**POLIMEX-MOSTOSTAL CAPITAL GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**WITH THE INDEPENDENT AUDITORS' OPINION**

This is a translation of a document originally issued in the Polish language

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(in PLN thousands)

## CONSOLIDATED INCOME STATEMENT
## for the year ended 31 December 2011

| | Note | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| **Continuing operations** | | | |
| Sale of goods | | 886 849 | 778 393 |
| Rendering of services | | 3 916 661 | 3 356 558 |
| Rental income | | 23 285 | 25 950 |
| **Revenue** | 13,14.1 | **4 826 795** | **4 160 901** |
| Cost of sales | 14.6 | (4 484 528) | (3 723 351) |
| **Gross profit** | | **342 267** | **437 550** |
| Other operating income | 14.2 | 31 452 | 26 251 |
| Selling costs | | (35 519) | (30 316) |
| Administrative expenses | | (183 611) | (210 438) |
| Other operating expenses | 14.3 | (18 257) | (10 333) |
| **Revenue from operating activities** | | **136 332** | **212 714** |
| Finance income | 14.4 | 36 952 | 21 252 |
| Finance costs | 14.5 | (84 178) | (78 088) |
| Share of associate's profit (loss) | 24 | 3 203 | (675) |
| **Profit before tax** | | **92 309** | **155 203** |
| Income tax | 15 | 10 577 | (35 902) |
| **Profit for the year** | | **102 886** | **119 301** |
| Attributable to: | | | |
| Equity holders of the parent | | 100 389 | 109 658 |
| Non-controlling interests | | 2 497 | 9 643 |
| | | **102 886** | **119 301** |
| Earnings per share (in PLN) | | | |
| − number of shares | | 521 154 076 | 520 918 203 |
| − basic, for profit for the period attributable to equity holders of the parent | 18 | 0.19 | 0.21 |
| Diluted earnings per share ( in PLN): | | | |
| − number of shares | | 521 154 076 | 520 918 203 |
| − diluting potential ordinary shares | | 12 142 323 | 12 378 196 |
| − diluted, for profit for the period attributable to equity holders of the parent | | 0.19 | 0.21 |

(in PLN thousands)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## for the year ended 31 December 2011

| | *Note* | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| **Net profit** | | **102 886** | **119 301** |
| Currency translation differences on consolidation | | 10 874 | (6 685) |
| Net gains/(losses) on valuation of cash flow hedges | 14.9 | (6 207) | (1 679) |
| Deferred tax | 15.1 | 1 179 | 316 |
| **Other comprehensive income, net of tax** | | **5 846** | **(8 048)** |
| **Total comprehensive income** | | **108 732** | **111 253** |
| | | | |
| **Comprehensive income attributable to:** | | | |
| Equity holders of the parent | | 106 235 | 101 053 |
| Non-controlling interests | | 2 497 | 10 200 |
| | | **108 732** | **111 253** |

(in PLN thousands)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**as at 31 December 2011**

| | *Note* | *31 December 2011* | *31 December 2010* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 20 | 1 044 862 | 1 027 948 |
| Investment properties | 21 | 58 824 | 42 316 |
| Goodwill on consolidation | 22 | 491 674 | 487 001 |
| Intangible assets | 23 | 25 788 | 25 234 |
| Investments in associates accounted for using the equity method | 24 | 16 419 | 14 659 |
| Financial assets | 25 | 4 755 | 4 196 |
| Non-current receivables | | 32 230 | 46 184 |
| Non-current prepaid expenses | | 4 006 | 949 |
| Deferred tax assets | 15.3 | 77 400 | 63 710 |
| | | **1 755 958** | **1 712 197** |
| **Current assets** | | | |
| Inventories | 26 | 445 111 | 432 930 |
| Trade and other receivables | 27 | 2 007 611 | 1 376 087 |
| Income tax receivables | | 10 525 | 6 808 |
| Prepaid expenses | 28 | 17 655 | 10 077 |
| Cash and cash equivalents | 29 | 272 820 | 373 814 |
| Financial assets | 25 | 1 426 | 11 605 |
| | | **2 755 148** | **2 211 321** |
| **Available for sale non-current assets** | | **359** | **-** |
| **TOTAL ASSETS** | | **4 511 465** | **3 923 518** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity (attributable to equity holders of the parent)** | | **1 533 820** | **1 449 011** |
| Issued capital | 30.1 | 20 846 | 20 837 |
| Share premium | | 738 237 | 737 454 |
| Treasury shares | | (6 884) | (6 884) |
| Translation of a foreign operation | | 1 328 | (9 516) |
| Supplementary capital | 30.2 | 555 994 | 471 415 |
| Other capital | | (85 254) | (85 254) |
| Reserve capital | 30.4 | 32 086 | 33 221 |
| Revaluation reserve | 30.3 | (1 188) | 3 810 |
| Retained earnings / Accumulated losses | | 278 655 | 283 928 |
| **Non-controlling interests** | **30.5** | **12 149** | **9 687** |
| **Total equity** | | **1 545 969** | **1 458 698** |
| **Non-current liabilities** | | | |
| Interest bearing bank loans and borrowings | 31 | 136 751 | 184 142 |
| Long-term debentures | 32 | 73 000 | 367 435 |
| Provisions | 34 | 54 992 | 92 398 |
| Other liabilities | 33 | 94 261 | 86 875 |
| Deferred income tax liability | 15.3 | 20 503 | 23 608 |
| Accruals | | 2 173 | 2 399 |
| | | **381 680** | **756 857** |
| **Current liabilities** | | | |
| Trade and other payables | 35 | 1 805 322 | 1 288 799 |
| Short-term debentures | 32 | 334 742 | 39 331 |
| Current portion of interest-bearing bank loans and borrowings | 31 | 352 289 | 277 407 |
| Income tax payable | | 1 511 | 4 376 |
| Provisions | 34 | 32 759 | 43 105 |
| Accruals | 35 | 57 193 | 54 945 |
| | | **2 583 816** | **1 707 963** |
| **Total liabilities** | | **2 965 496** | **2 464 820** |
| **TOTAL EQUITY AND LIABILITIES** | | **4 511 465** | **3 923 518** |

(in PLN thousands)

## CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2011

| | Note | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **92 309** | **155 203** |
| Adjustments for: | | **(30 695)** | **(117 965)** |
| Share of profit of associates accounted for using the equity method | 24 | (3 203) | 675 |
| Depreciation / Amortisation | 14.7 | 93 051 | 87 705 |
| Interests and dividends, net | | 67 323 | 49 543 |
| Gain from investing activities | | (1 923) | (8 259) |
| Change in receivables | 29 | (615 918) | (91 452) |
| Change in inventories | 29 | (12 181) | (81 612) |
| Change in payables except for loans and borrowings | 29 | 512 807 | (49 066) |
| Change in accruals and prepaid expenses | 29 | (8 613) | (4 040) |
| Change in provisions | 29 | (47 752) | (3 578) |
| Income tax paid | | (11 621) | (20 845) |
| Other | | (2 665) | 2 964 |
| **Net cash flows from operating activities** | | **61 614** | **37 238** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangibles | | 3 248 | 4 195 |
| Purchase of property, plant and equipment and intangibles | | (104 311) | (135 407) |
| Proceeds from sale of investment property | | 12 | - |
| Proceeds from sale of financial assets | | 35 | 12 838 |
| Purchase of financial assets | | (1) | (10 830) |
| Acquisition of a subsidiary, net of cash acquired | 29 | - | (5 274) |
| Dividends received | | 1 445 | 100 |
| Interest received | | 1 303 | 4 735 |
| Repayment of loans granted | | - | 630 |
| Other | | (1 713) | 765 |
| **Net cash flows from investing activities** | | **(99 982)** | **(128 248)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debentures | | 355 550 | 355 663 |
| Expenses for redemption of debentures | | (357 500) | (357 495) |
| Proceeds from issue of shares | | 554 | - |
| Payment of finance lease liabilities | | (10 771) | (12 683) |
| Proceeds from loans and borrowings | | 198 719 | 238 770 |
| Repayment of loans and borrowings | | (171 228) | (128 694) |
| Dividends paid to equity holders of the parent | | (20 320) | (18 148) |
| Interest paid | | (65 464) | (50 992) |
| Other | | 7 834 | 1 026 |
| **Net cash flows from financing activities** | | **(62 626)** | **27 447** |
| Net increase/(decrease) in cash and cash equivalents | | (100 994) | (63 563) |
| Net foreign exchange difference | | 2 963 | 2 086 |
| **Cash and cash equivalents at the beginning of the period** | 29 | **373 814** | **437 377** |
| **Cash and cash equivalents at the end of the period** | 29 | **272 820** | **373 814** |

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Cash at bank and in hand | 272 820 | 373 814 |
| **Cash and cash equivalents recognised in the consolidated statement of cash flows** | **272 820** | **373 814** |

(in PLN thousands)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2011

| | *Note* | *Issued capital* | *Share premium* | *Treasury shares* | *Translation of a foreign operation* | *Reserve capital* | *Revaluation reserve* | *Supplementary capital* | *Other capital* | *Retained earnings / Accumulated losses* | *Total* | *Non-controlling interests* | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2011** | **30** | **20 837** | **737 454** | **(6 884)** | **(9 516)** | **33 221** | **3 810** | **471 415** | **(85 254)** | **283 928** | **1 449 011** | **9 687** | **1 458 698** |
| Other comprehensive income, net of tax | 14.9,15.1 | - | - | - | 10 844 | - | (4 998) | - | - | - | 5 846 | - | 5 846 |
| Profit for the period | | - | - | - | - | - | - | - | - | 100 389 | 100 389 | 2 497 | 102 886 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **10 844** | **-** | **(4 998)** | **-** | **-** | **100 389** | **106 235** | **2 497** | **108 732** |
| Share issue – exercise of executive options | | 9 | 545 | - | - | | - | - | - | - | 554 | - | 554 |
| Other adjustments | | - | 238 | - | - | (238) | - | - | - | - | - | - | - |
| Revaluation of executive options | | - | - | - | - | (897) | - | - | - | - | (897) | - | (897) |
| Consolidation adjustments due to the change of share in control over a subsidiary | | - | - | - | - | - | - | - | - | - | - | - | - |
| Profit distribution | | - | - | - | - | - | - | 84 579 | - | (84 579) | - | - | - |
| Dividend | 19 | - | - | - | - | - | - | - | - | (20 846) | (20 846) | - | (20 846) |
| Other adjustments in equity in subsidiaries | | - | - | - | - | - | - | - | - | (237) | (237) | (35) | (272) |
| **As at 31 December 2011** | | **20 846** | **738 237** | **(6 884)** | **1 328** | **32 086** | **(1 188)** | **555 994** | **(85 254)** | **278 655** | **1 533 820** | **12 149** | **1 545 969** |

(in PLN thousands)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**for the year ended 31 December 2010**

| | *Note* | *Issued capital* | *Share premium* | *Treasury shares* | *Translation of a foreign operation* | *Reserve capital* | *Revaluation reserve* | *Supplementary capital* | *Other capital* | *Retained earnings / Accumulated losses* | *Total* | *Non-controlling interests* | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2010** | **30** | **18 574** | **513 466** | **(6 884)** | **(2 798)** | **30 494** | **5 697** | **381 566** | **-** | **282 181** | **1 222 296** | **140 783** | **1 363 079** |
| Other comprehensive income, net of tax | 14.9,15.1 | - | - | - | (6 718) | - | (1 887) | - | - | - | (8 605) | 557 | (8 048) |
| Profit for the period | | - | - | - | - | - | - | - | - | 109 658 | 109 658 | 9 643 | 119 301 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **(6 718)** | **-** | **(1 887)** | **-** | **-** | **109 658** | **101 053** | **10 200** | **111 253** |
| Share issue – combination with subsidiaries | | 2 263 | 223 988 | - | - | - | - | - | - | - | 226 251 | - | 226 251 |
| Other adjustments – combination with subsidiaries (buyout of non-controlling ones) | | - | - | - | - | - | - | - | (85 254) | - | (85 254) | (140 997) | (226 251) |
| Revaluation of executive options | | - | - | - | - | 2 727 | - | - | - | - | 2 727 | - | 2 727 |
| Consolidation adjustments due to the change of share in control over a subsidiary | | - | - | - | - | - | - | - | - | - | - | (368) | (368) |
| Non-controlling interest arising on obtaining control over a subsidiary | | - | - | - | - | - | - | - | - | - | - | 92 | 92 |
| Profit distribution | | - | - | - | - | - | - | 89 849 | - | (89 849) | - | - | - |
| Dividends | 19 | - | - | - | - | - | - | - | - | (18 574) | (18 574) | - | (18 574) |
| Other adjustments in equity in subsidiaries | | - | - | - | - | - | - | - | - | 512 | 512 | (23) | 489 |
| **As at 31 December 2010** | | **20 837** | **737 454** | **(6 884)** | **(9 516)** | **33 221** | **3 810** | **471 415** | **(85 254)** | **283 928** | **1 449 011** | **9 687** | **1 458 698** |

(in PLN thousands)

# ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

## 1. Corporate information

The Polimex-Mostostal Capital Group ("the Group") is composed of Polimex-Mostostal S.A. (the "parent company", "Company") and its subsidiaries. The Group's consolidated financial statements cover the year ended 31 December 2011 and contain comparative data for the year ended 31 December 2010.

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

Registered Office: country POLAND, the MAZOVIA province, poviat of the Capital City of Warsaw, WARSAW - CENTRUM commune, city of WARSAW.

Address: ul. Czackiego 15/17 -950 – 950 WARSAW.

The parent company was granted statistical REGON number 710252031.

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

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

Production,

Construction,

Power engineering,

Chemistry,

Roads and railroads,

Other activities.

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

## 2. Composition of the Group

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

| Item no. | Entity name | Registered office | Business activities | % held by the Group in share capital | |
|---|---|---|---|---|---|
| | | | | 31 December 2011 (%) | 31 December 2010 (%) |
| | **Subsidiaries** | | | | |
| 1 | Depolma GmbH (*) | Ratingen-Germany | Supplies and engineering services on agency basis | 100.00 | 100.00 |
| 2 | Polimex-Cekop Development Sp. z o. o.(*) | Warsaw | Trading activities, consulting and advisory services | 100.00 | 100.00 |
| 3 | Fabryka Kotłów "Sefako" S.A. (Capital Group) (*) | Sędziszów | Design, manufacturing and sale of boilers | 89.20 | 89.20 |
| 4 | Naf Industriemontage GmbH(*) | Berlin | Construction and erection services | 100.00 | 100.00 |
| 5 | Polimex-Development – Kraków Sp. z o.o. (Capital Group) (*) | Cracow | Execution of construction works | 100.00 | 100.00 |
| 6 | Sinopol Trade Center Sp. z o.o.(*) | Płock | Wholesale | 50.00 | 50.00 |
| 7 | Moduł System Serwis Sp. z o.o. (*) | Płock | Metal structure manufacturing | 100.00 | 100.00 |
| 8 | Stalfa Sp. z o.o.(*) | Sokołów Podlaski | Metal products manufacturing | 100.00 | 100.00 |

(in PLN thousands)

| | | | | | |
|---|---|---|---|---|---|
| 9 | Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. (*) | Siedlce | Transport services | 100.00 | 100.00 |
| 10 | Polimex-Mostostal ZUT Sp. z o.o. (*) | Siedlce | Engineering services | 100.00 | 100.00 |
| 11 | Polimex-Mostostal Ukraina SAZ (*) | Kiev | Housing development | 100.00 | 100.00 |
| 12 | SPB Przembud Sp. z o.o. in liquidation (liquidation process completed on 23 August 2011) (***) | Szczecin | Special and general construction | - | 75.54 |
| 13 | MSP Tchervonograd - Ukraine (*) | Tchervonograd- Ukraine | Metal structure manufacturing | 99.61 | 99.63 |
| 14 | Polimex-Hotele Sp. z o.o. (*) | Warsaw | Construction housing | 100.00 | 100.00 |
| 15 | Polimex-Mostostal Development Sp. z o.o. (*) | Warsaw | Housing development | 100.00 | 100.00 |
| 16 | Torpol Sp. z o.o. (Capital Group) (*) | Poznań | Comprehensive execution of transport facilities | 100.00 | 100.00 |
| 17 | Energomontaż-Nieruchomości Sp. z o.o.(*) | Warsaw | Real estate trade, maintenance and management | 100.00 | 100.00 |
| 18 | Energomontaż-Magyarorszag Sp. z o.o.(*) | Budapest | Construction and erection works, services, trade | 100.00 | 100.00 |
| 19 | Energomontaż – Północ Gdynia Sp. z o.o. (*) | Gdynia | Construction and erection works, steel structure production, trade | 99.99 | 99.99 |
| 20 | Energop Sp. z o.o.(*) | Sochaczew | Production of pipelines and steel structures, construction and erection services | 99.99 | 99.99 |
| 21 | Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.(*) | Warsaw | R&D | 99.96 | 99.30 |
| 22 | Centrum Projektowe Polimex-Mostostal Sp. z o.o. (*) | Gliwice | Construction, urban and engineering design and planning | 99.57 | 99.51 |
| 23 | Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.(*) | Płock | Housing development, industrial buildings and rehabilitation | 100.00 | 100.00 |
| 24 | Zarząd Majątkiem Górczewska Sp. z o.o.(*) (Real Estate Administration) | Warsaw | Real estate lease, tenancy and administration | 100.00 | 100.00 |
| 25 | Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.(*) | Zielona Góra | Construction and design of overhead lines and transformer stations | 100.00 | 100.00 |
| 26 | PxM Projekt - Południe Sp. z o.o. (*) | Cracow | Design services in construction sector | 100.00 | 100.00 |
| 27 | S.C. Coifer Impex SRL (*) | Romania | Steel structure manufacturing | 100.00 | 100.00 |

(in PLN thousands)

| | | | | | |
|---|---|---|---|---|---|
| 28 | WBP Zabrze Sp. z o.o.(*) | Zabrze | Design services | 99.97 | 99.97 |
| 29 | PRInż – 1 Sp. z o.o.(*) | Katowice | Road construction | 89.62 | 88.62 |
| 30 | Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*) | Bielsko Biała | Sewage and water treatment, technical and economic analyses in the scope of modernisation and construction of new systems. | 75.00 | 75.00 |
| 31 | Polimex-Mostostal Wschód Sp. z o.o. (*) | Moscow, Russia | Special and general construction | 100.00 | 100.00 |
| 32 | Centralne Biuro Konstrukcji Kotłów S.A.(*) | Tarnowskie Góry | Specialist construction, services | 98.50 | 98.50 |
| 33 | Grande Meccanica SpA(*) | Narni, Italy | Production, construction | 100.00 | 100.00 |
| | **Associates** | | | | |
| 34 | PORTY S.A. in liquidation (***) | Gdańsk | Construction, trade, transport and machine rental | 40.00 | 40.00 |
| 35 | Polimex-Sices Polska Sp. z o.o. (**) | Warsaw | Execution of erection works | 50.00 | 50.00 |
| 36 | Valmont Polska Sp. z o.o. *(disposal of shares in 1st half 2010)*(***) | Siedlce | Production | - | - |
| 37 | Energomontaż – Północ Bełchatów Sp. z o.o. (**) (Capital Group) | Bełchatów | Specialist construction and erection services | 32.82 | 32.82 |
| * | entity consolidated using the full method | | | | |
| ** | entity recognized using the equity method | | | | |
| *** | entity eliminated from consolidation | | | | |

As at 31 December 2011 the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in the share capital of those entities, except for Centrum Projektowe Polimex-Mostostal Sp. z o.o., where voting rights are lower and amount to 99.28% (share in capital 99.57%).

