer subscription warrant gives the right to purchase 1 (one) G series ordinary bearer share of the Issuer, with the par value of PLN 0.04 each, with no rights issue offered. The issue price of the warrants was PLN 0.00 (zero).

The total of 16,535,013 bearer subscription warrants were allocated.

The number of bearer subscription warrants to be redeemed is 2,525,412.

The warrants may be exercised within the following time limits:

warrants allocated for 2006 – between 1 October 2010 and 31 December 2013;

warrants allocated for 2007 – between 1 October 2011 and 31 December 2013;

warrants allocated for 2008 – between 1 October 2012 and 31 December 2013.

In 2009, the warrant allocation process based on the aforementioned criteria was closed. During the three-year term of the Incentive Scheme, all three major criteria enabling the receipt of the maximum number of warrants, were satisfied twice. In 2008, only two criteria were satisfied, namely *EBITDA/share* and *net earnings/share*, while the *market condition* was not satisfied. Thus, 16,535,013 warrants convertible into 16,535,013 shares were issued.

As the third criterion was not satisfied in 2008, 2,525,412 warrants were not allocated on the aforesaid terms and the warrants will be redeemed.

The remaining rights to purchase G series shares, as attached to the warrants, expired on 31 December 2013 and the Incentive Scheme ended as of that date. The warrants were acquired free of charge from Dom Maklerski mBanku S.A. and redeemed on 18 January 2014.

Warrants – J series shares

Pursuant to Resolution No. 26 of 4 July 2008, the Company's share capital may be increased conditionally by no more than PLN 928,687.32 through the issue of no more than 23,217,183 J series bearer shares with the value of PLN 0.04 each. The aforesaid conditional increase in capital is aimed at granting the rights to purchase the Company's shares to holders of the subscription warrants issued in performance of the Incentive Scheme for the executives of the Company and major subsidiaries. The term of the Incentive Scheme is three years and the warrants will be allocated upon satisfaction of predefined growth ratios for each reporting period, i.e. 2009, 2010 and 2011:

- Criterion 1: A predefined increase in the consolidated EBITDA/share ratio;
- Criterion 2: A predefined increase in the consolidated net earnings/share ratio;
- Criterion 3: A predefined difference between the change in the arithmetic mean of the closing price of the Company's shares (calculated for the last three months of the calendar year) and the change in the arithmetic mean of the WIG stock market index (calculated for the last three months of the calendar year).

The employment criterion, whereby an individual has to be employed by the Company for at least 9 months of the financial year, is an additional allocation criterion. If the aforesaid allocation criteria are not satisfied, the related warrants are redeemed. The warrants may be exercised within the following time limits:

- warrants allocated for 2009 – between 1 October 2013 and 31 December 2016;
- warrants allocated for 2010 – between 1 October 2014 and 31 December 2016;
- warrants allocated for 2011 – between 1 October 2015 and 31 December 2016.

The warrants were exercised in 2009 and 2010, when the growth criteria had been satisfied. However, considering the unfavorable price of the Parent's shares by 31 December 2014 (the share price higher by PLN 0.05 than the option strike price as at 31 December 2014) and the fact that most individuals who the warrants were allocated to are no longer employees

of the Company, the warrants had not been exercised by 31 December 2014. Therefore, the total reserve capital was reclassified to retained earnings/losses brought forward as the warrant exercise conditions had not been met.

As at 31 December 2014, the provision recognized in the Company's reserve capital for the aforesaid Incentive Schemes amounted to PLN 0.00 (vs. PLN 32,086,000.00 as at 31 December 2013).

29.5. Reserve capital – convertible bond premium

As at 31 December 2014, the reserve capital due to convertible bond premium amounted to PLN 29,747,000.00.

As the new bonds had been paid for by the investors, on 1 October 2014 the Parent issued 163 A series, convertible, dematerialized bearer bonds with the par value of PLN 500,000.00 each and the total par value of PLN 81,500,000.00 ("A Series Bonds") as well as 585 B series, ordinary, dematerialized bearer bonds with the par value of PLN 100,000.00 each and the total par value of PLN 58,500,000.00 ("B Series Bonds", collectively with A Series Bonds referred to as the "New Bonds"). As at 31 December 2014, the liabilities relating to the New Bonds totaled PLN 111,054,000.00. The New Bonds were measured at amortized cost, using the effective interest method. The costs of the bond issue of PLN 1,960,000.00 are accounted for using the effective interest method by the bond maturity date. The value of convertible options was charged to the reserve capital in the amount of PLN 29,747,000.00 as at 31 December 2014.

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 0.04. 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.

Convertible bonds consist of the liability and equity component. The equity component is presented under equity as "convertible bond premium". Upon initial recognition, the effective interest rate applicable to the liability is 10.7% p.a.

The bond issue costs reducing the premium totaled PLN 422,000.00.

29.6. Revaluation reserve

The revaluation reserve was established as a result of the Company's application of hedge accounting and changes introduced to the measurement of a selected class of fixed assets (revaluation model).

As of 1 October 2013, the accounting policy was modified in the context of changes to the valuation model for a specific group of fixed assets, in accordance with IAS 16 *Property, Plant and Equipment*. In conformity with the said standard, the accounting policy was modified prospectively.

The change consists in replacement of the cost model with the revaluation model. It was introduced for the class of fixed assets designated as real property. The abovementioned class includes all real property and structures permanently attached to land. The valuation model change does not affect other fixed assets, such as machines and equipment, which are not permanently attached to the real property. The Company has obtained independent valuations performed by recognized appraisers for each real property affected by the aforesaid changes as at 23 October and 31 October 2013.

All items of real property were measured using the income method (simple capitalization and income stream discounting). The fair value of fixed assets was determined based on the best and most efficient use of real property (which is the case at present). Estimated monthly rent rates of PLN 2-35/m2 were used for purposes of the measurement and the adopted capitalization rate was 10%. The adopted fair value hierarchy level was 3. No adjustment ratios were used considering location of real property. Such a change reflects the value of fixed assets most accurately.

The table below presents a comparison of the book value, fair value and the effect of the change in the measurement of a selected class of fixed assets on other comprehensive income and the gross profit/loss of the Company as at 1 October 2013 (in PLN):

Book value of real property as at 1 October 2013	Fair value of real property as at 1 October 2013	Effect of changes in real property measurement principles on other comprehensive income	Effect of changes in real property measurement principles on gross profit/loss
198 152	252 625	95 593	(41 120)

Changes in revaluation reserve in 2014:

	1.01.2014	Sale of real property	Impairment loss	31.12.2014
Revaluation of real property	95 593	(3 279)	(26 701)	65 613
Deferred tax	(18 163)	623	5 073	(12 466)
Total	77 430	(2 656)	(21 628)	53 147

In 2014, impairment losses on property, plant and equipment totaled PLN 29,980,000.00.

Reconciliation of the closing balance of real property measured at fair value:

Balance as at 1 October 2013	252 625
Depreciation between 1 October 2013 and 31 December 2013	(4 273)
Balance as at 31 December 2013	248 352
Depreciation between 1 January 2014 and 31 December 2014	(11 533)
Revaluation	
- recognized in other operating expenses	-
- recognized in other comprehensive income	(6 762)
Sale	-
Transfer to Level 1 and 2 of the fair value hierarchy	-
Balance as at 31 December 2014	230 057

Property, plant and equipment classified as assets held for sale were measured based on the offer received by the Group for the purchase of an organized part of the enterprise (Siedlce and Rudnik). Property, plant and equipment not classified as held for sale are measured every 3 to 5 years, or more frequently if there are any indications of impairment. No such indications were identified as at 31 December 2014.

The revaluation reserve also includes the effect of the net measurement of cash flow hedges adjusted by deferred tax. As at 31 December 2014 and 31 December 2013, the revaluation reserve relating to measurement of financial instruments amounted to PLN 27,000.00. A description of transactions and hedge accounting principles has been provided in Note 43.1 to the financial statements.