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

# 3. Composition of the Management Board and Supervisory Board of the parent company

As at 31 December 2011, the Management Board of the company consisted of:

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

In the reporting period and till the day these consolidated financial statements were authorised for issue the composition of the Management Board of the Company did not change.

(in PLN thousands)

As at 31 December 2011, the Supervisory Board of the company consisted of:

| | |
|---|---|
| Chairman of the Supervisory Board, | Kazimierz Klęk |
| Vice Chairman of the Supervisory Board, | Jacek Kseń |
| Member of the Supervisory Board | Mieczysław Puławski |
| Member of the Supervisory Board | Andrzej Szumański |
| Member of the Supervisory Board | Jan Woźniak |
| Secretary of the Supervisory Board, | Artur P. Jędrzejewski |

On 29 February 2012 at the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. the following representatives were dismissed from the composition of the Supervisory Board: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański and at the same time the following representatives were appointed: Dariusz Formela, Dariusz Krawczyk, Paweł Dłużniewski, Andrzej Bartos.

Till the date the financial statements were authorised and published the new composition of the Supervisory Board of the company had not established.

# 4. Approval of financial statements

On 20 March 2012 the consolidated financial statements of the Company for the year ended 31 December 2011 were authorised for issue.

# 5. Significant values based on accounting judgements and estimates

## 5.1. Accounting judgements

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

*Classification of lease commitments*

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

*Identification of embedded derivatives*

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

*Classification of financial assets*

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

## 5.2. Estimates and assumptions

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

*Impairment of Assets*

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

*Valuation of provisions for employee benefits*

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

*Deferred tax assets*

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

*Fair value of financial instruments*

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Group applies professional judgement in selecting appropriate methods and assumptions.

*Revenue recognition*

Long-term contracts are accounted for by the Group using the percentage of completion method. This method requires the Group to estimate the proportion of work already completed in relation to total work to be performed. If the percentage of completion of works specified in this manner was increased by 1%, the amount of revenue would be increased by PLN 123,144 thousand and at the same time costs would be increased by PLN 108,878 thousand.

*Depreciation and amortisation rates*

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

*Provision for losses*

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

*Write-down of unnecessary materials*

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

## 6. Basis of preparation of consolidated financial statements

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

Carrying values of recognised hedged assets and liabilities are adjusted by the changes in fair value related to the hedged risk.

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

The consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future.

A significant item in equity and liabilities is current loans and debentures with maturity in 2012. To improve the financing mix, the process of divestment was started which includes disposal of a portion of financial and developer's assets. At the same time the process of restructuring of the Group, which is aimed at a further decrease of the costs of operations of business units and at the improvement of their efficiency, is continued. In the opinion of the Board these additional activities along with regular and continued negotiations with the banks as well as the value of assets that may be sold will successfully ensure supplementary financing to the Group.

Taking into consideration above facts as at the date of authorisation of these consolidated financial statements the Group's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Parent and Group's significant companies except for the following companies: Porty S.A. in liquidation and Energomontaż-Północ –Sochaczew" in bankruptcy.

# 7. Statement of compliance

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

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

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

# 8. Functional currency and presentation currency

Polish zloty is the functional currency of the parent company and other companies included in these consolidated financial statements and the presentation currency is also Polish zloty except for the following companies: Tchervonograd MSP–Ukraine, Polimex-Mostostal Ukraine, Depolma GmbH, Germany, Polimex-Mostostal Wschód Sp. z o.o., Russia, Naf Industriemontage GmbH, Germany, Energomontaż Magyarorszag Sp. z o.o., Hungary, Coifer Capital Group, Romania, Grande Meccanica Sp.A., Italy.

# 9. Changes in accounting policies

The accounting policies used to prepare these consolidated financial statements are consistent with ones used while preparing the Group's consolidated financial statements for the year ended 31 December 2010 except for the application of the following amendments to standards and new interpretations in force for reporting periods beginning on 1 January 2011.

- Amendments to IAS 24 *Related part disclosures* (reviewed in November 2009) – effective for financial years beginning on or after 1 January 2011. The objective of these amendments is to simplify and clarify the definition of a related party. The amendment exempts from the disclosure requirements transactions with a state-related entity, where state controls or jointly controls the reporting entity or influences it significantly and in relation to other entity which is a related party because the state controls or jointly controls the reporting entity and the other entity or influences them significantly. Adopting these amendments had no impact on the financial position or performance of the Group or on the scope of information presented in the Group's financial statements.
- Amendments to IFRIC 14 *IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments Minimum Funding Requirements* - effective for financial years beginning on or after 1 January 2011. The amendment removes unintended consequences of IFRIC 14 relating to voluntary contributions towards pension assets when an entity is subject to minimum funding requirements. The adoption of these amendments did not have an impact on the financial position or performance of the Group.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* - – effective for financial years beginning on or after 1 July 2010. IFRIC 19 explains accounting principles applied when as a result of renegotiating by the entity the terms and conditions of its debt, the liability is extinguished with the issue of equity instruments for the creditor by the debtor. The adoption of this interpretation did not have an impact on the financial position or performance of the Group.
- Amendments to IAS 32 *Financial Instruments*: *Presentation. Classification of Rights Issue.* The amendment clarifies how to recognise specific rights issues when issued financial instruments are denominated in a currency other than the issuer' s functional currency. The adoption of these amendments did not have an impact on the financial position or performance of the Group.
- Amendments resulting from IFRS review (published in May 2010) – part of the amendments is effective for financial years beginning on 1 July 2010, and part of them for financial years beginning on 1 January

2011. The adoption of these amendments did not have an impact on the financial position or performance of the Group.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemptions for First-time Adopters from Comparative IFRS 7 Disclosures for First-time Adopters*– effective for financial years beginning on or after 1 July 2010. The adoption of these amendments did not have an impact on the financial position or performance of the Group.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

## 10. New standards and interpretations published but not yet effective

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* - effective for financial years beginning on or after 1 January 2015 - it has not been endorsed by the EU till the day of approval of these financial statements. In the next phases the International Accounting Standards Board will deal with hedge accounting and impairment. The application of the phase 1 IFRS 9 will have an impact on the classification and valuation of Group's financial assets. The Group will assess the effect in relation with other phases, when they will be published, so as to present a consistent picture,
- Amendments to IFRS 7 *Financial instruments: Disclosures*: *Transfer of Financial Assets* – effective for financial years beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Taxes: Recovery of Underlying Assets* - effective for financial years beginning on or after 1 January 2012 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters* – effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 10 *Consolidated Financial Statements* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 11 *Joint Arrangements* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 12 *Disclosure of Interest in Other Entities* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IAS 19 *Employee Benefits* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - effective for financial years beginning on or after 1 July 2012 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.
The Group is in the course of the analysis of the application of new standards for the expected financial position and financial results of the Group.

## 11. Adjustment of error

There was no adjustment of a fundamental error in the reporting period.

# 12. Significant accounting policies

## 12.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of *Polimex-Mostostal S.A.* and financial statements of subsidiaries each time prepared for the year ended 31 December 2011. Financial statements of subsidiaries after including the adjustments to bring them to conformity with IFRS are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Changes in ownership share of the parent, which do not result in the loss of control over a subsidiary, are recognised as equity transactions. In such cases, to reflect changes in relative shares in a subsidiary the Group makes an adjustment of the carrying amount of controlling and non-controlling interests. Any difference between the amount of the adjustment of non-controlling interests and fair value of the amount paid or received are accounted for in equity and are attributed to the owners of the parent.

## 12.2. Investments in associates

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

Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the parent's share of the associates' net assets, less any impairment losses. The share in profit or losses of associates is reflected in the consolidated profit or loss. The adjustment of the carrying amount may be necessary due to the change in proportion of share in the associate resulting from the changes in other comprehensive income of the entity. The share of the Group in these changes is recognised in other comprehensive income of the Group.

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

## 12.3. Interest in a joint venture

The Group recognises its interest in the joint venture using the proportionate consolidation method according to which the proportionate share in assets, liabilities, income and expenses of the joint venture is combined line by line with similar items in the consolidated financial statements. Before the financial data of the joint venture is included in the consolidated financial statements, it is adjusted to bring it to conformity with IFRS applied by the Group.

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

## 12.4. Foreign currency translation

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

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

The following exchange rates were used for statement of financial position valuation purposes:

(in PLN thousands)

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| EUR | 4.4168 | 3.9603 |
| UAH | 0.4255 | 0.3722 |
| RON | 1.0226 | 0.9238 |
| RUB | 0.1061 | 0.0970 |
| HUF | 1.4196/100 | 1.4206/100 |

Functional currencies for foreign subsidiaries are EUR, UAH, and RON. At the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group using the rate of exchange prevailing at the statement of financial position date, and their statements of comprehensive income are translated using the weighted average exchange rates for the year. Foreign currency differences resulting from such translation are taken to comprehensive income and accumulated in a separate equity item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the income statement.

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

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| EUR | 4.1401 | 4.0044 |
| UAH | 0.3716 | 0.3830 |
| RON | 0.9773 | 0.9502 |
| RUB | 0.1008 | 0.0998 |
| HUF | 1.4760/100 | 1.4473/100 |

## 12.5. Property, plant and equipment

Property, plant and equipment are measured at purchase price/ cost of manufacturing less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.
Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent an asset component.
Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as presented below:

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

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.
An item of property, plant and equipment is derecognised from the statement of financial position upon disposal or when no future economic benefits are expected from its further use. Any gains or losses arising on derecognition of

an asset from the statement of financial position (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in the income statement for the period in which derecognition took place.
Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of manufacturing less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

## 12.6. Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.
Subsequent to initial recognition, investment properties are stated at fair value. Any gains or losses arising from a change in the fair value of investment property are recognized in the income statement for the year in which they arose.
Investment property is derecognized from the statement of financial position when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.
Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner occupation or commencement of an operating lease to another party. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under *Property, Plant and Equipment* up to the date of change in use.

## 12.7. Intangible assets

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

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

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

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

*Research and development costs*

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

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

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

| | **Patents and Licenses** | **Development Costs** | **Software** |
|---|---|---|---|
| Useful lives | Indefinite. For patents and licenses used on the basis of a defined period contract, that period is adopted, taking into account any possible extended term of their use. | 5 years | 2 to 10 yrs |

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

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

#### 12.7.1 *Goodwill*

Goodwill on acquisition is initially measured at cost being the excess of

- the sum of:
  - (i) the payment made,
  - (ii) the amount of all non-controlling interests in the company being acquired and
  - (iii) in case of a business combination executed in phases, goodwill as at the date of acquisition of *share in equity* of the company being acquired that previously was held by the acquiring company.
- over the net amount determined as at the date of acquisition of identifiable acquired assets and liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortised.
As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the synergy of the combination. Each unit, or set of units, to which the goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- is not larger than one operating segment defined in accordance with IFRS 8 Operating Segments.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained. A cash-generating unit is not larger than one operating segment before aggregation.

### 12.8. Leases

*The Group as a lessee.*
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss unless requirements for capitalization are met.
Fixed assets used under finance lease agreements are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Contingent rents are recognised as cost in the period in which they are due.

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

## 12.9. Impairment of non-financial non-current assets

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

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

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

## 12.10. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment. Borrowing costs comprise interest calculated using the effective interest rate method, financial lease charges and foreign exchange differences arising from borrowing to the extent they are regarded as an adjustment to interest costs.

## 12.11. Financial assets

Financial assets are classified into the following categories:
– Financial assets held to maturity,
– Financial assets at fair value through profit or loss,
– Loans and receivables,
– Financial assets available for sale.

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

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

Held-to-maturity financial assets are quoted instruments.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the statement of financial position date.

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

a) it is classified as held for trading. A financial asset is classified

as held for trading if it is:

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

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

Financial assets measured at fair value through profit or loss are measured at fair value, which takes into account their market value as at the statement of financial position date less attributable transaction costs. Any change in the fair value of these financial instruments is taken to finance costs or finance income in the income statement. When a contract contains one or more embedded derivatives, the entire contract may be designated as a financial asset at fair value through profit or loss. Except where the embedded derivative does not significantly modify the cash flows from the contract or it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories of assets. Where no quoted active market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at their purchase price, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition price, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to other comprehensive income. Decrease in the value of available-for-sale assets arising from impairment is recognised in finance costs.

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

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

## 12.12. Impairment of financial assets

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

### 12.12.1 *Assets carried at amortised cost*

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

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

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

#### 12.12.2 *Financial assets carried at cost*

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

#### 12.12.3 *Available-for-sale financial assets*

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

### 12.13. Embedded derivatives

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

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

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

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

The Group assesses whether a given embedded derivative is required to be separated from host contracts upon its initial recognition.

### 12.14. Derivative financial instruments and hedges

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

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

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

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

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

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

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

### 12.14.1 *Fair value hedge*

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

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

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

### 12.14.2 *Cash flow hedges*

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

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

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

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

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

### 12.14.3 *Hedges of a net investment in a foreign operation*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation the amount of gains or losses recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment.

## 12.15. Inventories

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

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

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

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

## 12.16. Trade and other receivables

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

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

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

Receivables from public authorities are presented within other non-financial assets, except for corporate income tax receivables that constitute a separate item in the statement of financial position.

## 12.17. Cash and cash equivalents

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

Cash and cash equivalents balance recognised in the consolidated statement of cash flows is composed of the above defined cash and cash equivalents.

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

All loans and borrowings and debt securities are initially recognized at the fair value net of transaction costs associated with the borrowing. .

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

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

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

## 12.19. Prepaid expenses and accruals

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

- insurance,

-subscriptions,

- rents paid in advance.

Deferred income is recognised taking into account the prudence concept. It includes mostly the equivalents of received and due amounts for performances, which will be executed in future reporting periods. The amounts included in deferred income gradually raise operating income.

## 12.20. Trade and other payables

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2011, no financial liabilities have been designated as at fair value through profit and loss (as at 31 December 2010: nil).

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

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

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

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

## 12.21. Provisions

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

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

## 12.22. Retirement benefits and jubilee bonuses

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

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

## 12.23. Share-based payment transactions

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

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

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

### 12.23.1 *Equity-settled transactions*

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

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

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

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

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

The diluting effect of issued options is reflected as additional share dilution in the computation of earnings per share (see Note 19).

## 12.24. Appropriation of profit for employee purposes and special funds

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

## 12.25. Revenue

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

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

#### 12.25.1 *Sale of goods*

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

#### 12.25.2 *Rendering of services*

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

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

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

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

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

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

#### 12.25.3 *Interest*

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

#### 12.25.4 *Dividends*

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

#### 12.25.5 *Rental income (operating lease)*

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

#### 12.25.6 *Government grants*

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

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

### 12.26. Taxes

#### 12.26.1 *Current tax*

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

#### 12.26.2 *Deferred tax*

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

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

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

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

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised in the statement of financial position to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income as for deferred tax relating to items recognised in other comprehensive income or directly in equity as for deferred tax relating to items recognized directly in equity.

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

#### 12.26.3 *Value Added Tax*

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

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

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

### 12.27. Earnings per share

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

(in PLN thousands)

# 13. Operating segments

For management purposes, the Group is organised in business units based on their products and services. The Company has reportable operating segments as follows:

Production - manufacturing and delivery of steel structures, platform gratings, shelving systems, pallets, road barriers. Services in the scope of steel structure corrosion protection with the use of hot dip galvanising, Duplex system, hydraulic painting.

Construction - construction and erection services General contracting of facilities in construction industry (including developer's activity). Execution of large industrial and general construction facilities. Erection of steel structures, specialist equipment, halls and special structures.

Power Engineering - services associated with the power engineering industry. General contracting of facilities in power engineering sector, design, manufacturing and sale of power boilers, continuous and full-scale servicing of power plant, heat and power plant, as well as industrial plants.

Chemistry - general contracting of facilities in chemical industry. Assembly of equipment for processing systems in chemical and petrochemical industry, prefabrication and assembly of steel structures, processing pipelines, storage containers and pipelines, prefabrication and assembly of furnaces for refineries. Execution of environmentally-friendly projects. The recipients of the services are chemical plants, refineries, petrochemical and gas industry.

Roads and railroads - general contracting of facilities in road and railroad construction industry. The recipients of the services are General Directorate for National Roads and Motorways and PKP Polskie Linie Kolejowe (Polish Railroads).

Other operations - hardware and transport services, rental services, laboratory tests, machinery servicing, and other services not included in other segments.

The Management monitors the operating results of its operating segments for the purpose of making decisions about resource allocation, assessment of the results of this allocation and performance assessment. Group financing (including finance costs and finance income) and income taxes are monitored on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Data on revenue, profit and certain assets and liabilities of Group's individual operating segments for the year ended 31 December 2011 and year ended 31 December 2010 are presented in the table below.

| Year ended 31 December 2011 or as at 31 December 2011 | *Production* | *Construction* | *Power Engineering* | *Chemistry* | *Roads and railroads* | *Other operations* | *Eliminations* | *Total Operations* |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Sales to external customers | 687 857 | 1 198 277 | 997 144 | 419 058 | 1 449 302 | 75 157 | - | 4 826 795 |
| Inter-segment sales | 363 506 | 21 283 | 32 555 | 8 946 | 42 | 50 421 | (476 753) | - |
| Total segment revenue | 1 051 363 | 1 219 560 | 1 029 699 | 428 004 | 1 449 344 | 125 578 | (476 753) | 4 826 795 |
| Results | | | | | | | | |
| Amortisation and depreciation, of which: | 28 237 | 12 587 | 19 676 | 9 071 | 12 276 | 11 204 | - | 93 051 |
| -depreciation of property, plant and equipment | 27 467 | 11 845 | 18 413 | 8 596 | 11 936 | 9 937 | - | 88 194 |
| -amortisation of intangible assets | 770 | 742 | 1 263 | 475 | 340 | 1 267 | - | 4 857 |
| Share in associates' profits (losses) | - | 281 | 2 922 | - | - | - | - | 3 203 |
| Profit/ (loss) of the segment | 42 859 | 20 814 | 12 868 | 1 177 | 53 313 | 8 504 | (47 226) | 92 309 |

(in PLN thousands)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assets and liabilities | | | | | | | | |
| Segment assets | 675 292 | 1 068 050 | 1 142 500 | 204 692 | 982 668 | 175 911 | - | 4 249 113 |
| Investment in an associate | - | 498 | 15 921 | - | - | - | - | 16 419 |
| Segment liabilities | 148 580 | 490 763 | 297 689 | 102 493 | 723 573 | 99 635 | - | 1 862 733 |

| | |
|---|---|
| Reconciliation to data presented in the statement of financial position | |
| Segment assets do not include assets managed on the Group Company basis | |
| - property, plant and equipment | 116 150 |
| - intangible assets | 12 744 |
| - investment properties | 11 004 |
| - deferred tax assets | 72 937 |
| - cash and cash equivalents | 14 979 |
| - other receivables | 14 960 |
| - other | 3 159 |
| Total assets | 4 511 465 |
| Segment liabilities do not include assets managed on the Group Company basis | |
| - loans and borrowings | 486 935 |
| - debentures | 407 745 |
| - provision for employee and similar benefits | 49 287 |
| -deferred income tax liability | 20 503 |
| -income tax payable | - |
| - taxation, customs duty, social security payables and remuneration | 112 274 |
| - other liabilities | 26 019 |
| Equity | 1 545 969 |
| Total equity and liabilities | 4 511 465 |

| Year ended 31 December 2010 or as at 31 December 2010 | *Production* | *Construction* | *Power Engineering* | *Chemistry* | *Roads and railroads* | *Other operations* | *Eliminations* | *Total Operations* |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Sales to external customers | 591 474 | 1 149 968 | 847 399 | 718 189 | 768 664 | 85 207 | - | 4 160 901 |
| Inter-segment sales | 155 151 | 23 043 | 63 756 | 7 865 | - | 29 490 | (279 305) | - |
| Total segment revenue | 746 625 | 1 173 011 | 911 155 | 726 054 | 768 664 | 114 697 | (279 305) | 4 160 901 |
| Results | | | | | | | | |
| Amortisation and depreciation, of which: | 21 648 | 11 940 | 24 247 | 9 548 | 11 211 | 9 111 | - | 87 705 |
| -depreciation of property, plant and equipment | 20 964 | 11 172 | 23 259 | 8 870 | 10 985 | 7 892 | - | 83 142 |
| -amortisation of intangible assets | 684 | 768 | 988 | 678 | 226 | 1 219 | - | 4 563 |
| Share in associates' profits (losses) | 165 | (3 874) | 3 034 | - | - | - | - | (675) |
| Profit/ (loss) of the segment | 16 017 | 33 163 | 43 567 | 30 586 | 85 396 | 3 310 | (56 836) | 155 203 |

(in PLN thousands)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assets and liabilities | | | | | | | | |
| Segment assets | 671 880 | 813 214 | 1 042 636 | 423 830 | 547 437 | 234 597 | - | 3 733 594 |
| Investment in an associate | - | 216 | 14 443 | - | - | - | - | 14 659 |
| Segment liabilities | 76 961 | 351 668 | 327 271 | 165 707 | 394 520 | 91 193 | - | 1 407 320 |

| | |
|---|---|
| Reconciliation to data presented in the statement of financial position | |
| Segment assets do not include assets managed on the Group Company basis | |
| -property, plant and equipment | 51 214 |
| - intangible assets | 11 260 |
| -deferred tax assets | 63 710 |
| -cash and cash equivalents | 49 081 |
| Total assets | 3 923 518 |
| Segment liabilities do not include assets managed on the Group Company basis | |
| -loans and borrowings | 461 549 |
| - debentures | 406 766 |
| - provision for employee and similar benefits | 72 758 |
| -deferred income tax liability | 23 608 |
| -income tax payable | 4 376 |
| - taxation, customs duty, social security payables and remuneration | 87 098 |
| - other | 1 345 |
| Equity | 1 458 698 |
| Total equity and liabilities | 3 923 518 |

| Year ended 31 December 2011 or as at 31 December 2011 | *Production* | *Construction* | *Power Engineering* | *Chemistry* | *Roads and railroads* | *Other operations* | Eliminations | Total Operations |
|---|---|---|---|---|---|---|---|---|
| Other segment information | | | | | | | | |
| Capital expenditure: | 31 205 | 34 217 | 18 822 | 3 322 | 35 262 | 26 029 | - | 148 857 |
| - property, plant and equipment | 30 608 | 33 763 | 17 595 | 3 257 | 32 817 | 20 511 | - | 138 551 |
| - intangible assets | 597 | 454 | 1 227 | 65 | 2 445 | 3 035 | - | 7 823 |
| - investment properties | - | - | - | - | - | 2 483 | - | 2 483 |

| Year ended 31 December 2010 or as at 31 December 2010 | *Production* | *Construction* | *Power Engineering* | *Chemistry* | *Roads and railroads* | *Other operations* | Eliminations | Total Operations |
|---|---|---|---|---|---|---|---|---|
| Other segment information | | | | | | | | |
| Capital expenditure: | 50 114 | 16 825 | 14 984 | 18 023 | 14 977 | 56 559 | - | 171 482 |
| - property, plant and equipment | 49 186 | 16 485 | 14 449 | 17 880 | 14 749 | 53 779 | - | 166 528 |
| - intangible assets | 928 | 340 | 535 | 108 | 216 | 2 780 | - | 4 907 |
| - investment properties | - | - | - | 35 | 12 | - | - | 47 |

Year 2011

Revenue from intersegment transactions is eliminated on data consolidation. Operating profit does not include finance income in the amount of PLN 36,952 thousand, finance costs in the amount of PLN 84,178 thousand.

Year 2010

Revenue from intersegment transactions is eliminated on data consolidation. Operating profit does not include finance income in the amount of PLN 21,252 thousand, finance costs in the amount of PLN 78,088 thousand.

Investment expenditure in 2010 and 2011 corresponds to the increase of plant, property and equipment, intangible assets and investment property.

(in PLN thousands)

### 13.1.1 *Geographic information*

The following tables present revenue, expenditure and certain asset information regarding the Group's geographic areas for the year ended 31 December 2011 and 31 December 2010 or respectively as at 31 December 2011 and 31 December 2010.

| **Year ended 31 December 2011 or as at 31 December 2011** | *Domestic* | *Foreign* | *Eliminations* | *Total* |
|---|---|---|---|---|
| Revenue | | | | |
| Sales to external customers | 3 488 129 | 1 338 666 | - | 4 826 795 |
| Revenue from continuing operations | 3 488 129 | 1 338 666 | - | 4 826 795 |
| Total area revenue | 3 488 129 | 1 338 666 | - | 4 826 795 |
| Other area information | | | | |
| Area assets | 1 656 551 | 578 997 | - | 2 235 548 |
| Unallocated assets | 2 259 498 | - | - | 2 259 498 |
| Investment in an associate | 16 419 | - | - | 16 419 |
| Total assets | 3 932 468 | 578 997 | | 4 511 465 |

| **Year ended 31 December 2010 or as at 31 December 2010** | *Domestic* | *Foreign* | *Eliminations* | *Total* |
|---|---|---|---|---|
| Revenue | | | | |
| Sales to external customers | 2 919 304 | 1 241 597 | - | 4 160 901 |
| Revenue from continuing operations | 2 919 304 | 1 241 597 | - | 4 160 901 |
| Total area revenue | 2 919 304 | 1 241 597 | - | 4 160 901 |
| Other area information | | | | |
| Area assets | 1 410 742 | 417 866 | - | 1 828 608 |
| Unallocated assets | 2 080 251 | - | - | 2 080 251 |
| Investment in an associate | 14 659 | - | - | 14 659 |
| Total assets | 3 505 652 | 417 866 | | 3 923 518 |

# 14. Revenues and expenses

## 14.1. Sales of goods, rendering of services and rental income

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Sale of goods | 886 849 | 778 393 |
| Rendering of services | 3 916 661 | 3 356 558 |
| Rental income | 23 285 | 25 950 |
| | **4 826 795** | **4 160 901** |

The Parent Company included in the financial statements for 2011, in reference to one of the road contracts, the additional revenue resulting from the claim against the investor of PLN 26 million and recognised the net profit of PLN 21 million. The material scope of works was acknowledged as a rule by the Employer with a relevant annex to the contract and the fact of partial payment of the receivables which are the subject of the claim. Negotiations with the Employer refer only to the issue of determination of unit prices for the increased scope of works performed by the Parent, this increase should be the result of a significant design change introduced by the Employer with an appropriate change order. In the opinion of the Parent Company the expectations in this scope have been reliably documented and it should be assumed that there is a high probability of agreeing with the employer the amount of remuneration we expect. Additionally, the Parent indicates that the contract in question does not include a lump price, and furthermore while it was performed the remuneration of the Parent was increased for other reasons by approx. 11%. In this situation, including the above mentioned claim in the revenue is reasonable in the opinion of the Parent.

(in PLN thousands)

## 14.2. Other operating income

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Reversed provisions for expenses | 5 728 | 2 487 |
| Gain on disposal of property, plant and equipment | 2 367 | 7 040 |
| Reimbursement of court expenses | 464 | 387 |
| Recovered damages payments and fines | 6 035 | 8 713 |
| Sale of scrap metal | 418 | 381 |
| Gain/loss on the associate's liquidation | - | 404 |
| Grants | 154 | 1 037 |
| Liabilities written off | 11 605 | 2 247 |
| Revaluation of investment properties to fair value | 1 147 | - |
| Other | 3 534 | 3 555 |
| | **31 452** | **26 251** |

## 14.3. Other operating expenses

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Provision for disputable claims | 1 204 | 249 |
| Provision for costs of contracts and fines | 277 | 340 |
| Provision on other expenses | 1 151 | 1 281 |
| Loss on disposal of property, plant and equipment | 333 | 478 |
| Damages and fines | 445 | 1 556 |
| Court expenses | 1 795 | 459 |
| Donations | 670 | 1 495 |
| Post-accident repairs | 143 | 373 |
| Liquidation of materials and fixed assets | 276 | 719 |
| Receivables written-off | 6 643 | - |
| Other | 5 320 | 3 383 |
| | **18 257** | **10 333** |

## 14.4. Finance income

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Revenue from measurement and exercise of derivative instruments | 18 | 7 396 |
| Bank interest receivable | 2 471 | 4 083 |
| Income from interest for delay in payment | 2 662 | 191 |
| Gain on sale of financial assets | - | 6 624 |
| Dividend income | 415 | 100 |
| Foreign exchange gains | 27 997 | 635 |
| Write-off of financial liabilities | 1 275 | - |
| Other | 2 114 | 2 223 |
| **Total finance income** | **36 952** | **21 252** |

## 14.5. Finance costs

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Measurement and execution of derivative instruments | 2 222 | 246 |
| Interest on bank loans and borrowings | 38 731 | 25 189 |
| Debenture interest | 26 948 | 26 341 |
| Interest on other liabilities | 1 987 | 295 |
| Finance charges payable under finance lease agreements | 2 972 | 2 246 |

(in PLN thousands)

| | | |
|---|---|---|
| Foreign exchange losses | 5 467 | 17 844 |
| Bank charges on guarantees and loans | 5 170 | 2 596 |
| Other | 681 | 3 331 |
| **Total finance costs** | **84 178** | **78 088** |

## 14.6. Costs by type

| | *Note* | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| Depreciation / Amortisation | 14.7 | 93 051 | 87 705 |
| Materials and energy | | 1 604 749 | 995 343 |
| External services, including construction | | 1 820 811 | 1 805 845 |
| Taxes and charges | | 38 056 | 40 208 |
| Employee benefits expenses | 14.8 | 1 087 538 | 956 249 |
| Other costs by type | | 111 287 | 68 123 |
| **Total costs by type** | | **4 755 492** | **3 953 473** |
| Items included in selling and distribution expenses | | (35 519) | (30 316) |
| Items included in administrative expenses | | (183 611) | (210 438) |
| Cost of goods and materials sold | | 98 086 | 56 439 |
| Change in the stock of finished goods | | (141 957) | (40 719) |
| Cost of goods produced for the entity's own use | | (7 963) | (5 088) |
| **Cost of sales** | | **4 484 528** | **3 723 351** |

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

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| **Items included in cost of sales** | **82 867** | **79 666** |
| Depreciation | 79 208 | 75 197 |
| Amortisation of intangible assets | 3 659 | 3 038 |
| Impairment of plant, property and equipment | - | 1 431 |
| **Items included in selling and distribution expenses** | **1 833** | **2 206** |
| Depreciation | 1 741 | 2 067 |
| Amortisation of intangible assets | 92 | 139 |
| **Items included in administrative expenses** | **8 351** | **7 264** |
| Depreciation | 7 245 | 5 878 |
| Amortisation of intangible assets | 1 106 | 1 386 |
| **Total amortisation/depreciation and amortisation/depreciation charges** | **93 051** | **89 136** |

## 14.8. Employee benefits expenses

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Wages and salaries | 861 979 | 765 134 |
| Social security costs | 142 634 | 127 955 |
| Share-based payments expense (provision) | (850) | 2 727 |
| Retirement benefits | 4 659 | 2 477 |
| Jubilee bonuses | 8 548 | 6 898 |
| Other post-employment benefits | 182 | 149 |
| Transfers to Social Fund | 15 405 | 13 183 |
| Others (of which: working clothes, cleansing agents) | 54 981 | 37 726 |
| **Total employee benefits expenses** | **1 087 538** | **956 249** |

(in PLN thousands)

### 14.9. Components of other comprehensive income

The following are components of other comprehensive income:

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Cash flow hedges | | |
| Gains (losses) for the period | (4 998) | 5 142 |
| Translation of foreign operations | 10 874 | (6 685) |
| Less Adjustments arising from reclassification of gains/losses recognised in profit or loss. | (1 209) | (6 821) |
| | 4 667 | (8 364) |

## 15. Income tax

### 15.1. Tax expense

Major components of income tax burdens for the year ended 31 December 2011 and 31 December 2010 are as follows:

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| **Consolidated income statement** | | |
| *Current income tax* | *5 095* | *11 804* |
| Current income tax expense | 5 095 | 11 986 |
| *Adjustments in respect of tax of previous years* | *-* | *(182)* |
| *Deferred income tax* | *(15 672)* | *24 098* |
| Relating to origination and reversal of temporary differences | (15 672) | 24 098 |
| Income tax expense reported in consolidated income statement | (10 577) | 35 902 |
| | | |
| **Consolidated statement of comprehensive income** | | |
| *Deferred income tax* | 1 179 | 316 |
| Relating to origination and reversal of temporary differences | 1 179 | 316 |
| **Tax burden/ tax credit recognised in other comprehensive income** | **1 179** | **316** |

### 15.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2011 and 31 December 2010 is as follows:

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Accounting profit from continuing operations before income tax | 92 309 | 155 203 |
| **Profit before income tax** | **92 309** | **155 203** |
| | | |
| **Tax at statutory income tax rate binding in Poland of 19% in 2011 (2010: 19%) 19%)** | **17 538** | **29 488** |
| Adjustments in respect of current income tax of previous years | - | (182) |
| Unrecognised tax losses | 1 234 | 3 887 |
| Utilisation of previously unrecognised tax losses | (1 746) | (63) |
| Tax investment relief | (23 709) | (10 025) |
| Expenditure not allowable for income tax purposes | 5 904 | 23 864 |
| Expenditure allowable for income tax purposes and not recognised in profit/loss | - | (1 541) |
| Not taxable incomes | (2 891) | (4 786) |
| Other | (6 907) | (4 740) |
| Income tax at effective income tax rate which was 11.46% for the year ended 31 December 2011 and 23.13% for the year ended 31 December 2010. | (10 577) | 35 902 |
| Income tax (burden) reported in the consolidated income statement | (10 577) | 35 902 |

(in PLN thousands)