30. Credit facilities and loans

Bank/Lender	Maturity	31 December 2014	31 December 2013
Short-term			
		-	**644 315**
Parent			
BOŚ S.A. – a term, non-revolving loan in PLN (under the Financial Debt	01.10.2019	-	49 720

Service Agreement of 21 December 2012, as amended)*)			
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	159 591
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	50 000
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	199 997
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	93 442
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	7 286
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	5 783
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	50
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	36 387
Bank Zachodni WBK S.A. (formerly: Kredyt Bank S.A.) – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	42 059
** the total loans under the Financial Debt Service Agreement (FDSA) of 21 December 2012, as amended, will be repaid in accordance with the repayment schedule by 31 December 2019.*			
Stalfa Sp. z o.o.		**-**	**13 969**
Alior Bank – overdraft facility with the limit of PLN 4,500,000.00	24.04.2015	-	6 967
Alior Bank – a non-revolving loan in PLN (short-term portion)	08.04.2017	-	875
BZ WBK S.A. (formerly: Kredyt Bank S.A.) – overdraft facility with the limit of PLN 5,200,000.00, repaid in monthly instalments	29.04.2015	-	6 127
Czerwonograd ZKM Ukraine		**-**	**2 105**
Kredobank – a working capital loan with the limit of EUR … (short-term portion)	13.03.2015	-	602
Ukrgazprombank – a working capital loan with the limit of UAH …	18.09.2014	-	747
Ukrgazprombank – a working capital loan with the limit of EUR …	18.09.2014	-	756
Torpol Group		**-**	**61 882**
Bank Millennium S.A. – overdraft facility with the limit of PLN 11,000,000.00	15.01.2014	**-**	10 756
Alior Bank S.A. – overdraft facility with the limit of PLN 10,000,000.00	19.06.2014	**-**	5 844
Alior Bank S.A. – revolving credit with the limit of PLN 23,000,000.00	19.06.2015	**-**	21 279
BZ WBK S.A. – overdraft facility with the limit of PLN 9,500,000.00, repaid in monthly instalments	31.05.2014	**-**	9 194
DnB Nord Polska S.A. – overdraft facility with the limit of NOK 17,000,000.00	30.06.2014	**-**	-
Bank PEKAO S.A. – overdraft facility with the limit of PLN 3,000,000.00	31.07.2014	**-**	2 809

BOŚ S.A. – overdraft facility with the limit of PLN 2,000,000.00	31.12 2014	**-**	-
BOŚ S.A. – revolving credit with the limit of PLN 12,000,000.00	10.10.2014	**-**	12 000
PRInż-1 Sp. z o.o.		**-**	**10 261**
BOŚ S.A. – revolving working capital loan with a sublimit of PLN 10,000,000.00 (short-term portion)	22.09.2017	-	10 000
BOŚ S.A. – investment loan of PLN 2.6 million (repaid)	30.06.2014	-	210
BOŚ S.A. – overdraft facility with a sublimit of PLN 2,500,000.00 (short-term portion)	22.09.2017	-	5
Getin Noble bank S.A. – car loan in PLN (repaid)	25.10.2014	-	46
Grande Meccanica SpA		-	**17 437**
Cassa Di Risparmie di Terni e Nami SpA – working capital loan with the limit of EUR 340,000.00	Open	-	817
Banca Pop. Di Spoleto – revolving working capital loan with the limit of EUR 1,000,000.00	Open	-	4 095
Monte dei Pachi di Sienna – working capital loan with the limit of EUR 1,408,000.00	Open	-	5 935
Banca Nationale Del Lavoro SpA – working capital loan with the limit of EUR 740,000.00	Open	-	3 069
Unicredit Banca d'Impressa – working capital loan with the limit of EUR 1,000,000.00	Open	-	2 692
Monte dei Pachi di Sienna – loan in EUR	30.06.2014	-	829
WBP Zabrze Sp. z o.o.		**411**	**2 264**
Orzesko-Knurowski Bank Spółdzielczy – overdraft facility with the limit of PLN 2,108,000.00 (short-term portion)	28.08.2019	411	2 264
Pracownia Wodno -Chemiczna Ekonomia Sp. z o.o.		**4**	**21**
ING Bank Śląski S.A. – overdraft facility with the limit of PLN 200,000.00 (repaid)	27.10.2014	4	3
Volkswagen Bank Polska S.A. – investment loan in PLN (repaid)	11.12.2014	-	18
Long-term			
Parent		**134 837**	**-**
BOŚ S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	16 662	-
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	47 562	-
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	-
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	25 082	-

PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	-
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	-
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	-
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	-	-
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	25 386	-
Bank Zachodni WBK S.A. (formerly: Kredyt Bank S.A.) – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	18 461	-
NAF Industriemontage GmbH – loan in EUR	31.03.2020	1 684	-
** the total loans under the Financial Debt Service Agreement (FDSA) of 21 December 2012, as amended, will be repaid in accordance with the repayment schedule by 31 December 2019.*			
WBP Zabrze Sp. z o.o.		**1 575**	-
Orzesko-Knurowski Bank Spółdzielczy – overdraft facility with the limit of PLN 2,108,000.00	28.08.2019	1 575	-
PRInż-1 Sp. z o.o.		**10 005**	**-**
BOŚ S.A. – revolving working capital loan with a sublimit of PLN 10,000,000.00	22.09.2017	10 000	-
BOŚ S.A. – overdraft facility with a sublimit of PLN 2,500,000.00 (short-term portion)	22.09.2017	5	-
Czerwonograd ZKM Ukraine		**-**	**727**
Kredobank – working capital loan with the limit of EUR 203,000.00	13.03.2015	-	544
Kredobank – working capital loan with the limit of EUR 173,000.00	16.09.2015	-	183

Credit facilities and loans	**146 832**	**752 981**
Short-term, including:	**415**	**752 254**
Bank loans	415	751 425
Loans	-	829
Long-term, including:	**146 417**	**727**
Bank loans	144 733	727
Loans	1 684	-

Interest rates by period	Year ended 31 December 2014	Year ended 31 December 2013

Weighted average for loans in PLN	WIBOR 1M+2.6680 p.p.	WIBOR 1M+1.6864 p.p.
	WIBOR 3M+1.3143 p.p.	WIBOR 3M+1.2763 p.p.
	WIBOR ON+2.20 p.p.	-
Weighted average for foreign currency loans	EURIBOR 3M+ 3.6548 p.p.	EURIBOR 3M+ 3.8484 p.p.
	EURIBOR 12M+0.25 p.p.	-

31. Assets pledged as collateral

	31 December 2014	31 December 2013
Property, plant and equipment	99 098	416 254
Inventories	41 982	77 996
Investment property	-	-
Contingent assignment of receivables to lease companies	3 581	52 950
Assets held for sale	300 173	90 725
Other	-	13 422
Total	**444 834**	**651 347**

32. Bonds

	31 December 2014	31 December 2013
Long-term bonds	135 388	-
Short-term bonds	-	126 890
Total bonds	**135 388**	**126 890**

In 2014, the New Bonds were issued by the Parent. Detailed information on the accounting recognition is presented below:

	31 December 2014
Proceeds from the issue*	138 040
Liability component at the issue date	108 292
Equity component	29 747
Liability component at the issue date	108 292
Interest accrued at the effective interest rate of 10.7%	2 762
Interest paid	-
Liability component as at 31 December 2014	111 054

* The Group's proceeds from the issue of bonds were PLN 140,000,000.00, while the underwriting commission totaled PLN 1,960,000.00.

33. Other non-current liabilities

	31 December 2014	31 December 2013
Leases	34	29 556
Non-current liabilities due to guarantee payments	53 154	52 928
Performance bonds	4 873	6 814
Advance payments received under energy contracts	255 729	166 829
Other	477	-

Total	**314 267**	**256 127**

34. Provisions

34.1. Changes in provisions

	Provisions for warranty repairs and returns	Restructuring provision	Provisions for court cases	Provisions for liquidated damages	Provisions for contract costs	Provisions for expected losses on construction contracts	Provisions for sureties	Other provisions	**Total**
As at 1 January 2014	26 409	-	20 135	-	17 787	68 249	28 889	9 649	**171 118**
Sale of subsidiary	(330)	-	-	-	-	-	-	-	**(330)**
Recognized in the financial year	91 195	12 312	16 489	12 753	126 933	-	2 235	1 086	**263 003**
Used	(5 577)	-	(2 888)	(1 500)	-	-	(14 703)	(4 637)	**(29 305)**
Derecognized	(11 731)	-	(250)	(4 561)	-	(45 344)	-	(3 219)	**(65 105)**
Reclassified	(272)	-	-	-	-	(7 318)	(2 278)	(1 217)	**(11 085)**
Exchange differences	-	-	-	-	-	-	-	(1)	**(1)**
As at 31 December 2014	**99 694**	**12 312**	**33 486**	**6 692**	**144 720**	**15 587**	**14 143**	**1 661**	**328 295**
Short-term as at 31 December 2014	19 843	12 312	3 847	6 692	-	15 587	2 212	1 661	**62 154**
Long-term as at 31 December 2014	79 851	-	29 639	-	144 720	-	11 931	-	**266 141**

	Provisions for warranty repairs and returns	Restructuring provision	Provisions for court cases	Provisions for liquidated damages	Provisions for contract costs	Provisions for expected losses on construction contracts	Provisions for sureties	Other provisions	**Total**
As at 1 January 2013	30 208	16 753	16 594	26 718	-	201 559	43 405	20 533	**355 770**
Elimination of subsidiaries from consolidation	(78)	-	-	-	-	-	-	(10 138)	**(10 216)**
Recognized in the financial year	22 700	2 495	4 131	-	17 787	-	-	54 467	**101 580**
Used	(15 828)	-	(590)	-	-	-	-	(17 436)	**(33 854)**
Derecognized	(10 593)	(19 248)	-	(26 718)	-	(133 310)	(14 516)	(19 231)	**(223 616)**
Reclassified	-	-	-	-	-	-	-	(18 521)	**(18 521)**
Exchange differences	-	-	-	-	-	-	-	(25)	**(25)**
As at 31 December 2013	**26 409**	**-**	**20 135**	**-**	**17 787**	**68 249**	**28 889**	**9 649**	**171 118**
Short-term as at 31 December 2013	14 304	-	14 090	-	-	68 249	28 889	9 516	**135 048**
Long-term as at 31 December 2013	12 105	-	6 045	-	17 787	-	-	133	**36 070**

35. Liabilities due to employee benefits

	31 December 2014	31 December 2013
Salaries and wages	14 349	32 659
Social security	12 093	22 803
Bonuses and awards	2 717	5 341
Unused annual leave	9 737	15 654
Jubilee benefits	1 217	4 835
Retirement and disability benefits	433	300
Current liabilities due to employee benefits	**40 546**	**81 592**
Jubilee, retirement and disability benefits	10 742	9 488
Non-current liabilities due to employee benefits	**10 742**	**9 488**

Upon retirement, employees receive retirement 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.