## 15.3. Deferred income tax

Deferred income tax relates to the following:

| | *Consolidated statement of financial position* | | *Consolidated income statement for the year ended* | |
|---|---|---|---|---|
| | *31 December 2011* | *31 December 2010* | *31 December 2011* | *31 December 2010* |
| *Deferred tax liability* | | | | |
| Accelerated depreciation/amortisation for tax purposes | 13 111 | 10 780 | 2 331 | - |
| Revaluation of investment property to fair value | 9 895 | 6 720 | 3 175 | (390) |
| Measurement of fixed assets to fair value | 3 531 | 5 045 | (1 514) | (1 779) |
| Measurement of long-term contracts | 140 073 | 77 377 | 62 696 | 30 994 |
| Deferred gains on foreign exchange contracts | - | - | - | - |
| Perpetual usufruct right to land | 746 | 2 302 | (1 556) | - |
| Revaluation of available-for-sale financial assets to fair value | 2 | 175 | (173) | - |
| Revaluation of foreign exchange contracts (cash flow hedges) to fair value | - | - | (370) | - |
| Revaluation of foreign exchange contracts (cash flow hedges) to fair value presented in comprehensive income | 15 | 914 | (899) | (316) |
| Lease adjustments | 4 668 | 4 381 | 287 | 1 885 |
| Foreign exchange gains | 3 098 | 642 | 2 456 | 136 |
| Land measurement to fair value | 6 860 | 7 493 | (633) | - |
| Other | 12 394 | 11 733 | 1 577 | 4 215 |
| **Deferred tax liability** | **194 393** | **127 018** | **67 375** | **34 745** |
| *Deferred tax assets* | | | | |
| Jubilee bonuses and retirement benefits | 8 598 | 14 704 | (6 106) | 940 |
| Measurement of foreign exchange contracts | 317 | - | 317 | (921) |
| Measurement of foreign exchange contracts presented in comprehensive income | 280 | - | 280 | - |
| Foreign exchange losses | 1 014 | 616 | 398 | (88) |
| Salaries/wages and employee benefits | 5 302 | 4 613 | 689 | (104) |
| Inventory write-downs | 1 443 | 503 | 940 | (20) |
| Measurement of long-term contracts | 104 356 | 62 475 | 41 881 | (235) |
| Receivables write-downs | 5 257 | 4 774 | 483 | (947) |
| Provisions for uninvoiced expenses | 5 858 | 5 581 | 277 | (1 690) |
| Tax losses | 20 724 | 13 539 | 7 185 | 7 152 |
| Other employee benefits | 9 122 | 6 962 | 2 160 | 104 |
| Provisions | 2 416 | 1 397 | 1 019 | (637) |
| Deferred income tax relating to Special Economic Zone | 60 567 | 40 169 | 20 398 | 10 025 |
| Investment measurement to fair value | 1 621 | - | 1 621 | - |
| Difference in carrying amount and amount for tax purposes | 1 351 | - | 1 351 | - |
| Costs of coming years | 3 241 | - | 3 241 | - |
| Trade mark | 13 167 | - | 13 167 | |
| Other | 6 656 | 12 701 | (5 075) | (2 616) |
| **Deferred tax assets** | **251 290** | **168 034** | **84 226** | **10 963** |
| Deferred income tax assets Lithuania | - | - | - | - |
| Deferred income tax burden less total items recognised in the income statement | | | **(15 672)** | **24 098** |
| Measurement of foreign exchange contracts presented in other comprehensive income | (265) | 914 | 1 179 | 316 |
| **Net deferred tax liability/asset, of which:** | **(56 897)** | **(40 102)** | | |
| Deferred income tax asset presented in the statement of financial position | (77 400) | (63 710) | | |
| Deferred income tax liability - presented in the statement of financial position | 20 503 | 23 608 | | |

**Disclosure on deferred tax asset relating to the trade mark.**
As at 31 December 2011 the Group recognised in the consolidated financial statements the deferred tax asset for temporary difference resulting from a different tax and accounting measurement of assets and liabilities comprising an organized part of enterprise (trade mark).
The assets were contribution in kind within the Group made by Torpol Sp. z o.o. to MW LEGAL 5 Sp. z o.o. on 8 December 2011. The deferred tax asset is PLN 13,167 thousand as the statement of financial position date and its original value was determined in line with tax regulations. The Board of Torpol Sp. z o.o. assumed that in the coming years it shall generate enough revenue to utilise the asset.

**Disclosures on investment in Special Economic Zones**
**Polimex-Mostostal S.A.**

On 23 July 2008 the Company obtained Permit No. 171/ARP S.A./2008 to conduct business activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone. On 26 February 2010 the Company received decision No 45/IW/10, issued by the Minister of Economy, on change of conditions of the obtained permit. Full use of public aid which the company will be entitled to in the future in the period from 1 April 2011 to 15 November 2017 is conditional upon fulfilment of terms and conditions of the permit mentioned above and upon achieving appropriate profitability of operations conducted in the zone.

On 27 June 2011 the Company received the report of the audit of the Issuer conducted from 24 to 25 May 2011 by the Administrator of the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone, which was approved at 22 June 2011, stating that Polimex-Mostostal S.A. fulfils correctly the terms and conditions included in Permit No. 171/ARP S.A./2008 of 23 June 2008 as further amended to conduct economic activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone.
The discounted value of tax relief Polimex-Mostostal S.A. is entitled to upon the fulfilled investment condition as at 31 March 2011 amounts to PLN 72 million, whereas the maximum (nominal) realisable relief is estimated at PLN 103 million.
Based on prepared financial projections the Company recognised by 31 December 2011 assets for future benefits from the permit obtained on 23 July 2008 in the amount of PLN 40.2 million. Owing to the fact that the terms and conditions of the Permit were formally fulfilled, the Company, starting from the 2nd quarter 2011, commenced to utilise the granted relief. As a result the total recognised by the Company benefits arising from the Zone Permit amounted to PLN 43.6 million as at 31.12.2011, of which 2011 the asset of PLN 3.4 million was recognised in 2011. By 31 December 2011 the amount of utilised tax relief had amounted to PLN 3.3 million.
Due to the long term of projections and dynamic changes in the economic environment, the Company plans to verify the financial projections on half-yearly basis to review their contents and possibly revalue the asset recognised for the subject undertaking.

**Sefako S.A.**
The Sefako Company under permit No. 118/2008 of 16.09.2008 obtained the consent to conduct business activity in the “Starachowice” Special Economic Zone. On 18.08.2010 with decision No. 151/IW/10 the above mentioned permit was amended in the scope of dates of fulfilment of employment conditions. In line with this decision the average annual employment of 1,350 persons shall be maintained from 31.12.2011 to 31.12.2016.
As at 31 December 2010 the Company met all requirements to obtain a tax permit on activities in Special Economic Zone i.e. it employed 150 persons (it reached the employment level of 1,350 persons) and realised an investment worth minimum PLN 75 million, which is acknowledged by the inspection from the zone (expenditure incurred in the zone amounted to PLN 76,837 thousand as at 31.12.2009, discounted value of this expenditure was PLN 74,636 thousand). Maximum value of the relief which can be used by 2017 is approx. PLN 38 million and relates to income covered by the permit and generated in the SEZ.
Due to the above mentioned facts the Company as at 31 December 2011 (with Resolution of the Board of Directors No.48/VIII/07/2012) recognized an asset for the anticipated tax relief for appurtenance to the SEZ, which can be realised from 2012 to 2017. Assuming that all zone conditions are met in years 2012-2017 and basing on “The Strategy of Fabryka Kotłów Sefako S.A. for the years 2011-2016” the company estimated the tax relief projected for the six consecutive years of the existence of Starachowice Special Economic Zone in the amount of PLN 17.6 million.
From 01.01.2012 the company commenced to utilise the tax relief in the scope of company income tax (CIT) (Resolution of the Board No. 41/VIII/24/2011 on starting to utilise the tax exemption the Sefako Company is entitled to arising from income generated from activity in Starachowice SEZ.

(in PLN thousands)

## 16. Changes in the Capital Group

The following changes took place in the composition of the Group in 2011:

On 7 December 2011 Torpol Sp. z o.o., a subsidiary of Polimex-Mostostal Group, acquired shares in MW LEGAL 5 Sp. z o.o. with the registered office in Warsaw for PLN 5 thousand reaching 100% share in the capital of the company. The final settlement of the acquisition is planned on 31 December 2012. On 08.12.2011 Torpol made contribution in kind to MW LEGAL 5 Sp. z oboe. in the form of an organized part of enterprise. On 8 December 2011 the share capital of MW LEGAL 5 Sp. z o.o. was increased by PLN 76,500 thousand.

The following changes took place in the composition of the Group in 2010:

- The Issuer acquired shares in Centralne Biuro Konstrukcji Kotłów S.A. with the registered office in Tarnowskie Góry for the amount of PLN 8,829 thousand thus obtaining 98.50 % interest in the company equity. Fair value of identifiable assets and liabilities of Centralne Biuro Konstrukcji Kotłów S.A. in the initial settlement of the acquisition is as follows:

| | *Carrying amount at acquisition date* | *Fair value recognised on acquisition* |
|---|---|---|
| Property, plant and equipment | 418 | 4 339 |
| Intangible assets | 154 | 154 |
| Financial assets | 18 | 18 |
| Deferred tax assets | 64 | 64 |
| Cash and cash equivalents | 935 | 935 |
| Inventories | 310 | 310 |
| Trade receivables | 1 764 | 1 764 |
| Prepaid expenses | 83 | 83 |
| **Total** | **3 746** | **7 667** |
| Liabilities and accruals | 861 | 1 606 |
| **Total** | **861** | **1 606** |
| Fair value of net assets | | 6 061 |
| Fair value of acquired net assets acc. to percentage of share in company’s equity | | 5 969 |
| **Goodwill** | | **2 860** |
| Consideration: | | 8 829 |
| Cash payment | | 8 829 |

- The Issuer acquired shares in Elektra Sp. z o.o. with the registered office in Zielona Góra for the amount of PLN 203 thousand thus obtaining 100 % interest in the company equity. Fair value of identifiable assets and liabilities of Elektra Sp. z o.o. in the initial settlement of the acquisition is presented in the table below.

| | *Carrying amount at acquisition date* | *Fair value recognised on acquisition* |
|---|---|---|
| Property, plant and equipment | 617 | 851 |
| Deferred tax assets | 192 | 218 |
| Trade receivables | 877 | 877 |
| Prepaid expenses | 11 | 11 |
| **Total** | **1 697** | **1 957** |
| Liabilities and accruals | 1 573 | 1 754 |
| **Total** | **1 573** | **1 754** |

(in PLN thousands)

| | |
|---|---|
| Fair value of net assets | 203 |
| Fair value of acquired net assets acc. to percentage of share in company's equity | 203 |
| **Goodwill** | - |
| Consideration: | 203 |
| Cash payment | 203 |

## 17. Social assets and SOCIAL FUND liabilities

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

The Group has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Group. Accordingly, the net balance as at 31 December 2011 is PLN 471 thousand, as at 31 December 2010 PLN (806) thousand).

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Loans granted to employees | 4 422 | 3 521 |
| Cash | 5 853 | 4 603 |
| Social Fund liabilities | 9 804 | 8 930 |
| Net balance | 471 | (806) |

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Transfers made to the Social Fund during the period | 15 405 | 13 183 |

## 18. Earnings per share

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

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

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

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Net profit attributable to shareholders of the parent company | 100 389 | 109 658 |
| Earnings per share (in PLN) | | |
| -number of shares | 521 154 076 | 520 918 203 |
| - basic, from net profit attributable to shareholders of the parent company for the financial year | 0.19 | 0.21 |
| Diluted net profit attributable to shareholders of the parent company per share (in PLN): | | |
| -number of shares | 521 154 076 | 520 918 203 |
| - diluting potential ordinary shares | 12 142 323 | 12 378 196 |
| - diluted from net profit attributable to shareholders of the parent company for the financial year | 0.19 | 0.21 |

(in PLN thousands)

## 19. Dividends paid and proposed

Equity dividends on ordinary shares from 2010 profit paid on 30 September 2011 amounted to PLN 20,846 thousand (dividend from 2009 profit paid on 16 September 2010 amounted to PLN 18,574 thousand).

The value of dividend per share paid for the year 2010 was PLN 0.04 (for the year 2009 it was PLN 0.04).

The Management Board of the Company does not intend to pay the dividend for 2011.

## 20. Property, plant and equipment

| **Year ended 31 December 2011** | *Land and buildings* | *Plant and equipment* | *Motor vehicles* | *Other fixed assets* | *Fixed assets under construction* | *Advanced payments to fixed assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Net carrying amount at 1 January 2011 | 549 820 | 285 213 | 71 146 | 23 802 | 97 025 | 942 | 1 027 948 |
| Reclassification | (22 297) | 10 729 | 9 980 | (161) | (7 323) | (3 838) | (12 910) |
| Revaluation | - | (13) | (13) | - | - | - | (26) |
| Additions | 56 151 | 75 443 | 18 151 | 5 268 | 71 694 | 7 514 | 234 221 |
| Disposals | (7 785) | (4 284) | (6 371) | (2 067) | (95 631) | (39) | (116 177) |
| Depreciation charge for the period | (22 060) | (46 365) | (13 802) | (5 967) | - | - | (88 194) |
| Net carrying amount at 31 December 2011 | 553 829 | 320 723 | 79 091 | 20 875 | 65 765 | 4 579 | 1 044 862 |
| As at 1 January 2011 | | | | | | | |
| Cost | 649 748 | 524 054 | 132 068 | 57 605 | 110 477 | 1 042 | 1 474 994 |
| Write-off and impairment loss | (99 928) | (238 841) | (60 922) | (33 803) | (13 452) | (100) | (447 046) |
| Net carrying amount | 549 820 | 285 213 | 71 146 | 23 802 | 97 025 | 942 | 1 027 948 |
| As at 31 December 2011 | | | | | | | |
| Cost | 660 154 | 593 082 | 147 111 | 57 442 | 66 315 | 4 579 | 1 528 683 |
| Write-off and impairment loss | (106 325) | (272 359) | (68 020) | (36 567) | (550) | - | (483 821) |
| Net carrying amount | 553 829 | 320 723 | 79 091 | 20 875 | 65 765 | 4 579 | 1 044 862 |

| **Year ended 31 December 2010** | *Land and buildings* | *Plant and equipment* | *Motor vehicles* | *Other fixed assets* | *Fixed assets under construction* | *Advanced payments to fixed assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Net carrying amount at 1 January 2010 | 473 912 | 244 945 | 65 064 | 23 531 | 140 457 | 25 | 947 934 |
| Acquisition of a subsidiary | 5 058 | 45 | 80 | 7 | - | - | 5 190 |
| Reclassification | 3 745 | 1 588 | 6 942 | 994 | (13 245) | (24) | - |
| Additions | 94 087 | 81 825 | 13 799 | 5 968 | 93 711 | 941 | 290 331 |
| Disposals | (3 430) | (2 308) | (655) | (738) | (123 803) | - | (130 934) |
| Revaluation | (1 431) | - | - | - | - | - | (1 431) |
| Depreciation charge for the period | (22 121) | (40 882) | (14 084) | (5 960) | (95) | - | (83 142) |
| Net carrying amount at 31 December 2010 | 549 820 | 285 213 | 71 146 | 23 802 | 97 025 | 942 | 1 027 948 |
| As at 1 January 2010 | | | | | | | |
| Cost | 550 293 | 452 711 | 118 101 | 52 540 | 152 882 | 125 | 1 326 652 |
| Write-off and impairment loss | (76 381) | (207 766) | (53 037) | (29 009) | (12 425) | (100) | (378 718) |
| Net carrying amount | 473 912 | 244 945 | 65 064 | 23 531 | 140 457 | 25 | 947 934 |
| As at 31 December 2010 | | | | | | | |
| Cost | 649 748 | 524 054 | 132 068 | 57 605 | 110 477 | 1 042 | 1 474 994 |
| Write-off and impairment loss | (99 928) | (238 841) | (60 922) | (33 803) | (13 452) | (100) | (447 046) |
| Net carrying amount | 549 820 | 285 213 | 71 146 | 23 802 | 97 025 | 942 | 1 027 948 |

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2011 is PLN 59,184 thousand (as at 31 December 2010: PLN 46,696 thousand).
As at 31.12.2011 land and buildings are covered with mortgages established to secure Group's bank loans amounting jointly to PLN 704,673 thousand (as at 31 December 2010: PLN 514,288 thousand).
Moreover, as at 31 December 2011 other forms of security were established on fixed assets (other than land and buildings) at the carrying amount of PLN 91,582 thousand (as at 31 December 2010: PLN 41,500 thousand).