On 23 June 2014, the Issuer and representatives of labor unions at the Company signed a new Collective Labor Agreement (CLA), which entered into force as of 1 July 2014 and superseded the Collective Labor Agreement dated 30 November 2012. The CLA was registered with the Regional Labor Inspectorate on 6 October 2014.

Provision for employee benefits and changes in its balance in the financial year:

	31 December 2014	31 December 2013
Opening balance of defined-benefit liabilities	**6 511**	**26 384**
Current benefits cost	1 381	1 772
Interest expense	188	937
Revaluation gains/(losses)	**1 393**	**(1 546)**
Actuarial gains and losses resulting from changes in demographic assumptions	3 898	(1 546)
Actuarial gains and losses resulting from changes in financial assumptions	(2 486)	-
Past service cost, including (losses)/gains on limitations	10 603	(18 830)
Liabilities expired as at the settlement date	-	-
Liabilities assumed as part of business combinations	-	-
Exchange differences on foreign plans		(2 207)
Benefits paid	(719)	-
Other	(25)	**-**
Closing balance of defined-benefit liabilities*	**19 332**	**6 511**

* including liability allocated to discontinued operations: PLN 8,157,000.00 as at 31 December 2014; liabilities as at 31 December 2013 did not include jubilee benefits of PLN 3,277,000.00.

Net actuarial gains and losses (less deferred tax) amounted to PLN 1,128,000.00 in 2014.

35.1. Key actuarial assumptions

	31 December 2014	31 December 2013
Discount rate (%)	2.3	4.5
Anticipated inflation rate (%)	2.5	2.5
Anticipated pay growth rate (%)	3.5	1.0

Actuarial gains and losses on retirement and disability benefits:

	Year ended 31 December 2014	31 Dec

Costs of benefits:		
Current service cost	1 381	1 772
Past service cost and (gain)/loss on settlement	10 603	(18 830)
Net interest expense	188	937
Defined-benefit plan cost items recognized in profit or loss	**12 172**	**(16 101)**
Revaluation of the net defined-benefit liabilities:		
Actuarial gains and losses resulting from changes in demographic assumptions	3 879	-
Actuarial gains and losses resulting from changes in financial assumptions	(2 486)	-
Defined-benefit plan cost items recognized in other comprehensive income	**1 393**	**-**
Total	**13 565**	**(16 101)**

35.2. 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.

Discount rate 1.8%

	Liabilities due to retirement benefits	disability benefits	**Total**
current	459 561	-	459 561
non-current	19 073 113	665 234	19 738 347
Total	**19 532 674**	**665 234**	**20 197 908**

Discount rate 2.8%

	Liabilities due to retirement benefits	disability benefits	**Total**
current	459 561	-	459 561
non-current	17 440 819	631 260	18 072 079
Total	**17 900 380**	**631 260**	**18 531 640**

Pay growth rate: 3%

	Liabilities due to retirement benefits	disability benefits	**Total**
current	458 313	-	458 313
non-current	17 421 530	617 029	18 038 559
Total	17 879 843	617 029	18 496 872

Pay growth rate: 4.0%

	Liabilities due to retirement benefits	disability benefits	**Total**
current	460 807	-	460 807
non-current	19 086 244	680 148	19 766 392
Total	**19 547 051**	**680 148**	**20 227 199**

The Group has a strategy in place whereby assets and liabilities used for purposes of the retirement and disability benefit plan are matched as part of the short- and long-term liquidity management process.

36. Trade and other liabilities

	31 December 2014	31 December 2013
Trade liabilities		
To related parties	-	-
To other entities	483 434	674 057
	483 434	**674 057**
Taxes, customs duties, social security and other liabilities		
VAT	1 474	20 550
Lump-sum withholding tax	3	12
Personal income tax	4 030	8 627
PFRON (National Fund for Rehabilitation of the Disabled)	348	265
Other	1 127	10 131
	6 982	**39 585**
Financial liabilities		
Cost of financial guarantees	39 276	-
Leases	897	9 719
Other	-	2 165
	40 173	**11 888**
Other liabilities		
Liabilities due to purchases of fixed assets	4 251	3 262
Social fund	3 420	3 972
Other liabilities	26 115	83 856
	33 786	**91 090**
Total trade and other liabilities	**564 375**	**816 620**

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 the due date is typically from 30 to 180 days.

Other liabilities bear no interest and the average 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.

36.1. Trade liabilities with due date after the end of the reporting period

	31 December 2014	31 December 2013
Up to 1 month	303 586	59 573
Over 1 month and up to 3 months	54 064	176 468
Over 3 months and up to 6 months	2 597	3 138
Over 6 months and up to 1 year	8 714	190 743
Past due liabilities	114 473	244 135
Total trade liabilities	**483 434**	**674 057**

36.2. Past due trade liabilities

	31 December 2014	31 December 2013
Up to 1 month	27 070	39 846
Over 1 month and up to 3 months	18 207	85 712
Over 3 months and up to 6 months	9 370	52 366
Over 6 months and up to 1 year	23 583	41 470
Over 1 year	36 243	24 741
Total past due liabilities	**114 473**	**244 135**

Past due liabilities include amounts due from subcontractors, which depend on payments being made by the investor.

37. Social assets and liabilities of the Social Benefits Fund

Pursuant to the Act on the Social Benefits Fund of 4 March 1994, as amended, the Social Benefits Fund is established by employees of more than 20 FTEs. Such a fund is established and periodic appropriations are made to it in such amounts as agreed with the Group's labor unions. The Fund is aimed at subsidizing the Group's social activity, loans granted to its employees as well as other social benefit costs.

The Fund's assets have been offset against the Group's liabilities to the Fund as such assets have not been designated as separate assets of the Group. Therefore, as at 31 December 2014, the net balance was PLN (3,420,000.00) as compared to PLN (3,972,000.00) as at 31 December 2013.

An analysis of assets, liabilities and costs of the Fund is presented below:

	31 December 2014	31 December 2013
Loans granted to employees	2 808	3 986
Cash	977	708
Fund-related liabilities	7 205	8 666
Net balance	**(3 420)**	**(3 972)**
	31 December 2014	31 December 2013
Appropriations to the Fund in the financial year	4 971	8 289

38. Liabilities directly related to assets held for sale

	31 December 2014	31 December 2013
Non-current liabilities	**13 456**	**-**
Credit facilities and loans	1 347	-
Liabilities due to employee benefits	7 761	
Provisions	285	-
Other liabilities	3 890	-
Deferred tax liability	173	-
Accruals	-	-
Current liabilities	**252 880**	**-**
Trade and other liabilities	63 512	-
Liabilities from measurement of long-term contracts	656	
Liabilities due to employee benefits	9 356	
Current portion of interest-bearing credit facilities and loans	177 546	-
Income tax liabilities	69	-
Provisions	119	-
Accruals	1 622	-
Total liabilities directly related to assets held for sale	**266 336**	**-**

As at 31 December 2014, liabilities related to the *Production* segment assets were presented as liabilities directly related to assets held for sale due to the planned sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, as well as subsidiaries classified to the *Production* segment, i.e. Stalfa Sp. z o.o., ZKM Ukraine, Zakład Usług Technicznych

Sp. z o.o. and Polimex - Mostostal Ukraine. The Parent's sale of an organized part of the enterprise and 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.

39. Discontinued operations

39.1. Disposal of production operations

On 4 December 2014, the Extraordinary Shareholders' Meeting of the Company approved the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce. Additionally, the following subsidiaries of Polimex – Mostostal: Stalfa Sp. z o.o., ZKM Ukraine, Zakład Usług Technicznych Sp. z o.o. and Polimex - Mostostal Ukraine were classified as held for sale in 2014. Therefore, the *Production* segment was reclassified to discontinued operations in the 2014 financial year (comparative data for 2013 has been presented).