Due to the fact that the market value of the equity of the Group at the statement of financial position date resulting from the quotations of the Company on the Warsaw Stock Exchange was lower than the book value of Group's net assets, the Board of the Company conducted in line with IAS 36 impairment tests for fixed assets allocated to the smallest separated units generating independent cash flows. For the purpose of the test the units were defined on Group company basis. Estimated for the purpose of the test discounted value of future cash flows is higher than the book value of tested assets. Due to the above fact as at the statement of financial position date the Board did not find it necessary to impair the assets. The test were conducted based on prepared by the Board projections of cash flows covering the period of 5 years and taking into consideration the residual value after the projection period. Main assumptions taken for the tests of the largest units generating independent cash flows are presented in the table below:

| **Cash generating unit** | **Book value of non-current assets of the unit (PLN thousands)** | **Discount rate before tax** | **Cash flow growth rate in residual period** |
|---|---:|---:|---:|
| Polimex-Mostostal S.A. | 656 021 | 11.35% | 3% |
| Sefako S.A. | 109 930 | 12.11% | 3% |
| Torpol | 103 596 | 11.95% | 3% |
| Coifer S | 42 124 | 11.78% | 3% |

### 20.1. Finance lease and hire purchase commitments

As at 31 December 2011, as at 31 December 2010 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

| | *31 December 2011* | | *31 December 2010* | |
|---|---:|---:|---:|---:|
| | ***Minimum payments*** | ***payment current value*** | ***Minimum payments*** | ***payment current value*** |
| Within 1 year | 20 723 | 18 322 | 17 621 | 15 715 |
| Within 1 to 5 years | 36 753 | 31 005 | 33 463 | 30 393 |
| Over 5 years | 13 048 | 12 043 | 8 737 | 8 214 |
| Minimum lease payments, total | 70 524 | 61 370 | 59 821 | 54 322 |
| Less amounts representing finance charges | (9 154) | - | (5 499) | - |
| Present value of minimum lease payments, of which: | 61 370 | 61 370 | 54 322 | 54 322 |
| Current | 18 322 | - | 15 715 | - |
| Non-current | 43 048 | - | 38 607 | - |

## 21. Investment properties

| | *31 December 2011* | *31 December 2010* |
|---|---:|---:|
| Opening balance as at 1 January | 42 316 | 42 352 |
| Acquisition | 2 483 | - |
| Measurement to fair value | 1 147 | (38) |
| Reclassification from property, plant and equipment | 12 910 | - |
| Reclassification from inventories | 54 | 12 |

| | | |
|---|---|---|
| Modernisation | - | 16 |
| Other | (86) | - |
| Reclassification to inventories | - | (26) |
| **Closing balance** | **58 824** | **42 316** |

Key investment property items as at 31 December 2011 are as follows: build-up real property situated at ul.Górczewska in Warsaw at the carrying amount of PLN 37,518 thousand, real property in Nowy Dwór Mazowiecki at the carrying amount of PLN 2,813 thousand, real property at ul.Elektoralna in Warsaw with the carrying amount of PLN 14,000 thousand and the real property in Płock with the carrying amount of PLN 1,381 thousand. The above mentioned real property was assessed by independent surveyors.

## 22. Goodwill on consolidation

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Prinż-1 Sp. z o.o., subsidiary | 4 956 | 4 956 |
| Elmont Sp. z o.o. a subsidiary in Torpol Group | 9 008 | 7 661 |
| Torpol Group | 13 265 | 13 265 |
| Spec, a subsidiary in Sefako Group | 237 | 237 |
| Energotechnika Projekt Company | 2 668 | 2 668 |
| Energomontaż Północ S.A. Group (company incorporated in 2010) | 409 073 | 409 073 |
| Subsidiary in Polimex-Development Kraków Group | 2 295 | 2 295 |
| EPE Rybnik Sp. z o.o. (company incorporated in 2010) | 1 018 | 1 018 |
| Zakład Budowlano Instalacyjny Turbud Sp. z o.o., a subsidiary | 426 | 426 |
| Grande Meccanica, a subsidiary | 1 456 | - |
| Coifer, a subsidiary | 34 998 | 33 128 |
| Zakłady Remontowe Energetyki Kraków Sp. z o.o. (company incorporated in 2010) | 4 064 | 4 064 |
| Projekt Południe Sp. z o.o., a subsidiary | 2 599 | 2 599 |
| ECe Remont Sp. z o.o. (company incorporated in 2010) | 2 509 | 2 509 |
| Pracownia Wodno -Chemiczna Ekonomia Sp. z o.o., a subsidiary | 242 | 242 |
| Centralne Biuro Konstrukcji Kotłów Sp. z o.o., a subsidiary | 2 860 | 2 860 |
| **Total** | **491 674** | **487 001** |
| Goodwill as at 1 January 2011 | 487 001 | 486 919 |
| Increase on consolidation arising from acquisition. | | 2 860 |
| Increase arising from goodwill adjustment in subsidiaries | 4 673 | (2 778) |
| **Goodwill as at 31 December 2011** | **491 674** | **487 001** |

In line with the provisions of IAS 36, the Board of Polimex-Mostostal S.A. carried out impairment tests as at 31 December 2011 relating to goodwill on consolidation arising from the acquisition of COIFER Group, Sefako as well as Torpol, Centrum Projektowe Polimex Sp. z o.o., Zakład Budowlano Instalacyjny Turbud Sp. z o.o., PxM Projekt Południe Sp. z o. o., Prinż-1 Sp. z o.o., Pracownia Wodno Chemiczna Ekonomia Sp. z o.o. and as a result of the takeover of Energomontaż-Północ Group. The level of an operating segment before aggregation is the lowest level at which the Group monitors goodwill. For companies whose activity is classified into "other" segment the test was carried out on Company basis i.e. at the lowest level at which goodwill is monitored within the segment.

Impairment tests showed that as at the date of preparation of these financial statements there is no need to impair goodwill as the fair value arising from discounting future cash flows for individual segments is higher than goodwill increased by fixed assets and net working capital. Key data and assumptions as well as the results of the impairment test for goodwill relating to the segments of power engineering, construction, roads and railroads, production and chemistry are presented in the table below (in PLN thousands):

| Segment | (DCF)* | Book value** | Weighted average cost of capital (WACC)*** | Weighted average cost of capital (WACC)**** | Fixed growth rate after the forecasting period | Goodwill in consolidated financial statements | Fixed assets with intangibles (excl. investment properties) | Net operating capital |
|---|---|---|---|---|---|---|---|---|
| Power Engineering | 1 069 557 | 673 364 | 9.19% | 11.35% | 3.0% | 266 689 | 219 777 | 186 898 |
| Construction | 953 946 | 518 947 | 9.19% | 11.35% | 3.0% | 39 171 | 317 337 | 160 591 |
| Roads and railroads | 872 008 | 519 211 | 9.19% | 11.35% | 3.0% | 27 233 | 265 877 | 226 101 |
| Production | 698 640 | 372 715 | 9.19% | 11.35% | 3.0% | 94 986 | 150 092 | 127 638 |
| Chemistry | 337 094 | 170 605 | 9.19% | 11.35% | 3.0% | - | 92 199 | 78 406 |
| Other | 149 796 | 113 050 | 9.19% | 11.35% | 3.0% | 63 595 | 26 802 | 22 652 |

*DCF not adjusted for non-operating cash
**Book value = goodwill+ fixed assets+ non-tangible assets+ net operating capital
***after taxation, adopted for measurement
****before taxation

Discounted cash flow for power engineering segment was measured at PLN 1,069,557 thousand. The valuation was done with the following assumptions: average annual growth of revenues of about 9.9% in 2012-2016, average EBIT margin: 5.8%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3.0%.

Discounted cash flow for construction segment was measured at PLN 953,946 thousand. The valuation was done with the following assumptions:
increase of revenue of 27.1% in 2012, and of 5% annually from 2013 to 2016, average EBIT margin: 4%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3%.

Discounted cash flow for road and railroad segment was measured at PLN 872,008 thousand. The valuation was done with the following assumptions: average annual increase of revenue of 0.3% in 2012-2016, average EBIT margin: 4.1%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3%.

Discounted cash flow for production segment was measured at PLN 698,640 thousand. The valuation was done with the following assumptions: average annual increase of revenue of 4% in 2012-2016, average EBIT margin: 7.6%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3%.

Discounted cash flow for chemistry segment was measured at PLN 337,094 thousand. The valuation was done with the following assumptions: average annual increase of revenue of 7.1% in 2012-2016, average EBIT margin: 4.3%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3%.

Discounted cash flow for other activity segment was measured at PLN 149,796 thousand. The valuation was done with the following assumptions: increase of revenue of 53.5% in 2012, and of 5% annually from 2013 to 2016, average EBIT margin: 8.2%, weighted average cost of capital (WACC): 9.19%, growth rate after the forecasting period: 3%.

Goodwill for 2011 was allocated to the following operating segments (PLN thousands):

| Production | Construction | Power Engineering | Chemistry | Roads and railroads | Other |
|---|---|---|---|---|---|
| 47 764 | 39 590 | 371 838 | 242 | 27 229 | 5 011 |

Goodwill for 2010 was allocated to the following operating segments (PLN thousands):

| Production | Construction | Power Engineering | Chemistry | Roads and railroads | Other |
|---|---|---|---|---|---|
| 47 764 | 36 264 | 371 838 | 242 | 25 882 | 5 011 |

(in PLN thousands)

## 23. Intangible assets

| Year ended 31 December 2011 | Development Costs | Patents and Licenses | Software | Goodwill | Other | Total |
|---|---|---|---|---|---|---|
| Net carrying amount at 1 January 2011 | - | 1 538 | 17 404 | 4 015 | 2 277 | 25 234 |
| Acquisition of a subsidiary | - | - | 83 | - | - | 83 |
| Additions | 360 | 728 | 4 525 | - | 2 210 | 7 823 |
| Disposals | - | (128) | (130) | - | (2 237) | (2 495) |
| Reclassification | - | (183) | 183 | - | - | - |
| Amortisation charge for the year | - | (615) | (4 238) | - | (4) | (4 857) |
| As at 31 December 2011 | 360 | 1 340 | 17 827 | 4 015 | 2 246 | 25 788 |
| As at 1 January 2011 | | | | | | |
| Cost | - | 5 473 | 35 050 | 7 194 | 2 393 | 50 110 |
| Write-off and impairment loss | - | (3 935) | (17 646) | (3 179) | (116) | (24 876) |
| Net carrying amount | - | 1 538 | 17 404 | 4 015 | 2 277 | 25 234 |
| As at 31 December 2011 | | | | | | |
| Cost | 709 | 4 077 | 40 517 | 7 194 | 2 412 | 54 909 |
| Write-off and impairment loss | (349) | (2 737) | (22 690) | (3 179) | (166) | (29 121) |
| Net carrying amount | 360 | 1 340 | 17 827 | 4 015 | 2 246 | 25 788 |

| Year ended 31 December 2010 | Development Costs | Patents and Licenses | Software | Goodwill | Other | Total |
|---|---|---|---|---|---|---|
| Net carrying amount at 1 January 2010 | - | 1 644 | 17 033 | 4 015 | 8 081 | 30 773 |
| Acquisition of a subsidiary | - | - | 152 | - | - | 152 |
| Additions | - | 487 | 4 407 | - | 13 | 4 907 |
| Disposals | - | - | (222) | - | (5 813) | (6 035) |
| Amortisation charge for the year | - | (593) | (3 966) | - | (4) | (4 563) |
| As at 31 December 2010 | - | 1 538 | 17 404 | 4 015 | 2 277 | 25 234 |
| As at 1 January 2010 | | | | | | |
| Cost | - | 4 985 | 30 654 | 7 194 | 8 316 | 51 149 |
| Write-off and impairment loss | - | (3 341) | (13 621) | (3 179) | (235) | (20 376) |
| Net carrying amount | - | 1 644 | 17 033 | 4 015 | 8 081 | 30 773 |
| As at 31 December 2010 | | | | | | |
| Cost | - | 5 473 | 35 050 | 7 194 | 2 393 | 50 110 |
| Write-off and impairment loss | - | (3 935) | (17 646) | (3 179) | (116) | (24 876) |
| Net carrying amount | - | 1 538 | 17 404 | 4 015 | 2 277 | 25 234 |

## 24. Investments in associates accounted for using the equity method

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Current assets | 13 723 | 26 791 |
| Non-current assets | 144 | 303 |
| Current liabilities | 12 873 | 26 662 |
| Non-current liabilities and provisions | - | - |
| Net assets | 994 | 432 |
| Share of associate's profit /loss | 282 | (1 686) |

(in PLN thousands)

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Current assets | 63 731 | 69 162 |
| Non-current assets | 21 792 | 22 176 |
| Current liabilities | 17 085 | 24 723 |
| Non-current liabilities and provisions | 18 489 | 21 292 |
| Non-controlling interest | 1 278 | 976 |
| Negative goodwill of subordinate entities | 159 | 340 |
| Net assets | 48 512 | 44 007 |
| Share of associate's profit | 2 921 | 3 034 |

In the first half of 2010 the Group disposed of 30% interest in Valmont Polska Sp. z o.o. with the registered office in Siedlce whose main activity is in the construction sector. The table below presents condensed information on investment in Valmont Polska Sp. z o.o. The share of Valmont Polska Sp. z o.o. in the financial result of Polimex Mostostal Group in the first half of 2010 amounted to PLN 165 thousand. The Group made a profit of PLN 6,511 thousand on the disposal of the shares in Valmont Polska Sp. z o.o.

| | *31 December 2010* |
|---|---|
| Current assets | 20 311 |
| Non-current assets | 10 884 |
| Current liabilities and provisions | 11 231 |
| Non-current liabilities and provisions | - |
| Net assets | 19 964 |
| Share of associate's profit | 165 |

The liquidation procedure of Porty S.A. with the registered office in Gdańsk commenced in 2010. The Group holds a 40 % interest in Porty S.A., whose main activity is in construction, trade and transport sectors. The table below presents condensed information on the investment in Porty S.A. In 2010 the Group recognised profit on liquidation of Porty S.A. in the amount of PLN 404 thousand.

| | *31 December 2010* |
|---|---|
| Current assets | 1 458 |
| Non-current assets | - |
| Current liabilities | 2 469 |
| Non-current liabilities and provisions | - |
| Net assets | (1 011) |
| Share of associate's loss | (2 188) |

Current assets, non-current assets, current liabilities, non-current liabilities and net assets presented in the above tables refer to the values recognised in the financial statements of these entities i.e. they do not refer to the Group interest in net assets of these entities.
In the reporting period of these financial statements the Group did not participate in any joint ventures as a partner.

# 25. Financial assets

## 25.1. Financial assets

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **Non-current financial assets** | | |
| Shares and interests | 1 019 | 1 176 |
| Financial assets held to maturity, | 177 | 158 |
| Other financial assets | 3 559 | 2 862 |
| **Total** | **4 755** | **4 196** |

(in PLN thousands)

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Current financial assets** | | |
| Available-for-sale financial assets | - | 594 |
| Derivative financial instruments | 23 | 10 054 |
| Other financial assets | 1 403 | 957 |
| **Total** | **1 426** | **11 605** |

### 25.1.1 Non-current financial assets – shares and interests

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Shares and interests** | | |
| Shares - companies listed on the stock exchange | 67 | 124 |
| Shares and interests – companies not listed on the stock exchange | 952 | 1 052 |
| **Total** | **1 019** | **1 176** |

### 25.1.2 Other non-current financial assets

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Other non-current assets** | | |
| Deposits | - | 814 |
| Borrowings | 53 | - |
| Bank guarantee deposits | 3 413 | 2 146 |
| Other | 270 | 60 |
| **Total** | **3 736** | **3 020** |

### 25.1.3 Change in non-current financial assets – shares and interests

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **At the beginning of the period** | **1 176** | **1 388** |
| **Increase** | **17** | **20** |
| Other | 17 | 20 |
| **Decrease** | **(174)** | **(232)** |
| Interest write-downs | (46) | (135) |
| Disposal of shares | (128) | (88) |
| Other | - | (9) |
| **At the end of the period** | **1 019** | **1 176** |

### 25.1.4 Change in non-current financial assets held to maturity

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **At the beginning of the period** | 158 | - |
| Recognised | 19 | 158 |
| Settled | - | - |
| **At the end of the period** | **177** | **158** |

### 25.1.5 Available-for-sale current financial assets

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Shares and interests not quoted on the stock exchange | - | 594 |
| Commercial debentures | - | - |
| **Total** | **-** | **594** |

(in PLN thousands)

### 25.1.6 Movements in available-for-sale current financial assets

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **At the beginning of the period** | 594 | 138 |
| Purchasing shares and interests not quoted on the stock exchange | - | 456 |
| Disposal of shares and interests not quoted on the stock exchange | 594 | - |
| **At the end of the period** | **-** | **594** |

### 25.1.7 Derivative financial instruments

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Forward currency contracts | 23 | 8 907 |
| Currency options | - | 1 147 |
| **Total** | **23** | **10 054** |

### 25.1.8 Other current financial assets

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **Other current assets** | | |
| Loans granted | 91 | 44 |
| Bank guarantee deposits | 1 309 | 906 |
| Other | 3 | 7 |
| **Total** | **1 403** | **957** |

## 26. Inventories

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Raw materials (at cost) | 129 608 | 109 506 |
| Goods for resale | 2 695 | 1 273 |
| Raw materials advance payments | 4 302 | 10 450 |
| Work-in-progress (at cost) | 282 750 | 287 099 |
| Finished goods: | 25 756 | 24 602 |
| At cost | 25 756 | 24 602 |
| At net realisable value | 25 756 | 24 602 |
| Total inventories, at the lower of cost and net realisable value | 445 111 | 432 930 |

At 31 December 2011 and as at 31 December 2010 there were pledges established on smelting products at the total amount of PLN 100,000 thousand as security to bank loan agreements.
In the Stalfa Company as at 31 December 2011 pledges were established on inventories with the carrying amount of PLN 8,000 thousand (as at 31.12.2010: PLN 8,000 thousand), which secured the liabilities of the company.
As at 31 December 2011 there were mortgages established on Polimex – Development Kraków Sp zo.o.'s inventories up to the total amount of PLN 64,390 thousand (at 31 December 2010: PLN 51,012 thousand) as security to the Company's loan liabilities.
In Sefako Group as at the statement of financial position date 31.12.2011 there were securities established on inventories amounting jointly to PLN 2,000 thousand (as at 31.12.2010: PLN 2,000 thousand).
As at 31 December 2011 a mortgage was establishes on the inventories of Polimex-Mostostal Development Sp. z o.o. of the total amount of PLN 15,800 thousand.