The Parent's sale of an organized part of the enterprise and 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. Assets assigned to the aforesaid segment are presented as assets held for sale as at 31 December 2014 (see Note 28).

39.2. Analysis of profit from discontinued operations for the financial year

The total profit (loss) on discontinued operations (*Production* segment) recognized in profit or loss has been presented in the income statement. The comparative income statement and cash flows from discontinued operations have been presented retrospectively so that operations discontinued in the current period could be shown.

The total impairment loss upon initial recognition of assets held for sale at fair value was PLN 44,892,000.00, including PLN 33,203,000.00 recognized as other operating expenses and PLN 11,689,000.00 as other comprehensive income.

39.3. Cash flow statement – discontinued operations

	Year ended 31 December 2014	Year ended 31 December 2013
Net cash flows from operating activities	22 961	4 312
Net cash flows from investing activities	(10 146)	(4 112)
Net cash flows from financing activities	(2 842)	-
Net cash flows	**9 973**	**200**

40. Contingent liabilities

Off-balance sheet items and court cases	31 December 2014	31 December 2013
Contingent liabilities	**1 161 223**	**1 754 953**
- guarantees and sureties granted	828 828	1 437 572
- promissory notes	28 536	27 418
- court cases	240 465	223 372
- other	63 394	66 591
Other (due to)	**-**	**114 623**
- right of perpetual usufruct of land	-	-
- balances transferred to off-balance sheet records with respect to: *	-	114 623
- receivables	-	48 839
- cash	-	15 973
- liabilities	-	25 330
- deferred income	-	24 481

* balances related to contracts delivered by Polimex-Mostostal S.A. in Iraq before 1991. As the contracts may no longer be fulfilled, the Company decided that they would be eliminated from off-balance sheet records.

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 2014, the Group's total exposure related to those instruments was ca. PLN 2,547 million.

40.1. Tax reports

Tax reports and other regulated (such as customs or foreign exchange) issues may be audited by administrative authorities, which are authorized to impose considerable penalties and sanctions. Lack of reference to established legal regulations in Poland results in the applicable laws being inconsistent and ambiguous. Frequent differences in opinion as to the interpretation of tax provisions, both within state authorities and between state authorities and entrepreneurs lead to uncertainties and conflicts. Therefore, the tax risk in Poland is much higher than in countries with a more mature tax system.

Tax reports may be audited within five years of the end of the year in which the tax was paid. As a result of such audits, the Group's tax liabilities may be increased. According to the Group, appropriate provisions had been recognized for recognized and measurable tax risks as at 31 December 2014 and 31 December 2013.

41. Related-party transactions

Aggregate values of related-party transactions for the year ended 31 December 2014, 31 December 2013 and as at that date:

Related party		*Sales to related parties*	*Purchases from related parties*	*Receivables from related parties*	*Liabilities to related parties*
Associates	*2014*				
Energomontaż Północ Bełchatów Sp. z o.o.		79	6	31	-
Polimex-Sices Sp. z o.o		-	-	-	-
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.		-	-	-	-
Sices Montaż Sp. z o.o.		1 098	-	-	-
Terminal LNG S.A.		-	-	-	-
Lineal Sp.z o.o.		-	-	-	-
Total		**1 177**	**6**	**31**	**-**
Associates	*2013*				
Energomontaż Północ Bełchatów Sp. z o.o.		1 287	11	11	-
Polimex-Sices Sp. z o.o		2 614	1 314	-	849
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.		-	-	-	-
Sices Montaż Sp. z o.o.		-	-	-	-
Terminal LNG S.A.		-	-	-	-
Lineal Sp.z o.o.		-	1 084	-	-
Total		**3 901**	**2 409**	**11**	**849**

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

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

	Year ended 31 December 2014	Year ended 31 December 2013
Management Board		
Short-term employee benefits (salaries and related charges)	4 699	3 552
Supervisory Board		
Short-term employee benefits (salaries and related charges)	622	619
Total	**5 321**	**4 171**

The remuneration of the Issuer’s Management Board paid in 2014 amounted to PLN 4,699,000.00 as compared to PLN 3,552,000.00 in 2013, and included:

		Year ended 31 December 2014	Year ended 31 December 2013
Gregor Sobisch	Chairperson of the Board	947	475
Acting Chairperson of the Board	Maciej Stańczuk	802	-
Acting Chairperson of the Board	Robert Oppenheim	90	664
Acting Chairperson of the Board	Dariusz Krawczyk	-	114
Vice-Chairperson of the Board	Joanna Makowiecka	720	356
Vice-Chairperson of the Board	Robert Bednarski	508	746
Vice-Chairperson of the Board	Krzysztof Cetnar	410	-
Vice-Chairperson of the Board	Bogusław Piekarski	542	-
Vice-Chairperson of the Board	Arkadiusz Kropidłowski*	559	300
Vice-Chairperson of the Board	Aleksander Jonek*	121	897
Total		**4 699**	**3 552**

* Remuneration paid in 2014 under the non-competition agreement

The remuneration of the Issuer’s Supervisory Board paid in 2014 amounted to PLN 622,000.00 as compared to PLN 619,000.00 in 2013, and included:

		Year ended 31 December 2014	Year ended 31 December 2013
Chairman of the Supervisory Board	Adam Ambrozik	60	-
Chairman of the Supervisory Board until 24 June 2014	Jerzy Góra	58	91
Chairman of the Supervisory Board until 15 February 2013	Jan Woźniak	-	24
Vice-Chairman of the Supervisory Board	Ryszard Engel	44	81
Vice-Chairman of the Supervisory Board	Dariusz Krawczyk	76	71
Vice-Chairman of the Supervisory Board	Artur P. Jędrzejewski	67	95
Vice-Chairman of the Supervisory Board until 3 June 2014, Member of the Supervisory Board	Andrzej Kasperek	95	63
Secretary of the Supervisory Board until 15 February 2013	Sebastian Bogusławski	-	20
Member of the Supervisory Board	Krzysztof Kaczmarczyk	6	-
Member of the Supervisory Board	Marek Wierzbowski	-	40
Member of the Supervisory Board	Tadeusz Kuczborski	-	59
Member of the Supervisory Board	Wojciech Barański	82	39
Member of the Supervisory Board	Marcin Milewicz	82	4
Member of the Supervisory Board until 15 February 2013	Dariusz Formela	-	16
Member of the Supervisory Board until 15 February 2013	Andrzej Bartos	-	16
Member of the Supervisory Board	Jarosław Kochaniak	46	-
Member of the Supervisory Board	Andrzej Zwara	6	-
Total		**622**	**619**

Information on the Company's shares held by the Management Board and Supervisory Board members as at 31 December 2014 and 31 December 2013

As at 31 December 2014 and 31 December 2013

Function	Current number of shares held
Member of the Supervisory Board	5 700
Total	**5 700**

Remuneration of Management Boards of subsidiaries, including:

		Year ended 31 December 2014	Year ended 31 December 2013
Acting Chairperson of the Board	Robert Oppenheim	-	33
Total		**-**	**33**

43. Fees of the certified auditor or entity authorized to audit financial statements

	31 December 2014	31 December 2013
Statutory audit of the annual financial statements	773	918
Tax advisory services	5	61
Accounting advisory services	18	-
Total	**796**	**979**

44. Risk management objectives and policy

The operations of the Company and the Group are exposed to numerous risks related both to the macroeconomic situation and negative internal phenomena. In 2014, the activities of the Company and the Group were affected by external factors related to the prolonged crisis in the construction sector as well as the still considerably limited funding available to the sector entities, including a material limitation of bank loans and performance bonds offered by banks. Also, the terms of significant agreements signed with the creditors, namely the Financial Debt Service Agreement of 21 December 2012, as amended, and, in particular, Annex No. 6 and Annex No. 7 thereto, whereby a portion of the Company's debt to the creditors was converted into shares, as well as the New Guarantee Facility Agreement of 21 December 2012, as amended, and the New Bond issue (see Note 29.5) exerted a significant effect on the Company's business. The Company continued to conduct analyses in cooperation with third-party advisors, implement the remedy program as well as new tender and contract risk review procedures. The key **external risks** identified by the Parent and the Group Companies include:

Macroeconomic and political risks:

- risks hindering development of the industries where the Company operates, both by delaying the investment process and preventing entities from achieving all their investment objectives, forcing them to discontinue investment programs in crisis-affected sectors or change the investment objectives;
- funding provided by the majority of banks for investment projects in Poland conditional on assessment of the business risk of the country from the perspective of foreign

decision-making centers, growth prospects of each industry and sector as well as individual business entities;

- risk related to changes in legal regulations. A relative instability of the legal system, with its frequent modifications as well as conflicting provisions or implementation of temporary solutions considering the general market conditions and social pressure, remains one of the major factors increasing the business risk in Poland.