## 27. Trade and other receivables

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Trade receivables | 1 946 281 | 1 339 692 |
| of which: trade receivables from related parties | 126 | 8 554 |
| Receivables from public authorities | 37 090 | 20 202 |
| Other receivables from third parties | 21 232 | 14 038 |

(in PLN thousands)

| | | |
|---|---|---|
| Other receivables from related parties | 3 008 | 2 155 |
| Total receivables (net) | 2 007 611 | 1 376 087 |
| Doubtful debts allowance | 54 004 | 62 997 |
| Total receivables, gross | 2 061 615 | 1 439 084 |

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

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

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

**Parent company.**

The balance of receivables relating to contracts performed by the Company in Libya amounts to PLN 11.4 million. The Company believes that as at the date of preparation of these financial statements the default risk for the above receivables is slight. Despite the interruption in the works on the contract, the Company is all the time in touch with the persons on the investor's part responsible for the continuation of the contract. The Company is receiving positive signals from the investor suggesting willingness to cooperate further and to restart works still this year. The Board of Polimex-Mostostal S.A. expects reconciliation of the conditions of conducting further works and restarting the performance of the contract in Libya in June 2012. The Board of Polimex-Mostostal S.A. expects reconciliation of the conditions of conducting further works and restarting the performance of the contract in Libya in June 2012. The process of claim analysis is pending. The Company systematically monitors the situation concerning Libyan contracts and if there is a possibility of losing assets it will recognise provisions.

## 27.1. Trade receivables (gross) with remaining maturity from the statement of financial position date

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Up to one month | 1 288 776 | 765 938 |
| Over 1 month to 3 months | 276 667 | 243 284 |
| Over 3 months to 6 months | 25 505 | 25 956 |
| Over 6 months to 1 year | 50 951 | 35 296 |
| Past due receivables | 358 100 | 330 230 |
| Gross trade receivables | 1 999 999 | 1 400 704 |
| Allowance for trade receivables | (53 718) | (61 012) |
| **Net trade receivables** | **1 946 281** | **1 339 692** |

## 27.2. Aging analysis of trade receivables

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Up to one month past due | 144 146 | 79 108 |
| Over 1 month to 3 months past due | 54 004 | 76 887 |
| Over 3 months to 6 months past due | 44 949 | 35 124 |
| Over 6 months to 1 year past due | 28 998 | 37 089 |
| Over 1 year past due | 86 003 | 102 022 |
| Gross past due trade receivables | 358 100 | 330 230 |
| Allowance for trade receivables* | (52 154) | (60 700) |
| **Total** | **305 946** | **269 530** |

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

Movements in allowance for receivables were as follows:

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Allowance for receivables at the beginning of the period | 61 012 | 70 622 |
| **Increase, of which:** | **5 563** | **15 805** |
| - allowance for receivables | 5 563 | 15 731 |
| - changes in Group structure | - | 74 |

(in PLN thousands)

| | | |
|---|---|---|
| **Decrease, of which:** | **12 857** | **25 415** |
| - utilisation | 6 633 | 9 440 |
| - receivables pay-off | 85 | 6 471 |
| - release | 6 139 | 9 504 |
| **Allowance for receivables at the end of the period** | **53 718** | **61 012** |

## 28. Prepaid expenses

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Insurance costs | 9 080 | 5 281 |
| Subscription | 365 | 242 |
| Costs of uncompleted works | 3 208 | 278 |
| Settlement of patent fee | 1 063 | - |
| Acquisition costs | 1 700 | - |
| Obtaining a quality certificate | - | 491 |
| Licence fees | 1 152 | 847 |
| IT support, electric power | 204 | 182 |
| Other | 883 | 2 756 |
| **Total** | **17 655** | **10 077** |

## 29. Cash and cash equivalents

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Cash at bank and in hand | 265 962 | 345 982 |
| Deposits | 6 858 | 27 832 |
| **Total cash** | **272 820** | **373 814** |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2011 is PLN 272,820 thousand, as at 31 December 2010 it was PLN 373,814 thousand.

Reconciliation of changes in statement of financial position items for the reporting period to the changes recognised in the statement of cash flows are presented in the tables below:

| | *Year ended 31 December 2011* |
|---|---|
| **Change in receivables in the statement of financial position** | (617 570) |
| Adjustment for receivables relating to disposal of property, plant and equipment | 1 652 |
| Change in receivables in the statement of cash flows | (615 918) |

| | *Year ended 31 December 2011* |
|---|---|
| **Change in liabilities in the statement of financial position** | 523 909 |
| Adjustment for lease liabilities | (4 148) |
| Adjustment for liabilities relating to investment acquisitions | (6 954) |
| Change in liabilities in the statement of cash flows | 512 807 |

(in PLN thousands)

| | *Year ended 31 December 2010* |
|---|---|
| **Change in inventories in the statement of financial position** | (82 014) |
| Inventories of acquired Centralne Biuro Konstrukcji Kotłów S.A. | 310 |
| Other | 92 |
| Change in inventories in the statement of cash flows | (81 612) |

| | *Year ended 31 December 2010* |
|---|---|
| **Change in receivables in the statement of financial position** | (63 880) |
| Adjustment for advance payments relating to the acquisition of property, plant and equipment | (34 043) |
| Receivables of acquired Centralne Biuro Konstrukcji Kotłów S.A. | 1 851 |
| Other | 629 |
| Receivables of acquired Elektra Sp. z o.o. | 877 |
| Dividend receivable | 3 000 |
| Other | 114 |
| Change in receivables in the statement of cash flows | (91 452) |

| | *Year ended 31 December 2010* |
|---|---|
| **Change in liabilities in the statement of financial position** | (72 353) |
| Liabilities of acquired Centralne Biuro Konstrukcji Kotłów S.A. | (652) |
| Liabilities of acquired Elektra Sp. z o.o. | (923) |
| Other | (3 065) |
| Adjustment for lease liabilities | 12 683 |
| Adjustment for currency option valuation liabilities | (1 696) |
| Adjustment for liabilities relating to investment acquisitions | 6 708 |
| Contingent payments to the interest in subsidiaries | 10 232 |
| Change in liabilities in the statement of cash flows | (49 066) |

| | *Year ended 31 December 2010* |
|---|---|
| **Change in provisions in the statement of financial position** | (2 738) |
| Provisions of acquired Centralne Biuro Konstrukcji Kotłów S.A. | (840) |
| Change in provisions in the statement of cash flows | (3 578) |

| | *Year ended 31 December 2010* |
|---|---|
| **Change in accruals and prepaid expenses in the statement of financial position** | (4 352) |
| Accruals and prepaid expenses of acquired Centralne Biuro Konstrukcji Kotłów S.A. | 109 |
| Accruals and prepaid expenses of acquired Elektra Sp. z o.o. | 202 |
| Other | 1 |
| Change in accruals and prepaid expenses in the statement of cash flows | (4 040) |

(in PLN thousands)

**Acquisition of a subsidiary, net of cash acquired**

| | *Year ended 31 December 2010* |
|---|---|
| Acquisition of Centralne Biuro Konstrukcji Kotłów Sp. z o.o. by Polimex-Mostostal S.A. | (8 829) |
| Cash of Centralne Biuro Konstrukcji Kotłów S.A. on acquisition | 935 |
| Acquisition of Centralne Biuro Konstrukcji Kotłów Sp. z o.o. net of cash acquired | (7 894) |
| Other | 2 620 |
| Total acquisition of subsidiaries, net of cash acquired | (5 274) |

The „Other" items in operating activities of consolidated statement of cash flows for the year ended 31 December 2011 comprise in particular of: valuation of currency options of PLN 3,823 thousand, valuation of managerial options of PLN (897) thousand, change in deposits of PLN (1,670) thousand, valuation of investment property of PLN (1,147) thousand.
The „Other" items in operating activities of consolidated statement of cash flows for the year ended 31 December 2010 comprise in particular of: valuation of foreign currency options amounting to PLN (2,326) thousand, valuation of executive options amounting to PLN 2,328 thousand, revaluation of property amounting to PLN 1,431 thousand.

# 30. Issued capital and supplementary/ reserve capital

## 30.1. Issued capital

| ***Equity capital ( in share thousands)*** | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Series A ordinary shares | 55 386 | 55 386 |
| Series B ordinary shares | 36 532 | 36 532 |
| Series C ordinary shares | 8 580 | 8 580 |
| Series D ordinary shares | 13 499 | 13 499 |
| Series E ordinary shares | 43 499 | 43 499 |
| Series F ordinary shares | 223 716 | 223 716 |
| Series G ordinary shares | 236 | - |
| Series H ordinary shares | 25 823 | 25 823 |
| Series I ordinary shares | 57 321 | 57 321 |
| Series K ordinary shares | 38 733 | 38 733 |
| Series L ordinary shares | 17 829 | 17 829 |
| **Total** | **521 154** | **520 918** |

All issued shares are at nominal value of PLN 0.04 as at
31 December 2011 and as at 31 December 2010. Shares have been fully paid.

On 31 December 2010 the District Court for the capital city of Warsaw, 12th Economic Department of the National Court Register issued the decisions:

- on entering the combination of Polimex-Mostostal S.A (the acquiring company) with the following companies: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o. o. with the registered office in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o. o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquired companies) conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of these companied to Polimex-Mostostal S.A., registration of an increase of share capital due to the combination with the above mentioned companies and of amendments to the Articles of Association of Polimex - Mostostal S.A – in accordance with Resolution No 1 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.
- on entering the combination of Polimex-Mostostal S.A (the acquiring company) with Naftobudowa S.A. with the registered office in Kraków conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of Naftobudowa S.A. to Polimex - Mostostal S.A., registration of an increase of share capital due to the combination with Naftobudowa S.A. and of amendments to the

(in PLN thousands)

Articles of Association of Polimex - Mostostal S.A – in accordance with Resolution No 2 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.

As a result of conducted combinations the share capital of Polimex- Mostostal S.A. increased to PLN 20,836,728.12 (twenty million eight hundred thirty-six thousand seven hundred twenty-eight and 12/100) and it divides into 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) ordinary shares that entitle to 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) votes in the General Shareholder Meeting.

### 30.1.1 *Shareholders rights*

Each share has a right to 1 vote at a General Meeting of Shareholders. There are no shares with preferences relating to distribution of dividends or repayment of capital. According to the information based on stock exchange releases, the structure of shareholders who have directly or indirectly through subsidiaries at least 5% of total number of votes is as follows:

### 30.1.2 *Shareholders with the significant shareholding as at 31 December 2011*

| Item No | Shareholder | No of shares/votes | % interest in share capital/total votes at GSM |
|---|---|---|---|
| 1. | ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund) | 64 586 526 | 12.39 |
| 2. | Pioneer Pekao Investment Management S.A. | 51 859 290 | 9.95 |
| 3. | Polimex-Cekop Development Sp. z o.o. *) | 13 152 500 | 2.52 |
| 4. | Other shareholders | 391 555 760 | 75.14 |
| | **Number of shares of all issues** | **521 154 076** | **100.00** |

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)** | | |
| share in equity | 12.39% | 7.76% |
| share in votes | 12.39% | 7.76% |
| **Pioneer Pekao Investment Management S.A.** | | |
| share in equity | 9.95% | 10.08% |
| share in votes | 9.95% | 10.08% |
| **AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)** | | |
| share in equity | - | 10.03% |
| share in votes | - | 10.03% |
| **Otwarty Fundusz Emerytalny PZU „Złota Jesień” (PZU „Złota Jesień”Open Pension Fund)** | | |
| share in equity | - | 7.68% |
| share in votes | - | 7.68% |
| **Polimex-Cekop Development Sp. z o.o.** (Polimex-Mostostal S.A.’s subsidiary) | | |
| share in equity | 2.52% | 2.52% |
| share in votes | 2.52% | 2.52% |
| **Other Shareholders** | | |
| share in equity | **75.14%** | **61.93%** |
| share in votes | **75.14%** | **61.93%** |

*Polimex-Cekop Development sp. z o.o. holds 13,152,500 shares of Polimex-Mostostal S.A. whose fair value at 31 December 2011 is PLN 21.8 million and at 31 December 2010 PLN 52.6 million.

### 30.2. Supplementary capital

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

### 30.3. Revaluation reserve

The revaluation reserve was recognised in connection with the application of hedge accounting by the Company Revaluation reserve is a result of net valuation of cash hedges adjusted for deferred tax. The transactions and applied hedge accounting are described in note 23.3 to the financial statements.

### 30.4. Reserve capital

Reserve capital resulted from Resolution No 2 of Extraordinary General Meeting of Shareholders of Polimex-Mostostal S.A. of 31 January 2006 establishing the Incentive Plan for Directors and Officers of Polimex-Mostostal S.A. Partial modification to the principles of the Plan was introduced by Resolution No 39 of Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. of 28 June 2007.

In connection with the implementation of the Plan the share capital was conditionally increased by not more than PLN 762,417 (say seven hundred sixty-two thousand four hundred seventeen) by means of the issue of not more than 19,060,425 (say nineteen million sixty thousand four hundred and twenty-five) series G bearer shares with nominal value of PLN 0.04 each. Share capital was increased in order to grant rights to holders of subscription warrants to take up series G shares issued under the resolutions of the General Shareholders Meeting of 31 January 2006.

19,060,425 bearer subscription warrants were issued. One bearer subscription warrant entitles to take up 1 (say one) series G ordinary share of the Issuer with nominal value of PLN 0.04 (say oh point zero four) each, excluding rights issue which Issuer's shareholders are entitled to. Warrants were issued at the issue price equal to PLN 0.00 (say: zero).

16,535,013 bearer subscription warrants were vested.
2,525,412 bearer subscription warrants remain to be redeemed.
Warrants may be exercised in the following periods:
-warrants granted for 2006: from 1 October 2010 to 31 December 2013,
-warrants granted for 2007: from 1 October 2011 to 31 December 2013,
-warrants granted for 2008: from 1 October 2012 to 31 December 2013,
In 2009 the phase of vesting warrants based on the above criteria was completed. In a three-year period of plan maintenance, all three criteria were met twice, the highest criteria entitling to obtain the maximum number of warrants. In 2008 only two criteria were met: „EBITDA/per share" and „earnings per share", while the „market condition" was not fulfilled. Thus, the total number of issued warrants amounted to 16,535,013 convertible to 16,535,013 shares.

Due to the failure to meet the third criterion in 2008, 2,525,412 warrants were not vested on the above specified conditions and consequently these warrants shall be redeemed.

In accordance with Resolution No. 26 of 4 July 2008 the share capital of the Company may be conditionally increased by not more than PLN 928,687.32 by means of issuing not more than 23,217,183 series J bearer shares with nominal value of PLN 0.04 (say four grosz) each. The purpose of a conditional increase of the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries. The plan is for three years and the warrants will be issued after meeting assumed growth criteria for each of the reporting periods i.e. 2009, 2010 and 2011.

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

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

- warrants granted for 2009: from 1 October 2013 to 31 December 2016,
- warrants granted for 2010: from 1 October 2014 to 31 December 2016,

(in PLN thousands)

- warrants granted for 2011: from 1 October 2015 to 31 December 2016.

As at 30 December 2011 the balance of the provision for this plan recognised in reserve capital of the Group amounts to PLN 32,086 thousand (PLN 33,221 thousand as at 31 December 2010).

### 30.5. Non-controlling interests

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| At the beginning of the year | 9 687 | 140 783 |
| Currency translation differences on consolidation | - | 33 |
| Net valuation of cash flow hedges | - | 647 |
| Deferred tax | - | (123) |
| Profit for the year | 2 497 | 9 643 |
| Buyout of non-controlling interest in companies combined with Polimex-Mostostal S.A. | - | (140 997) |
| Changes in Group structure | - | 92 |
| Consolidation adjustments relating to change of control over a subsidiary | - | (368) |
| Other adjustments on subsidiaries' equity | (35) | (23) |
| **At the end of the year** | **12 149** | **9 687** |

## 31. Interest-bearing bank loans and borrowings

| **Bank / financing entity** | **Capital Group Entity** | **Maturity** | ***31 December 2011*** | ***31 December 2010*** |
|---|---|---|---|---|
| **Current** | | | | |
| | **Parent company** | | **208 090** | **154 091** |
| BGŻ S.A. – bank overdraft up to PLN 35,000 thousand | | 30.05.2012 | - | 14 333 |
| Bank PEKAO S.A. – bank overdraft up to PLN 50,000 thousand | | 31.07.2011 | - | 13 802 |
| Bank PEKAO S.A. – working capital facility up to PLN 70,000 thousand | | 31.07.2011 | - | 12 598 |
| Bank PEKAO S.A. – working capital facility up to PLN 50,000 thousand | | 27.07.2011 | - | 50 000 |
| Bank PEKAO S.A. – bank overdraft of PLN 5,000 thousand | | 31.12.2011 | - | 241 |
| Bank PEKAO S.A. – credit facility in the form of credit line*) | | 31.07.2012 | 150 000 | - |
| BPH S.A. – bank overdraft up to PLN 47,000 thousand **) | | 30.11.2012 | - | 16 078 |
| BPH S.A. – bank overdraft up to PLN 10,000 thousand | | 31.08.2011 | - | 3 338 |
| PKO BP S.A. – working capital facility in EUR (current portion) | | 26.12.2012 | 8 503 | 1 188 |
| PKO BP S.A. – working capital facility in PLN (current portion) | | 26.12.2012 | 6 345 | 964 |
| PKO BP S.A. – investment loan in PLN/EUR (current portion) | | 31.12.2012 | 29 861 | 29 226 |
| BOŚ S.A. – bank overdraft up to PLN 50,000 thousand | | 03.07.2012 | - | 2 936 |
| DZ Bank S.A. – bank overdraft up to EUR 3,000 thousand | | 31.10.2012 | 13 214 | 7 807 |
| DnB Nord Bank Polska S.A. – investment loan in PLN (current portion) | | 31.12.2012 | - | 147 |
| Getin Bank S.A. – investment loan in PLN (current portion) (repaid) | | 31.12.2011 | - | 22 |
| Getin Bank S.A. – investment loan in PLN (repaid) | | 25.04.2011 | - | 11 |
| PKO BP S.A. – non-revolving working capital facility up to PLN 600 thousand | | 04.10.2012 | 167 | 1 400 |

*) credit facility in the form of a multipurpose multicurrency credit line in the total amount of PLN 420,000 thousand, of which working capital facility up to PLN 200,000 thousand (PLN 50,000 thousand – bank overdraft, PLN 150,000 thousand - revolving loan in tranches to finance contracts being performed); it replaced among other things the above mentioned credit facilities at PEKAO S.A. up to PLN 50,000 thousand, PLN 70,000 thousand, PLN 50,000 thousand and PLN 5,000 thousand.