Internal risks identified by the Polimex-Mostostal Group Companies include:

1) strategic risks, including those resulting from a mismatch between the adopted strategy and the changing market conditions and restructuring processes:
   a) a risk that the economic and financial plans will not be achieved, including the risk related to the organizational, operational and financial restructuring process being unsuccessful;
   b) a risk involved in building a new contract portfolio and a risk of termination of contracts (especially, long-term ones);
   c) a risk of competitive imbalance;
   d) legal risks related to lengthy and costly court proceedings;
2) operational risks:
   a) a risk of measurement of long-term construction contracts;
   b) a risk of changes in the demand for specialist services;
   c) a risk of price fluctuations on the key commodity markets;
   d) a risk of loss of resources;
   e) a risk of loss of qualified employees;
3) financial risks:
   a) liquidity (credit) risk;
   b) a risk of performance bonds (including a risk of a lack of new performance bonds and a risk of accumulated payments under bank and insurance guarantees);
   c) trade credit risk;
   d) interest rate risk;
   e) currency risk.

Considering the strategy, significant risks involve the possible loss of:

- long-term contracts material for development of the Company and the Capital Group;
- the ability to fulfil public procurement contracts or its limitation;
- confidence of the key business partners;
- the ability to secure cooperation of reliable subcontractors in the power engineering and petrochemistry industries.

The Group fulfils long-term construction, including energy, contracts. A loss of even one contract may translate into a loss of significant sources of the Group's revenue and necessitate refund of advance payments, thus resulting in a loss of liquidity and hindering or preventing the Group from payment of its debt and other amounts due.

The ongoing restructuring process, liquidity issues encountered by the Parent and problems with timely contract fulfilment, including the inability to obtain bank or insurance guarantees, have led to a considerable limitation of confidence of the Company and Capital Group's business partners. If the restructuring process is completed successfully, the Group's financial stability should enable it to win back its key business partners.

The Group's activities focus on the power engineering and petrochemistry industries. Considering a limited number of qualified subcontractors, there is a risk that the cooperation with the right entities will not be secured, which may have a considerable negative effect on contract fulfilment or necessitate engagement of subcontractors providing services at substantially higher prices, which may reduce the Group Companies' competitive advantage, the tendering process efficiency and, consequently, have a negative effect on the financial performance of the Group.

Preventing the occurrence of the risks considered material from the perspective of the strategy is the key task of the Management Board of the Parent and the Segment Companies, which hold negotiations with the clients, consortium partners and banks in addition to managing

the changes introduced to the Group's processes and procedures. The Company's ability to complete the restructuring process successfully depends on numerous factors, some of which remain beyond the Company's control. There is a risk that the measures employed by the Company with a view to achieving the economic and financial plans and ensuring compliance with the Financial Debt Service Agreement will not produce the desired effect. Implementation of and compliance with the procedures of proper contract fulfilment, tender and contract preparation, verification of the financial and technical/technological standing of the business partners, control and supervision as well as controlling form an important part of the risk level monitoring process. Risks material for the strategy are managed by the Group's senior executives.

Operational risks – in this respect, the major risks are related to **measurement and fulfilment of long-term construction contracts** and the **liquidated damages** thereunder. Management of risks related to contract measurement and fulfilment, accumulated at the Group level, requires effective information channels as well as uniform budget review and project cost discipline procedures. As at the date of these financial statements, the Company and the Group Companies had implemented procedures, including consistent principles of controlling the tendering process as well as long-term contract planning and settlement in each segment and at the Group level. Also, the Parent and, in particular, the Segment Companies introduce additional, uniform tools supporting the budgeting and ongoing strategic project cost control tools. Due to fulfilment of long-term energy contracts, operational risk management is one of the key tasks at each level and stage of the contract delivery and monitoring process. During the reporting period, the Company's ability to deliver contracts within the agreed time limits was further impaired due to a strong demand for funding, liquidity problems and the construction market conditions. As part of the restructuring plan, operations in the two major sectors, namely the power engineering and petrochemical/chemical ones, are carried out by the Segment Companies, which are now exposed to considerable operational risks.

Commodity price risk. The economic efficiency of the Company's manufacturing operations is highly dependent on fluctuations in the prices of raw materials, mainly steel and cement. Rising prices of materials may trigger an increase in the operating expenses of the Group. Where fees under the contracts may not be reviewed/renegotiated, which would enable the Group to cover higher costs of contract delivery, the performance may deteriorate. The Group has implemented a central materials procurement procedure (economies of scale, negotiating lower purchase prices). However, the procedures implemented by the Group did not prove sufficiently effective in offsetting the negative effect of rising prices of raw materials and commodities used under long-term contracts. The terms of contracts for supplies were renegotiated successfully.

To this end, both procedural changes in the approach of the major investors to price indexation in long-term contracts and the Company's definition of the acceptable risk at a level appropriate for covering the price rises and the loss of the total mark-up planned on the project are required.

Risk of loss of the Group's assets. The Group uses widely **insurance** products available on the market. These include both property insurance (most of all, business liability insurance, professional liability insurance [liability insurance of designers, architects and construction engineers], board member liability insurance as well as property insurance covering fortuitous events, theft and burglary, electronic appliances, property transported) as well as construction and assembly insurance arranged under general contracts and individual policies arranged for specific contracts. All the companies used motor insurance covering liability, comprehensive, theft and accident insurance, both under general (fleet) and individual contracts. The costs of insurable risk transfer as well as detailed terms and conditions of contract insurance required by business partners are subject to analysis. The majority of such risks are transferred onto third parties and the related costs are included in the contract delivery costs. However, there is a risk that the insurance policies will not protect the Group Companies against losses exerting a negative effect on the operations, financial condition and performance of the Group. Termination of the Financial Debt Service Agreement by the creditors and the Bond Issue

Terms by the bond holders would be a major event increasing the risk of loss of the Group's assets as assets owned by the Group Companies have been pledged as collateral for payment of the Company's liabilities thereunder.

Risk of loss of resources as a result of pledging the Company's assets as collateral for liabilities. Use of the collateral by the creditors poses a considerable risk from the perspective of the Company's ability to continue its operations in case of bottlenecks and a crisis in the construction sector, which intensifies the pressure to use the collateral even if such use is not justified by the terms of contracts. The aforementioned risk could considerably hinder timely and proper performance of agreements and contracts, which would escalate contractual sanctions, such as imposition of liquidated damages, engagement of substitute contractors at the expense of the Company or even contract termination through the fault of the Company. In 2014, major risks related to imposition of liquidated damages under motorway contracts terminated by the Company through the fault of the client occurred.

Liquidity risk

Capital management is aimed at ensuring liquidity on an ongoing basis, in each period. The Group's liquidity risk is managed pro-actively. The Group uses financial ratios for liquidity management purposes, which additionally support the process. In order to maintain liquidity in the nearest future, the Company needs to engage in projects and contracts ensuring neutral and positive cash flows. The aforementioned risk is monitored on an ongoing basis and analyzed both in the short and long term.

A high level of the Company and the Group's debt was reduced, which is important, in particular, for the Company and the Group's ability to secure funding from financial institutions, in particular, in the form of bank guarantees, extend the due dates or require advance payments from the contracting parties as well as the ability to use some of the cash flows as capital expenditure. Improvement of the Company's flexibility in planning or responding to changes in its business, competitive environment and markets where it operates enhances the Company's market image and relationships with the key contracting parties, which was reflected in the last quarter of 2014 in the power engineering and petrochemistry contracts signed by the Company.

The Financial Debt Service Agreement imposed a number of obligations on the Company, in particular the obligation to: (i) make timely payments to the Creditors; (ii) obtain specific proceeds from disposal of the Company's assets as part of the divestment process; (iii) reduce operating expenses to the level defined in the Agreement; (iv) restructure past due trade liabilities or keep the financial ratios at a specified level. The majority of these objectives have already been accomplished.

Conclusion of the Financial Debt Service Agreement with the Creditors is a mechanism minimizing the financial risks, including the liquidity risk. Owing to the capital injection, which enabled efficient working capital management, the Company's liquidity was considerably improved, which resulted in a drop in past due liabilities almost by a half, i.e. from PLN 184 million as at 31 December 2013 to PLN 100 million a year later. The current balance of past due liabilities is now (mid-March) considerably below PLN 80 million. Additionally, initiatives were undertaken with a view to centralizing finance management at the Group level as well as optimizing interest income and expense through efficient structure management, which produced the aforesaid effects in a relatively short time.

Risk of contract guarantees. At the time of submission of tenders, in particular as regards procedures carried out in accordance with the Public Procurement Law, it is necessary to provide tender bonds, which requirement has been satisfied by the Group Companies using bank and insurance tender guarantees. Upon contract conclusion, the Company, as the major contractor, is obliged to provide performance bonds, the average value of which represents ca. 10% of the contract value. Recently, due to the crisis in the Polish construction sector, banks/insurance companies have not been willing to increase their guarantee exposure to construction companies.

Under the New Guarantee Facility Agreement of 21 December 2012, as amended, the Segment Companies may request new guarantees up to the agreed limit. Guarantees may be given

under the New Guarantee Facility provided that the procedures in force, both internal, with respect to the tendering and contracting process, and those agreed with the banks granting guarantees, including, but not limited to, contract partners' consent for assignment of receivables under contracts onto banks, are complied with.

In 2014, the Company was exposed to a risk of claims and payments under bank guarantees, in particular, due to difficulties in timely fulfilment of long-term contracts and the inability to obtain bank guarantees or modify the terms of such guarantees under the annexes to contracts, including extension of the validity period of guarantees related to contracts signed before 21 December 2012.

Limited access to bank and insurance guarantees in light of the provisions imposing the obligation to provide a guarantee for payment for construction works represents another risk factor at individual stages of construction contracts. A failure to comply with mandatory laws within the prescribed time limits may lead to suspension of works or even contract termination through the fault of the Company.

On 30 July 2014, the Company executed Annex No. 6 to the Financial Debt Service Agreement, modifying considerably the Agreement under which funding in the form of the New Guarantee Facility was provided to the Company (see Report No. 132/2012). Pursuant to the said annex, the New Guarantee Facility limit made available by the banks will be PLN 60 million. The new limit may only be used by the newly established power engineering, petrochemical and chemical Segment Companies.

The credit risk is mitigated by insuring trade receivables from foreign clients and negotiating security for their payment. As regards domestic customers, the Group negotiates security for payment of receivables in the form of sureties, registered pledges or promissory notes where the customers have limited access to bank or insurance guarantees. Although the aforementioned risk is monitored and negotiations conducted with business partners over extension of the payment terms, the risk level continued to be high, mainly due to:

- the materials and commodity suppliers' pressure to reduce the payment terms to the minimum, including the requirement to make advance payments or provide security in the form of expensive financial instruments (bank guarantees, letters of credit);
- bankruptcies in the construction sector and financial difficulties encountered by other consortium members, subcontractors and subsidiaries;
- lack of access to credit risk insurance limits and guarantee limits provided by insurers;
- lack of agreements on settlement of additional works and a rise in the prices of materials in relation to major infrastructure contracts;
- banks' unwillingness to finance projects in the construction sector;
- continued financial and operational restructuring process at the Capital Group.

Risk of loss of qualified employees. The crisis situation in the construction sector necessitates implementation of immediate cost-cutting initiatives, including those aimed at reducing personnel costs. The Company is currently carrying out group dismissal procedures as part of the operational restructuring process and implementation of the cost cutting policy. It is exposed to the risk of losing highly-qualified and experienced employees, who may leave in the context of instability of employment, and look for a job offering a higher salary.

Should new contracts be signed, the Company may encounter problems in recruitment of new, qualified staff with the required expertise, experience and qualifications, or recruitment of such employees may involve higher personnel costs. Therefore, optimization initiatives are needed in addition to increasing efficiency of staff and extending the scope of cooperation with subcontractors.

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

The performance of the Company and the Polimex-Mostostal Group may be subject to fluctuations as a result of changes in market factors, in particular quoted prices of commodities, foreign exchange and interest rates. By managing the aforesaid risk, the Group aims to reduce changes in future cash flows and minimize the potential economic losses triggered by events which may have a negative effect on its performance.

Interest rate risk. Both the Company and the Group companies hold cash in their bank accounts and have loan liabilities to banks. Additionally, the Company's debt includes liabilities due to bonds issued. The aforesaid liabilities are based on floating interest rates. The entities monitor the situation in the financial market, analyze trends and forecasts concerning reference market rates of interest so as to be able to take decisions, when appropriate, on conclusion of contracts as part of the available limits to hedge themselves against the unfavorable rises in interest expense related to borrowings.

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

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

Under the Financial Debt Service Agreement, FX derivatives may not be used by the Company as the available credit products. 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.

44.1. Interest rate risk

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 2014, the Group had not entered into any derivative contracts. Only Torpol S.A. had active interest rate derivatives as at 31 December 2013. On 3 July 2013, it entered into a CAP transaction (purchase of an interest rate option), to hedge the interest rate risk resulting from its bank loan in NOK. The notional value of the transaction is NOK 10 million. The contractual reference rate is 1M OIBOR between 1 August 2013 (transaction start date) and 7 July 2014 (transaction close date). 2.10% p.a. is the strike interest rate for the option. In 2014, the Group did not enter into any hedging transactions.

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

Sensitivity analysis – interest rate changes

		Increase/decrease by	
	Value at risk	+0.5%	-0.5%
Year ended 31 December 2014			
Cash at bank	677 033	3 385	(3 385)
Credit facilities and loans taken out	146 832	(734)	734
Finance lease liabilities	931	(5)	5
Bonds	135 388	(677)	677
Effect on gross profit/loss	**-**	**1 969**	**(1 969)**
Deferred tax	-	(374)	374
Total	**-**	**1 595**	**(1 595)**

		Increase/decrease by	
	Value at risk	+0.5%	-0.5%
Year ended 31 December 2013			

Cash at bank	503 272	3 004	(3 004)
Credit facilities and loans taken out	752 981	(3 765)	3 765
Finance lease liabilities	39 275	(196)	196
Bonds	126 890	(634)	634
Effect on gross profit/loss	**-**	**(1 592)**	**1 592**
Deferred tax	-	302	(302)
Total	**-**	**(1 289)**	**1 289**

44.2. Currency risk

The cash flows from financing activities of the Polimex-Mostostal Group Companies are characterized by a high sensitivity to changes in foreign exchange rates, which is due to the fact that revenue is generated in foreign currencies, mainly EUR. With a view to minimizing the negative effect of the currency risk on their operations, the Group Companies use mainly natural hedges. Entities with open treasury limits may also use FX derivatives available on the market as part of their risk management strategies.

Depending on the accounting treatment of financial instruments specified in their accounting policies, two groups of companies may be identified (as regards FX derivatives):

I) entities with a documented risk management strategy and hedge accounting principles in force – Polimex-Mostostal S.A. and Torpol S.A. as at the end of the reporting period (until 30 June 2014);

II) entities which do not use hedge accounting.

Those entities which use hedge accounting present the hedging derivatives at fair value and changes in the fair value:

in the portion considered an effective hedge - directly in other comprehensive income;

in the portion considered an ineffective hedge - in profit or loss.

Those entities which do not use hedge accounting present changes in the fair value of derivatives directly in profit or loss.

Polimex-Mostostal S.A.

The cash flows from financing activities of Polimex-Mostostal S.A. are sensitive to changes in foreign exchange rates, which is due to the fact that foreign currency revenue represents a major part of the entity's turnover. The euro is the major currency of the Company's turnover.

Natural hedges, i.e. hedging the currency risk through the entry into transactions that generate costs in the same currency as that in which revenue is earned, is the basic method of currency risk hedging used by the Company. Additionally, the currency risk management strategy adopted by the Company permits the use of derivative instruments related to the currency market (forward contracts, put FX options, structures consisting of put and call options). Their practical use is conditional on treasury limits made available by the Company's banks. On 21 December 2012, the Financial Debt Service Agreement was concluded, whereby FX derivatives may not be used as the available credit products. Therefore, the importance of natural hedges as the key tool for mitigation of the currency risk related to the business activities is growing. The Company is planning to continue negotiations over treasury limits with banks in order to be able to manage the currency risk it is exposed to more efficiently.

As at 31 December 2014, the Company did not have any active FX derivatives.

Changes in the average EUR exchange rate affect the Company's revenue in PLN generated under foreign currency contracts. Considering contracts signed and highly probable, the Company estimated its exposure to the currency risk between January and December 2015 as follows:

Item	Q1 – Q4 2015
Anticipated foreign currency proceeds (EUR'000 equivalent)	13 978
Anticipated foreign currency payments (EUR'000 equivalent)	3 398

Business exposure to currency risk (EUR'000)	**10 580**

Polimex-Mostostal Capital Group

Natural hedges, i.e. hedging the currency risk through the entry into transactions that generate costs in the same currency as that in which revenue is earned, is the basic method of currency risk hedging used by the Polimex-Mostostal Group Companies. If the currency risk may not be hedged naturally to the necessary extent, the companies with open treasury limits may use currency hedges based on derivative instruments related to the currency market. Specifically, the following instruments may be used:

- forward contracts;
- put/call FX options (purchased);
- structures consisting of put and call options, in particular zero-cost symmetric currency collars comprising put and call options.