**) the loan replaced the prior loan up to PLN 42,000 thousand and the loan of the incorporated company of Naftobudowa S.A. up to PLN 10,000 thousand.

(in PLN thousands)

| | | | |
|---|---|---|---|
| **Sefako Group** | | **35 005** | **24 543** |
| Bank PEKAO S.A. – bank overdraft up to PLN 10,000 thousand | 31.10.2012 | 8 377 | 2 242 |
| PKO BP S.A. – working capital facility up to PLN 14,000 thousand | 06.07.2012 | 13 164 | 11 728 |
| PKO BP S.A. – investment loan in PLN (current portion) | 31.12.2012 | 7 540 | 7 539 |
| BRE Bank S.A. – investment loan in PLN (repaid) | 30.09.2011 | - | 1 067 |
| Bank Spółdzielczy w Sędziszowie– bank overdraft up to PLN 1,400 thousand | 31.07.2012 | 1 126 | 799 |
| Bank Spółdzielczy w Wolbromie– bank overdraft up to PLN 700 thousand (repaid) | 30.04.2011 | - | 710 |
| Bank Spółdzielczy w Wolbromie– bank overdraft up to PLN 500 thousand | 30.04.2012 | 500 | - |
| Bank Spółdzielczy w Wolbromie – investment loan up to PLN 700 thousand (current portion) | 30.04.2012 | 200 | - |
| PKO BP S.A. – working capital facility in the current account (repaid) | 10.02.2011 | - | 200 |
| Nordea Bank Polska S.A. – revolving working capital facility up to PLN 5,000 thousand (the repayment date of the loan was extended until 31.01.14) | 02.02.2012 | 3 888 | - |
| Voivodship Environment Protection Fund – loan (current portion) | 31.12.2012 | 30 | 120 |
| Voivodship Environment Protection Fund – loan (current portion) | 31.12.2012 | 80 | 138 |
| Sędziszów Commune – loan (current portion) | 20.08.2012 | 100 | - |
| **Moduł System Service Sp. z o.o.** | | **853** | **1 253** |
| ING Bank Śląski S.A. – bank overdraft up to PLN 1,000 thousand | 01.09.2012 | 513 | 917 |
| Raiffeisen Bank Polska S.A. – revolving credit facility in PLN (current portion) | 31.12.2012 | 340 | 336 |
| **Sinopol Trade Center Sp. z o.o.** | | **790** | **613** |
| Polski Bank Spółdzielczy w Ciechanowie – bank overdraft up to PLN 1,050 thousand | 05.05.2012 | 790 | 613 |
| **PPU Elektra Sp. z o.o.** | | **826** | **639** |
| PKO BP S.A. – bank overdraft in PLN (repaid) | 24.02.2011 | - | 500 |
| PKO BP S.A. – revolving working capital facility in PLN (repaid) | 28.02.2011 | - | 100 |
| PKO BP S.A. – revolving working capital facility in PLN (repaid) | 31.12.2011 | - | 39 |
| Bank Millennium S.A. – bank overdraft up to PLN 1,000 thousand | 21.03.2012 | 418 | - |
| Bank Millennium S.A. – reversed factoring up to PLN 1,000 thousand | 27.03.2012 | 408 | - |
| **Polimex-Mostostal ZUT Sp. z o.o.** | | **453** | **944** |
| Bank PEKAO S.A. – bank overdraft up to PLN 1,500 thousand (the credit facility was decreased to PLN 1,000 thousand and the repayment period was extended until 31.01.2013) | 31.01.2012 | 453 | 944 |

(in PLN thousands)

| | | | | |
|---|---|---|---|---|
| | **Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.** | | **224** | **-** |
| Bank PEKAO S.A. – bank overdraft up to PLN 500 thousand (the repayment date of the loan was extended until 31.12.13) | | 31.12.2011 | 224 | - |
| | **Stalfa Sp. z o.o.** | | **15 342** | **13 582** |
| Fortis Bank Polska S.A. – bank overdraft up to PLN 4,000 thousand - (repaid) | | 28.01.2011 | - | 3 989 |
| Fortis Bank Polska S.A. – investment loan in PLN (current portion) (repaid) | | 31.12.2012 | - | 800 |
| Fortis Bank Polska S.A. – long-term loan in PLN (current portion) (repaid) | | 27.09.2012 | - | 849 |
| Bank PEKAO S.A. – bank overdraft up to PLN 1,000 thousand | | 31.07.2012 | 958 | 993 |
| Alior Bank S.A. – bank overdraft up to PLN 7,000 thousand | | 30.03.2012 | 6 845 | 6 931 |
| Alior Bank S.A. – non-revolving credit facility in PLN (current portion) | | 31.12.2012 | 1 083 | 20 |
| Kredyt Bank S.A. – bank overdraft up to PLN 5,720 thousand | | 31.12.2012 | 5 392 | - |
| Kredyt Bank S.A. – investment loan in PLN (current portion) | | 31.12.2012 | 1 064 | - |
| | **Tchervonograd ZKM -Ukraine** | | **3 770** | **1 206** |
| Ukrgazprombank – working capital facility up to UAH 4,300 thousand | | 23.08.2012 | 1 830 | 223 |
| Ukrgazprombank – working capital facility up to EUR 262 thousand | | 23.08.2012 | 1 147 | 983 |
| Ukrgazprombank – working capital facility up to EUR 181 thousand (the repayment date of the loan was extended until 31.01.13) | | 31.01.2012 | 793 | - |
| | **Torpol Group** | | **1 884** | **1 963** |
| Bank Millenium S.A. – bank overdraft up to PLN 3,000 thousand (repaid) | | 22.08.2011 | - | 165 |
| Alior Bank S.A. – bank overdraft up to PLN 1,500 thousand (repaid) | | 27.08.2011 | - | 284 |
| Alior Bank S.A. – revolving credit facility in the credit account up to PLN 1,500 thousand (repaid) | | 27.08.2011 | - | 1 500 |
| BZ WBK S.A. – bank overdraft up to PLN 20,000 thousand (the credit facility was increased to PLN 25,000 thousand and the repayment period was extended until 28.02.13) | | 29.02.2012 | - | 14 |
| DnB Nord Polska S.A. – bank overdraft up to NOK 10,000 thousand | | 30.06.2012 | 1 884 | - |
| | **PRInż -1 Sp. z o.o.** | | **10 344** | **5 289** |
| BOŚ S.A. – revolving loan up to PLN 9,000 thousand | | 02.06.2012 | 8 650 | 3 498 |
| BOŚ S.A. – investment loan in PLN (current portion) | | 31.12.2012 | 427 | 420 |
| BOŚ S.A. – bank overdraft up to PLN 2,200 thousand | | 12.07.2012 | 1 145 | 1 311 |
| VOLKSWAGEN Bank Polska S.A. – loan to purchase a car in PLN | | 12.10.2011 | - | 20 |
| VOLKSWAGEN Bank Polska S.A. – loan to purchase a car in PLN | | 12.10.2011 | - | 20 |
| VOLKSWAGEN Bank Polska S.A. – loan to purchase a car in PLN | | 12.10.2011 | - | 20 |
| VOLKSWAGEN Bank Polska S.A. – loan to purchase a car in PLN | | 20.04.2012 | 20 | - |
| VOLKSWAGEN Bank Polska S.A. – loan to purchase a car in PLN | | 02.05.2012 | 21 | - |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 31.12.2012 | 29 | - |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 31.12.2012 | 28 | - |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 31.12.2012 | 24 | - |

(in PLN thousands)

| | | | | |
|---|---|---|---|---|
| | **Energop Sp. z o.o.** | | **16 391** | **14 624** |
| RBS Bank (Polska) S.A. – investment loan in EUR (the repayment date of the loan was extended until 14.03.2014) | | 31.12.2012 | 12 231 | 14 624 |
| RBS Bank (Polska) S.A. – bank overdraft up to EUR 1,200 thousand | | 31.08.2012 | 4 160 | - |
| | **Energomontaż Północ Gdynia Sp. z o.o.** | | **-** | **36** |
| Bank Millenium S.A. – bank overdraft up to PLN 6,000 thousand | | 12.12.2012 | - | 36 |
| | **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** | | **6 885** | **5 035** |
| Bank PEKAO S.A. – bank overdraft up to PLN 1,300 thousand | | 31.07.2012 | 1 247 | 1 048 |
| Bank Millenium S.A. – bank overdraft up to PLN 3,400 thousand | | 27.05.2012 | 3 280 | 2 939 |
| Voivodship Environment Protection Fund – loan in PLN (current portion) | | 31.12.2012 | 17 | 17 |
| Orzesko-Knurowski Polski Bank Spółdzielczy – bank overdraft up to PLN 2,000 thousand | | 19.10.2012 | 1 310 | - |
| Orzesko-Knurowski Bank Spółdzielczy – investment loan in PLN (current portion) | | 31.12.2012 | 1 031 | 1 031 |
| | **Polimex-Development Kraków Group** | | **17 386** | **22 524** |
| PKO BP S.A. – investment loan in PLN | | 30.06.2012 | 4 190 | 5 400 |
| PKO BP S.A. – investment loan in PLN | | 30.06.2012 | 13 196 | 17 124 |
| | **Coifer Group** | | **17 390** | **21 520** |
| Intensa Sanpaolo – investment loan in EUR (current portion) | | 31.12.2012 | 1 967 | 2 565 |
| Fortis Bank – bank overdraft up to EUR 4,500 thousand (repaid) | | 01.10.2010 | - | 17 796 |
| Unicredit Tiriac Bank – bank overdraft up to EUR 4,500 thousand | | 28.11.2012 | 15 423 | - |
| Natural persons (former shareholders) – loans in EUR (repaid) | | 31.12.2010 | - | 1 159 |
| | **Grande Meccanica SpA** | | **14 539** | **9 519** |
| Cassa Di Risparmie di Terni e Nami SpA – working capital facility in EUR | | Open | - | 680 |
| Banca Pop. Di Spoleto – working capital facility up to EUR 1,000 thousand | | Open | 3 307 | 3 430 |
| Monte dei Pachi di Sienna – working capital facility EUR 1,946 thousand | | Open | 7 857 | 20 |
| Banca Nationale Del Lavoro SpA – working capital facility up to EUR 950 thousand | | Open | 548 | 3 112 |
| Unicredit Banca d'Impressa – working capital facility up to EUR 1,000 thousand | | Open | 2 827 | 2 277 |

(in PLN thousands)

| | | | | |
|---|---|---|---|---|
| | **WBP Zabrze Sp. z o.o.** | | **1 771** | **-** |
| Orzesko-Knurowski Polski Bank Spółdzielczy – bank overdraft up to PLN 2,420 thousand | | 28.08.2012 | 1 771 | - |
| | **Pracownia Wodno - Chemiczna Ekonomia Sp. z o.o.** | | **21** | **26** |
| Volkswagen Bank Polska S.A. – investment loan in PLN (repaid) | | 05.11.2011 | - | 13 |
| Volkswagen Bank Polska S.A. – investment loan in PLN (current portion) | | 31.12.2012 | - | 13 |
| ING Bank Śląski S.A. – bank overdraft up to PLN 200 thousand | | 01.09.2012 | 21 | - |
| | **Zakład Budowlano-Instalacyjny Turbud Sp. z o.o.** | | **325** | **-** |
| PEKAO S.A. – bank overdraft up to PLN 1,000 thousand (the credit facility was decreased to PLN 500 thousand; the repayment period was extended until 31.08.2012) | | 31.01.2012 | 325 | - |
| **Non-current** | | | | |
| | **Parent company** | | **82 317** | **123 762** |
| PKO BP S.A. – investment loan in PLN/EUR | | 31.08.2015 | 82 118 | 109 595 |
| PKO BP S.A. – working capital facility in EUR | | 26.12.2012 | - | 7 525 |
| PKO BP S.A. – working capital facility in PLN | | 26.12.2012 | - | 6 265 |
| Getin Bank S.A. – investment loan in PLN (repaid) | | 25.02.2013 | - | 28 |
| DnB Nord Polska S.A. – investment loan in PLN | | 31.03.2013 | 199 | 199 |
| PKO BP S.A. – non-revolving working capital facility up to PLN 600 thousand | | 04.10.2012 | - | 150 |
| PKO BP S.A. – revolving credit facility up to PLN 100,000 thousand | | 30 06 2014 | - | - |
| | **Sefako Group** | | **25 249** | **32 599** |
| PKO BP S.A. – investment loan in PLN | | 30.01.2016 | 23 249 | 30 789 |
| Voivodship Environment Protection Fund – loan in PLN | | 31.10.2016 | 249 | 431 |
| Voivodship Environment Protection Fund – loan in PLN | | 31.10.2016 | 451 | 379 |
| Sędziszów Commune – loan in PLN | | 2016 | 800 | 1 000 |
| Bank Spółdzielczy w Wolbromie – investment loan up to PLN 700 thousand | | 30.04.2014 | 500 | - |
| | **Stalfa Sp. zo.o.** | | **553** | **2 237** |
| Fortis Bank Polska S.A. – investment loan in PLN (repaid) | | 31.12.2013 | - | 1 600 |
| Fortis Bank Polska S.A. – non-current loan in PLN (repaid) | | 27.09.2012 | - | 637 |
| Kredyt Bank S.A. - investment loan in PLN | | 24.05.2013 | 386 | - |
| Alior Bank S.A. – non-revolving credit facility in PLN | | 28.02.2013 | 167 | - |

(in PLN thousands)

| | | | | |
|---|---|---|---|---|
| | **PRInż -1 Sp. z o.o.** | | **765** | **1 051** |
| BOŚ Bank S.A. – investment loan in PLN | | 30.06.2014 | 631 | 1 051 |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 16.03.2014 | 41 | - |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 16.06.2014 | 48 | - |
| Getin Noble Bank Polska S.A. – loan to purchase a car in PLN | | 25.10.2014 | 45 | - |
| | **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** | | **11 472** | **12 520** |
| Orzesko-Knurowski Bank Spółdzielczy – investment loan in PLN | | 18.12.2023 | 11 337 | 12 368 |
| Voivodship Environment Protection Fund – loan in PLN | | 15.10.2020 | 135 | 152 |
| | **PPU Elektra Sp. z o.o.** | | **-** | **10** |
| PKO BP S.A. – revolving working capital facility in PLN (repaid) | | 28.03.2012 | - | 10 |
| | **Coifer Group** | | **10 001** | **10 583** |
| BRD – investment loan in EUR (repaid) | | 01.04.2011 | - | 81 |
| BRD – investment loans in EUR (repaid) | | 01.09.2011 | - | 720 |
| Intensa Sanpaolo – investment loan in EUR | | 08.12.2017 | 10 001 | 9 782 |
| | **Pracownia Wodno Chemiczna Ekonomia Sp. z o.o.** | | **13** | **26** |
| Volkswagen Bank Polska S.A. – investment loan in PLN | | 02.10.2013 | 13 | 26 |
| | **Moduł System Service Sp. z o.o.** | | **1 010** | **1354** |
| Raiffeisen Bank Polska S.A. – revolving credit facility in PLN | | 31.12.2013 | 1 010 | 1 354 |
| | **Energomontaż-Północ Gdynia Sp.z o.o.** | | **2 105** | |
| Bank Millennium S.A. – investment loan in EUR | | 31.12.2018 | 2 105 | - |
| | **Tchervonograd ZKM -Ukraine** | | **1 146** | **-** |
| Kredobank – working capital facility up to USD 337 thousand | | 08.12.2013 | 1 146 | - |

(in PLN thousands)

| | | | | |
|---|---|---|---|---|
| | **Grupa Polimex – Development Kraków** | | **2 120** | **-** |
| BRE Bank S.A. – investment loan in PLN | | 15.08.2014 | 2 120 | - |

| | | |
|---|---|---|
| **Interest-bearing bank loans and borrowings** | **489 040** | **461 549** |
| **Current, of which:** | **352 289** | **277 407** |
| Bank loans | 352 062 | 275 973 |
| Borrowings | 227 | 1 434 |
| **Non-current, of which:** | **136 751** | **184 142** |
| Bank loans | 135 116 | 181 379 |
| Borrowings | 1 635 | 2 763 |

| **Comparison of interest rates for the periods** | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Weighted average for bank loans in PLN | WIBOR 1M + 1.4601p/p/ | WIBOR 1M + 1.5815 p/p/ |
| | WIBOR 3M + 2.1958 p/p/ | WIBOR 3M + 2 8522 p/p/ |
| | WIBOR ON + 1.9500 p/p/ | WIBOR ON + 1.9500 p/p/ |
| | WIBOR 6M + 2.8500 p/p/ | WIBOR 6M + 2.8500 p/p/ |
| Weighted average for bank loans in EUR | EURIBOR 1M + 1.5973 p.p. | EURIBOR 1M + 2.1346 p.p. |
| | LIBOR 1M + 0.9500 p.p. | LIBOR 1M + 0.9500 p.p. |
| | EURIBOR 3M + 2.5755 p.p. | EURIBOR 3M + 2.1270 p.p. |

## 32. Debentures

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Long-term debentures | 73 000 | 367 435 |
| Short-term debentures | 334 742 | 39 331 |
| **Total debentures** | **407 742** | **406 766** |

In total, under the Debenture Issue Plan balance of debentures issued by Polimex-Mostostal S.A. as at the date of preparation of this report amounts to PLN 400.0 million, of which PLN 32.5 million is ascribed to short-term debentures and PLN 367.5 million is ascribed to long-term debentures.
Current issues under Debenture Issue Plan:

i) coupon debentures:

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

  Both blocks of coupon debentures were consolidated and until 25.07.2012 the maturity of half-year interest coupons falls at the same dates.
- on 16.10.2009 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 194.5 million and with the maturity at 16.10.2012.

ii) discount debentures:

- on 28.06.2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 million, which were combined in one block on 07.01.2009 and its present maturity is at 30 March 2012.