The terms of hedging derivatives are negotiated so that they match the terms of the hedged item and thus ensure the maximum effectiveness of the hedging relationship. The Group Companies monitor the market situation on an ongoing basis, confronting their hedging transactions with the forecast exposure to the currency risk.

As at 31 December 2014, the Group Companies did not have any active FX derivatives.

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 2015 as follows:

Item	**Q1 – Q4 2015**
Anticipated foreign currency proceeds (EUR'000 equivalent)	36 785
Anticipated foreign currency payments (EUR'000 equivalent)	13 445
Business exposure to currency risk (EUR'000)	**23 339**

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 2014			31 December 2013		
	EUR	USD	GBP	EUR	USD	GBP
Cash and cash equivalents	3 143	11	1 548	2 886	7	12
Trade receivables	25 201	1 016	2 064	42 486	4 264	362
Collateralized bank loans	553	-	-	195	-	-
Trade liabilities	5 803	87	211	11 526	78	(208)
Gross carrying amount	21 988	940	3 401	33 651	4 193	582
Estimated sales	36 785	-	5 619	66 063	-	951
Estimated purchases	13 445	1 493	1 377	25 461	8 724	158
Gross exposure	23 340	(1 493)	4 242	40 602	(8 724)	793
FX forwards	-	-	-	-	-	-
FX options	-	-	-	-	-	-
Net exposure	45 328	(553)_	7 643	74 253	(4 531)	1 375

* amounts presented in the respective currencies

Currency risk sensitivity analysis as at 31 December 2014

	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 and cash equivalents	21 868	1 331	(1 331)	4	(4)	846	(846)
Trade and other receivables	122 257	10 741	(10 741)	365	(365)	1 128	(1 128)
Derivative financial instruments	-	-	-	-	-	-	-
Trade and other liabilities	(26 192)	(2 473)	2 473	(31)	31	(115)	115
Credit facilities, loans and other sources of funding	(2 357)	(236)	236	-	-	-	-
Effect on net profit/loss	**115 576**	**9 363**	**(9 363)**	**330**	**(330)**	**1 859**	**(1 859)**
Derivative financial instruments	-	-	-	-	-	-	-
Effect on total other comprehensive income	**-**	**-**	**-**	-	-	-	-

Currency risk sensitivity analysis as at 31 December 2013

	Carrying amount	EUR/PLN		USD/PLN		SEK/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 and cash equivalents	12 050	1 197	(1 197)	2	(2)	59	(59)
Trade and other receivables	186 101	16 462	(16 462)	1 284	(1 284)	181	(181)
Derivative financial instruments	594	59	(59)	-	-	-	-
Trade and other liabilities	(46 509)	(4 503)	4 503	(23)	23	103	(103)
Credit facilities, loans and other sources of funding	(809)	(81)	81	-	-	-	-
Effect on net profit/loss	**-**	**13 134**	**(13 134)**	**1 263**	**(1 263)**	**343**	**(343)**
Derivative financial instruments	-	-	-	-	-	-	-
Effect on total comprehensive income	**-**	**-**	**-**	-	-	-	-

44.3. Commodity price risk

The economic efficiency of the Parent's manufacturing operations is highly dependent on fluctuations in the prices of raw materials, mainly steel, cement, asphalt and zinc composite. The aforementioned risk is mitigated mainly thanks to the Parent's team of well-qualified experts responsible for market analyses and central procurement of materials (economies of scale, negotiating lower purchase prices). As regards procurement of zinc alloys, depending on the prevailing market conditions, the Parent analyzes appropriateness of an active use of forward instruments available in the financial market. Any hedging transactions will probably take the form of zero-cost price collar structures (structured strategies).

44.4. 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. As at 31 December 2012, credit concentration per financial transaction partner did not exceed 0.38% of the Group's balance sheet total. The Directorate General for National Roads and Motorways is the major contracting party, the exposure to which was PLN 14,786,000.00 as at the end of the reporting period. 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. The book values of the aforesaid assets represent the maximum credit exposure. According to the Management Board, the risk of financial assets at risk is reflected by appropriate impairment losses. An analysis of the credit risk concentration for trade receivables as at 31 December 2014 and 31 December 2013 has been presented in Note 25.1, while an ageing analysis of past due receivables which had not been impaired as at 31 December 2014 and 31 December 2013 has been presented in Note 25.2.

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

As at 31 December 2014, the exposure was PLN 78,646,000.00 as compared to PLN 107,109,000.00 as at 31 December 2013 (net receivables).

44.5. Liquidity risk

The Group's liquidity risk results from a mismatch between the amounts and due dates of receivables and liabilities. Diversifying the portfolio of suppliers and clients in addition to financing subcontractor projects with amounts received from clients are of crucial importance for hedging the aforesaid risk.

The Group's financial liabilities as at 31 December 2014 and 31 December 2013 by maturity based on contractual, non-discounted payments:

31 December 2014	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	-	-	415	146 417	-	146 832
Bonds	-	-	-	135 388	-	135 388
Other non-current liabilities, including:	-	-	-	314 233	-	314 233
- leases	-	-	-	34	-	34
Trade and other liabilities, including:	114 473	438 591	11 311	-	-	564 375
- leases	-	-	897	-	-	897
	114 473	**357 650**	**11 726**	**596 038**	**-**	**1 079 887**

31 December 2013	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	650 522	507	88 831	13 121	-	752 981
Bonds	126 890	-	-	-	-	126 890
Other non-current liabilities, including:	-	-	-	256 127	-	256 127
- leases	-	-	-	29 556	-	29 556
Trade and other liabilities, including:	244 135	378 604	193 881	-	-	816 620
- leases	-	2 423	7 296	-	-	9 719
	1 021 547	**379 111**	**282 712**	**269 248**	**-**	**1 952 618**

45. Financial instruments

45.1. Classification of financial instruments

	31 December 2014				31 December 2013			
	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Other financial liabilities measured at amortized cost	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Other financial liabilities measured at amortized cost
Long-term shares	504	-	-	-	2 876	-	-	-
Other financial assets	-	-	215 054	-	-	-	325 650	-
- non-current*	-	-	214 997	-	-	-	215 746	-
- current	-	-	57	-	-	-	109 904	-
Trade receivables	-	-	528 355	-	-	-	1 014 656	-
Derivative financial instruments, including:								
- other**	6 601	-	-	-	6 601	-	-	-
Cash and cash equivalents	-	-	677 033		-	-	503 272	-
Financial liabilities								
Overdraft facility	-	-	-	415	-	-	-	43 969
Credit facilities and loans, including:								
- long-term, floating-rate*	-	-	-	146 417	-	-	-	727
- short-term, floating-rate*	-	-	-	-	-	-	-	708 285
Other liabilities (non-current), including:				314 267				256 127
- liabilities under finance and buy-back lease agreements	-	-	-	34	-	-	-	29 556
- guarantee payments and performance bonds	-	-	-	58 027	-	-	-	52 928
- performance bonds	-	-	-	4 873	-	-	-	6 814
- other***	-	-	-	256 206	-	-	-	166 829
Trade liabilities	-	-	-	483 434	-	-	-	674 057
Short-term leases	-	-	-	897	-	-	-	9 719

* including performance bonds for contracts, provided by banks, totaling PLN 214,969,000.00 and originated loans of PLN 28,000.00

** measurement of a financial instrument (options)

*** including advance payments under contracts, totaling PLN 255,729,000.00 and trade liabilities of PLN 53,154,000.00

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

Year ended 31 December 2014

	Interest income/(expense)	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets	***19 378***	***4 335***	***(121 983)***	***-***	***(1 764)***	***-***	***-***	***(100 034)***
Shares	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Held-to-maturity financial assets	-	-	-	-	-	-	-	-
Financial assets measured at fair value, including:								
Derivative financial instruments	-	-		-	5	-	-	5
Other financial assets	383	-	-	-	-	-	-	383
Trade receivables	1 093	3 871	(121 983)	-	27	-	-	(116 992)
Other receivables	-	-	-	-	-	-	-	-
Cash and cash equivalents	17 902	464	-	-	(1 796)	-	-	16 570

	Interest income/(expense)	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities	***(47 718)***	***(1 355)***	***(131)***	***-***	***(73)***	***-***	***272 039***	***222 762***
Overdraft facilities	(4 374)							(4 374)
Credit facilities and loans	(23 613)	41	-	-	-	-	-	(23 572)
Bonds	(6 634)	-	-	-	-	-	272 039	265 405
Other non-current liabilities	(4)	-	(131)	-	(60)	-	-	(195)
- leases	(4)	-	-	-	-	-	-	(4)
Trade and other liabilities, including:	(13 093)	(1 396)	-	-	(13)	-	-	(14 502)
- leases	(1 680)	-	-	-	-	-	-	(1 680)
Derivative financial instruments	-	-	-	-	-	-	-	-
Total	***(28 340)***	***2 980***	***(122 114)***	***-***	***(1 837)***	***-***	***272 039***	***112 728***

Year ended 31 December 2013

	Interest income/(expense)	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets	***10 586***	***1 726***	***(20 476)***	***-***	***5 339***	***68 662***	***1 740***	***67 577***
Shares	-	-	-	-	-	68 662	1 148	69 810
Available-for-sale financial assets, including:								
Other	-	-	-	-	-	-	140	140
Held-to-maturity financial assets	-	-	-	-	-	-	-	-
Financial assets measured at fair value, including:								
Derivative financial instruments	-	-		-	5 347	-	231	5 578
Other financial assets	-	-	26	-	-	-	(83)	(57)

	Interest income/(expense)	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Trade receivables	1 544	(129)	(20 502)	-	(5)	-	304	(18 788)
Other receivables	-	-	-	-	-	-	-	-
Cash and cash equivalents	9 042	1 855	-	-	(3)	-	-	10 894
Financial liabilities	***(65 130)***	***(280)***	***7 562***	***-***	***(239)***	***-***	***(1 353)***	***(59 440)***
Overdraft facilities	(6 723)	-	-				(809)	(7 532)
Credit facilities and loans	(38 088)	17	-	-	-	-	-	(38 071)
Bonds	(7 837)	-	-	-	-	-	-	(7 837)
Other non-current liabilities	(3)	-	-	-	(31)	-	-	(34)
- leases	(3)	-	-	-	-	-	-	(3)
Trade and other liabilities, including:	(12 479)	(297)	7 562	-	31	-	(544)	(5 727)
- leases	(1 894)	(24)	-	-	22	-	-	(1 896)
Derivative financial instruments	-	-	-	-	(239)	-	-	(239)
Total	***(54 544)***	***1 446***	***(12 914)***	***-***	***5 100***	***68 662***	***387***	***8 137***

45.3. Interest rate risk

Carrying amount of the Group's financial instruments exposed to the interest rate risk by maturity:

Year ended 31 December 2014

Fixed interest rate

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Liabilities under finance and buy-back lease agreements	-	-	-	-	-	-	-
Liabilities under finance and buy-back lease agreements presented as long-term credit facilities and loans on the balance sheet	-	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Floating interest rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	677 033	-	-	-	-	-	677 033
Overdraft facilities	415	-	-	-	1 575	-	1 990
Working capital and investment loan	-	-	10 005	-	133 153	-	143 158
Leases	897	34	-	-	-	-	931
Bonds	-	-	-	-	135 388	-	135 388
Loans	-	-	-	-	-	1 684	1 684
Total	**678 345**	**34**	**10 005**	**-**	**270 116**	**1 684**	**960 184**

Year ended 31 December 2013

Fixed interest rate

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Liabilities under finance and buy-back lease agreements	-	-	-	-	-	-	-
Liabilities under finance and buy-back lease agreements presented as long-term credit facilities and loans on the balance sheet	-	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Floating interest rate

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Cash assets	503 272	-	-	-	-	-	503 272
Overdraft facilities	43 969	-	-	-	-	-	43 969
Working capital and investment loan	708 285	727	-	-	-	-	709 012
Leases	9 719	6 693	5 522	5 103	4 614	7 624	39 275
Bonds	5 467	-	-	-	-	121 421	126 890
Total	**1 270 712**	**7 420**	**5 522**	**5 103**	**4 614**	**129 045**	**1 422 418**

46. 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.

Some financial assets and liabilities of the Group are measured at fair value at the end of each reporting period. Information on the method of fair value measurement of the aforesaid financial assets and liabilities (specifically, measurement techniques and input data):

	31 December 2014		
	Level 1	Level 2	Level 3
Shares			504
Financial assets measured at fair value through profit or loss – derivative instruments	-	-	6 601

	31 December 2013		
	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss – derivative instruments	-	-	6 601

During the reporting period, no items were reclassified between Level 1 and Level 2.

Measurement of a derivative financial instrument

The Company 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 estate market. If the minimum rate of return on the investment is not achieved by the investor, the Company will be obliged to offset a specified portion of the loss. Should the value of the real estate portfolio increase, the Company has guaranteed participation in a portion of profit above the rate of return guaranteed for the investor.

The aforesaid instrument was measured as at 31 December 2014 and 31 December 2013 based on the forecast growth of the real estate portfolio within the horizon of the transaction. As a result, an appropriate share in the profit, discounted as at the end of the reporting period, was recognized by the Company in profit or loss.
The option was measured at fair value using a discount rate of 2.74% and an average forecast real estate portfolio growth rate of 40% in the five-year horizon. Such measurement of fair value was classified as Level 3 of the fair value hierarchy. Should the real estate portfolio growth rate increase, the measurement of the derivative would be higher. Should the discount rate increase, the measurement of the derivative would be lower.

46.1. Reconciliation of Level 3 fair value with measurement of financial assets

	31 December 2014	31 December 2013
Opening balance	6 601	-
Total profit or loss:	-	-
- profit or loss	-	-
Purchases	-	6 601
Closing balance	**6 601**	**6 601**

47. 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 obliged to satisfy external capital requirements applicable to 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 2014 and 31 December 2013, 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.

	31 December 2014	31 December 2013
Credit facilities, loans and bonds	282 220	879 871
Trade and other liabilities	878 642	1 072 747
Less cash and cash equivalents	677 033	503 272
Net debt	483 829	1 449 346
Equity	431 558	363 202
Equity plus net debt	**915 387**	**1 812 548**
Leverage ratio (net debt/equity plus net debt)	53%	80%

A drop in the leverage ratio seen in 2014 is the result of a considerable reduction in the balance of bank loans and bonds (conversion of debt into shares) as well as trade and other liabilities (sale of subsidiaries, reclassification of liabilities related to assets held for sale).

48. Headcount structure

The Group's average headcount in 2014 and 2013:

	31 December 2014	31 December 2013
Management Board of the Parent	4	4
Management Boards of the Group Companies	16	34
Support function	383	1 207
Operations function	5 024	7 676
Total	**5 427**	**8 921**

49. Events after the end of the reporting period

Events after the end of the reporting period:

On 21 January 2015, the liquidation procedure was opened by the District Court in Dusseldorf for Polimex GmbH with its registered office in Ratingen, Germany (a subsidiary).

On 23 January 2015, a conditional agreement on the sale of developed property in Siadło Dolne, the municipality of Kołbaskowo, was signed. In addition to the aforesaid property, the agreement provides for the sale of and establishment of a separate title to the facilities located on the said real property. The net price for the real property under the conditional agreement is PLN 8,250,000.00.

On 28 January 2015, a conditional agreement on the sale of the right of perpetual usufruct of developed property was signed in relation to properties located in Stalowa Wola, the municipality of Stalowa Wola. The total net price for the real property under the conditional agreement is PLN 6,600,000.00.

On 2 February 2015, a conditional agreement on the sale of developed property and an agreement on the sale of the right of perpetual usufruct of real property located in Jasło, the municipality of Jasło, were signed. The total net price for the real property under the conditional agreement is PLN 3,300,000.00.

The aforesaid conditional sales agreements form part of the operational restructuring process, as communicated by the Company in its Current Report No. 130/2012 concerning the Financial Debt Service Agreement signed with the creditors, and were concluded to fulfil the Company's obligations under the Annex to the FDSA, the details of which were provided in Current Report No. 150/2013 of 25 October 2013.

On 11 March 2015, the Polish Financial Supervision Authority issued a decision on approval of the Company's prospectus prepared for purposes of the application for admission of 2,863,571,852 R series ordinary bearer shares and their introduction to trading on the regulated market of the Warsaw Stock Exchange. On 17 March 2015, the Management Board of the Warsaw Stock Exchange adopted Resolution No. 248/2015 on admission of R series ordinary bearer shares of Polimex-Mostostal S.A. and their introduction to trading on the main market of the Warsaw Stock Exchange.

At the Company's request, 2,863,571,852 (two billion eight hundred and sixty-three million five hundred and seventy-one thousand eight hundred and fifty-two) R series ordinary bearer shares with the par value of PLN 0.04 each ("Shares") were admitted to trading on the main market.

On 18 March 2015, the National Depository for Securities announced that 2,863,571,852 R series ordinary bearer shares with the par value of PLN 0.04 each would be registered by the National Depository for Securities under code PLMSTSD00019. The shares were registered by the National Depository for Securities on 20 March 2015.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	Full name	Position/Function	Signature
23.03.2015	Maciej Stańczuk	Acting Chairperson of the Board	
23.03.2015	Joanna Makowiecka - Gaca	Vice-Chairperson of the Board	
23.03.2015	Krzysztof Cetnar	Vice-Chairperson of the Board	
23.03.2015	Jacek Czerwonka	Vice-Chairperson of the Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS			
Date	Full name	Position/Function	Signature
23.03.2015	Karolina Bartulska	Reporting and Consolidation Department Manager	