(in PLN thousands)

# 33. Other non-current liabilities

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Leases | 43 048 | 38 607 |
| Non-current guarantee payment liabilities | 47 631 | 44 480 |
| Measurement of derivative instruments | - | - |
| Deposits | 1 603 | 1 157 |
| Financial asset purchase payables | - | 1 175 |
| Fixed asset purchase payables | 1 021 | 996 |
| Other | 958 | 460 |
| **Total** | **94 261** | **86 875** |

# 34. Provisions

## 34.1. Movements in provisions

| | *Provisions for guarantee repairs and refunds* | *Restructuring provision* | *Post-employment benefits* | *Other provisions* | *Total* |
|---|---|---|---|---|---|
| As at 1 January 2011 | 21 862 | - | 91 573 | 22 068 | 135 503 |
| Recognised during the year | 13 051 | - | 2 745 | 13 521 | 29 317 |
| Utilised | (8 746) | - | (1 555) | (774) | (11 075) |
| Released | (10 852) | - | (35 224) | (11 870) | (57 946) |
| Reclassifications | - | - | - | (8 048) | (8 048) |
| As at 31 December 2011 | 15 315 | - | 57 539 | 14 897 | 87 751 |
| Current at 31 December 2011 | 10 303 | - | 8 947 | 13 509 | 32 759 |
| Non-current at 31 December 2011 | 5 012 | - | 48 592 | 1 388 | 54 992 |

| | *Provisions for guarantee repairs and refunds* | *Restructuring provision* | *Post-employment benefits* | *Other provisions* | *Total* |
|---|---|---|---|---|---|
| As at 1 January 2010 | 20 150 | - | 87 050 | 31 041 | 138 241 |
| Acquisition of a subsidiary | - | - | 85 | - | 85 |
| Recognised during the year | 14 765 | 217 | 17 100 | 16 032 | 48 114 |
| Utilised | (1 544) | (217) | (1 510) | (5 318) | (8 589) |
| Released | (17 179) | - | (11 177) | (13 903) | (42 259) |
| Reclassifications | 5 670 | - | 25 | (5 784) | (89) |
| As at 31 December 2010 | 21 862 | - | 91 573 | 22 068 | 135 503 |
| Current at 31 December 2010 | 12 858 | - | 10 326 | 19 921 | 43 105 |
| Non-current at 31 December 2010 | 9 004 | - | 81 247 | 2 147 | 92 398 |

## 34.2. Guarantee and refund provision

The Group recognised in the statement of financial position guarantee repair provisions in the amount of PLN 15,315 thousand as at 31 December 2011 and in the amount of PLN 21,862 thousand as at 31 December 2010. Assumptions used to compute the provision for guarantees were based on current sales levels and current information available about the contractual guarantee period for all products sold.

## 34.3. Employee benefits and other post-employment benefits

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

(in PLN thousands)

On 30 December 2011 the Parent Company in the Group signed an Agreement with Trade Unions introducing the amendments relating to jubilee bonuses in the Company Collective Labour Agreement of Polimex-Mostostal S.A. of 16 February 2007. In line with the provisions of the Agreement the Employee Pension Scheme is introduced in Polimex-Mostostal S.A. and the payment of jubilee bonuses is maintained until 31 December 2012.

The table below presents the amounts of the provision and reconciliation showing movements in the benefit liability over the reporting period:

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **At the beginning of the year** | 91 573 | 87 050 |
| Provision recognized | 2 745 | 17 100 |
| Benefits paid | (1 555) | (1 510) |
| Provision released | (35 224) | (11 177) |
| Change in the composition of the Group | - | 85 |
| Reclassifications | - | 25 |
| **At the end of the year** | **57 539** | **91 573** |

#### 34.3.1 *Main assumptions made by an actuary*

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Discount rate (%) | 5.5 | 5.5 |
| Future inflation index (%) | 2.5 | 2.5 |
| Future salary increases (%) | 1.0 | 2.5 |

### 34.4. Other provisions

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

**Parent company**

The items of other provisions as at 31 December 2011 comprise provisions for losses and costs of construction projects PLN 8,467 thousand and other provisions in the amount of PLN 1,496 thousand; as at 31 December 2010 the balance of provisions comprises provisions for fines in the amount of PLN 5,456 thousand, provisions for losses and costs of construction projects PLN 8,163 thousand and other provisions in the amount of PLN 1,291 thousand.

## 35. Trade and other payables (current)

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Trade payables | | |
| To related parties | 12 209 | 17 738 |
| To third parties | 1 545 505 | 1 056 083 |
| | **1 557 714** | **1 073 821** |
| | | |
| Taxation, customs duty, social security and other payables | | |
| VAT | 49 697 | 53 349 |
| Withholding tax | 508 | 641 |
| Personal income tax | 11 934 | 10 929 |
| Social Insurance Institution (ZUS) | 51 069 | 42 037 |
| National Disabled Persons Rehabilitation Fund (PFRON) | 989 | 809 |
| Other | 3 321 | 2 108 |
| | **117 518** | **109 873** |

(in PLN thousands)

| | | |
|---|---|---|
| Financial liabilities | | |
| Foreign currency contracts | 4 069 | 565 |
| Financial asset purchase payables | 1 000 | 16 247 |
| Leases | 18 322 | 15 715 |
| Other | 78 | 2 305 |
| | **23 469** | **34 832** |
| Other liabilities | | |
| Remuneration payable to employees | 49 331 | 46 006 |
| Fixed asset purchase payables | 15 774 | 10 728 |
| Arrangement payment liabilities | - | 1 837 |
| Social fund | (471) | 806 |
| Other liabilities | 41 987 | 10 896 |
| | **106 621** | **70 273** |
| Accruals arising from: | | |
| Unused annual leave | 25 393 | 18 236 |
| Bonuses and rewards | 22 010 | 23 789 |
| Long-term contracts | 6 509 | 8 059 |
| Other | 3 281 | 4 861 |
| | **57 193** | **54 945** |

Terms and conditions of payment of financial liabilities presented above:
Transactions with related parties are concluded on market conditions (typical trade transactions).
Trade payables are non-interest bearing and are normally settled within 30 to 180 days.
Other payables are non-interest bearing and have an average term of 1 month.
The net VAT payable is remitted to the appropriate tax authority in periods specified in tax regulations.
Interest payable is normally settled based on accepted interest notes.

### 35.1. Trade payables with remaining maturity from the statement of financial position date

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Up to one month | 655 563 | 660 463 |
| Over 1 month to 3 months | 313 343 | 169 085 |
| Over 3 months to 6 months | 19 841 | 7 057 |
| Over 6 months to 1 year | 31 433 | 31 809 |
| Past due liabilities | 537 534 | 205 407 |
| **Total trade payables** | **1 557 714** | **1 073 821** |

### 35.2. Past due trade payables

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Up to one month | 282 556 | 96 331 |
| Over 1 month to 3 months | 160 572 | 41 677 |
| Over 3 months to 6 months | 28 340 | 32 470 |
| Over 6 months to 1 year | 30 052 | 16 180 |
| Over 1 year | 36 014 | 18 749 |
| **Total past due liabilities** | **537 534** | **205 407** |

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

## 36. Contingent liabilities

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| **Off-statement of financial position items and court claims** | | |
| **Contingent liabilities** | **2 930 131** | **2 358 672** |
| To other parties (arising from) | 2 930 131 | **2 358 672** |
| - guaranties and sureties granted | 1 766 151 | 1 545 506 |

(in PLN thousands)

| | | |
|---|---|---|
| - promissory notes | 144 778 | 79 524 |
| - legal claims | 43 984 | 16 232 |
| - other | 163 355 | 152 110 |
| - contractual capped mortgage and ordinary mortgage | 784 863 | 565 300 |
| - assignment of the debt | 27 000 | - |
| **Other (arising from)** | **120 472** | **114 623** |
| - perpetual usufruct right to land | 5 849 | - |
| - transferred to off-statement of financial position records balances relating to: * | 114 623 | 114 623 |
| - receivables | 48 839 | 48 839 |
| - cash | 15 973 | 15 973 |
| - liabilities | 25 330 | 25 330 |
| - deferred income | 24 481 | 24 481 |
| **Total off-statement of financial position items** | **3 050 603** | **2 473 295** |

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

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

In February 2008 the parent Company acquired 100 % interest in Coifer Company with the registered office in Romania. According to the contract payments for interest are made in instalments, with the first payment being EUR 9,375 thousand – payment made in February 2008, 2nd instalment EUR 9,375 thousand – payment made in August 2008. The last payment for the acquired interest at the amount of EUR 2,500 thousand was made in February 2010.

Torpol Group

The parent company in acquired in 2008 shares in Elmont - Kostrzyn Wlkp. Sp. z o.o. The acquisition price comprise two components: main price and contingent price. Each year the Board of the Group measured the amount and probability of paying the contingent price. The probability was determined based on actual financial results and plans presented by Elmont - Kostrzyn Wlkp. Sp. z o.o. Due to failure of the subsidiary to meet financial conditions for 2010 the board decided that the portion of contingent price shall not be paid, which was reflected as a decrease in goodwill of PLN 1,200 thousand. In 2011 as a result of claims made by former owners of Elmont-Kostrzyn Wlkp. Sp. z o.o. and based on legal analyses conducted in connection with this situation, the contingent price was paid, which finally increased goodwill by PLN 1,347 thousand.

### 36.1. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines and penalties. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create areas of uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2011 and as at 31 December 2010.

(in PLN thousands)

# 37. Related party disclosures

The following table presents the total values of transactions with related parties entered into during the year ended 31 December 2011 and as at this date:

| *Related party* | | *Sales to related parties* | *Purchases from related parties* | *Amounts owed by related parties* | *Amounts owed to related parties* |
|---|---|---|---|---|---|
| **Associates** | *2011* | | | | |
| Energomontaż Północ Bełchatów Sp. z o.o. | | 462 | 8 | 133 | - |
| Polimex-Sices Sp. z o.o. | | 659 | 6 050 | 3 001 | 10 813 |
| Laboratorium Ochrony Środowiska Pracy Sp. z o.o. | | - | 79 | - | 34 |
| Sices Montaż Sp. z o.o. | | - | - | - | - |
| Terminal LNG S.A. | | 6 | - | - | - |
| Lineal Sp. z o.o. | | - | 3 758 | - | 1 362 |
| **Total** | | **1 127** | **9 895** | **3 134** | **12 209** |

| | | | | | |
|---|---|---|---|---|---|
| **Associates** | *2010* | | | | |
| Energomontaż Północ Bełchatów Sp. z o.o. | | 97 | - | 92 | - |
| Polimex-Sices Sp. z o.o. | | 30 300 | 98 645 | 8 291 | 17 703 |
| Laboratorium Ochrony Środowiska Pracy Sp. z o.o. | | - | 54 | - | 35 |
| Sices Montaż | | 2 752 | - | 168 | - |
| Terminal LNG S.A. | | 2 | - | 3 | - |
| **Total** | | **33 151** | **98 699** | **8 554** | **17 738** |

## 37.1. Terms and conditions of transactions with related parties

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

# 38. Compensation of the Management Board and Supervisory Board of the Parent Company

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Management Board | | |
| Short-term employee benefits (salaries and surcharges) | 4 722 | 5 863 |
| Supervisory Board | | |
| Short-term employee benefits (salaries and surcharges) | 509 | 488 |
| **Total** | **5 231** | **6 351** |

Compensation paid by the Issuer to the Management Board for 2011 amounted to PLN 4,722 thousand and respectively PLN 5,863 thousand for 2010, of which:

| | | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| President of the Board of Directors | Konrad Jaskóła | 1 668 | 2 311 |
| Vice President of the Board | Aleksander Jonek | 1 163 | 1 181 |
| Vice President of the Board | Grzegorz Szkopek | 948 | 1 259 |
| Vice President of the Board | Zygmunt Artwik | 943 | 1 112 |
| **Total** | | **4 722** | **5 863** |

(in PLN thousands)

Compensation paid to the Supervisory Board by the Issuer over 2011 amounted to PLN 509 thousand and over 2010 it amounted to PLN 488 thousand, of which:

| | | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| Chairman of the Supervisory Board, | Kazimierz Klęk | 108 | 104 |
| Vice Chairman of the Supervisory Board, | Jacek Kseń | 95 | 38 |
| Vice Chairman of the Supervisory Board, | Andrzej Szumański | 73 | 82 |
| Member of the Supervisory Board | Wiesław Rozłucki | - | 41 |
| Member of the Supervisory Board | Mieczysław Puławski | 73 | 29 |
| Member of the Supervisory Board | Janusz Lisowski | - | 41 |
| Member of the Supervisory Board | Jan Woźniak | 73 | 30 |
| Secretary of the Supervisory Board, | Artur P. Jędrzejewski | 87 | 75 |
| Secretary of the Supervisory Board, | Elżbieta Niebisz | - | 48 |
| **Total** | | **509** | **488** |

Disclosure on Company shares which are held by the Management Board and Supervisory Board as at 31 December 2011 and 31 December 2010.

As at 31 December 2011

| Position held | Current number of shares held |
|---|---|
| Member of the Management Board | 3,820,350 |
| Member of the Management Board | 1,939,075 |
| Member of the Supervisory Board | 96,548 |
| Total | 5,855,973 |

As at 31 December 2010

| Position held | Current number of shares held |
|---|---|
| Member of the Management Board | 3,820,350 |
| Member of the Management Board | 1,939,075 |
| Member of the Supervisory Board | 96,548 |
| Total | 5,855,973 |

Compensation of the Management Board in subsidiaries, of which:

| | | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|---|
| President of the Board of Directors | Konrad Jaskóła | 42 | 156 |
| Vice President of the Board | Grzegorz Szkopek | 53 | 181 |
| Vice President of the Board | Zygmunt Artwik | 48 | 104 |
| **Vice President of the Board** | **Aleksander Jonek** | **64** | **61** |
| **Total** | | **207** | **502** |

Compensation of the Management Board in associates, of which:

| | | | |
|---|---|---|---|
| President of the Board of Directors | Konrad Jaskóła | - | 575 |

(in PLN thousands)

# 39. Financial risk management objectives and policies

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

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

The Group also enters into derivative transactions mostly forward currency futures contracts and option contracts. The purpose of these transactions is to manage the currency risks arising from the Group's operations and the sources of finance it uses.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management reviews and agrees on policies for managing each of these risks - the policies are summarised below. The Group also monitors the market price risk arising from all financial instruments it holds. The magnitude of this risk that has arisen over the year is discussed in Note 40.3. The Group's accounting policies in relation to derivatives are set out in note 12.14.

As at 31 December 2011 the Group held the following financial instruments measured at fair value:

| | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|
| Financial assets at fair value through profit or loss – derivative instruments | - | 23 | - |
| Available-for-sale financial assets | - | - | - |
| Financial liabilities measured at fair value, of which: | - | 2 603 | - |
| - hedge accounting | | ( 1 466) | |
| -derivative instruments | | 4 069 | |

As at 31 December 2010 the Group held the following financial instruments measured at fair value:

| | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|
| Financial assets at fair value through profit or loss – derivative instruments | - | 10 054 | - |
| Available-for-sale financial assets | - | - | - |
| Financial liabilities measured at fair value, of which: | - | 565 | - |
| - hedge accounting | | - | |
| -derivative instruments | | 565 | |

In 2011 no items moved between Level 1 and Level 2 of fair value hierarchy or no instruments were moved to the level of fair value.

## 39.1. Interest rate risk

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

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

*Interest rate risk – sensitivity to changes*

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

(in PLN thousands)

**Analysis of sensitivity to changes in interest rates**

| | *Amount exposed to risk* | *Increase/decrease by* | |
|---|---|---|---|
| | | *+0,5%* | *-0,5%* |
| **For the year ended 31 December 2011** | | | |
| Cash in bank accounts | 272 820 | 1 364 | (1 364) |
| Loans granted | 144 | 1 | (1) |
| Bank loans and borrowings received | 489 040 | (2 445) | 2 445 |
| Obligations under finance lease agreements | 61 370 | (307) | 307 |
| Debentures | 407 742 | (2 039) | 2 039 |
| **Effect on profit before tax** | - | **(3 426)** | **3 426** |
| Deferred tax | - | 651 | (651) |
| **Total** | - | **(2 775)** | **2 775** |
| | | | |
| **For the year ended 31 December 2010** | | | |
| Cash in bank accounts | 373 814 | 1 869 | (1 869) |
| Loans granted | 104 | 1 | (1) |
| Bank loans and borrowings received | 461 549 | (2 308) | 2 308 |
| Obligations under finance lease agreements | 54 322 | (272) | 272 |
| Debentures | 406 766 | (2 034) | 2 034 |
| **Effect on profit before tax** | - | **(2 744)** | **2 744** |
| Deferred tax | - | 521 | (521) |
| **Total** | - | **(2 223)** | **2 223** |

## 39.2. Foreign currency risk

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

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

I) companies which have document risk management strategy and implemented hedge accounting policies; this group includes Polimex-Mostostal S.A. and Torpol Sp. z o.o.

II) companies not applying hedge accounting.

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

in portion recognised as an effective hedge - directly in other comprehensive income,

in portion recognised as ineffective - in the income statement.

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

Polimex-Mostostal S.A. financial cash flows are characterised by significant sensitivity to fluctuations of exchange rate relations which results from the fact that foreign currency revenues constitute substantial part of the total enterprise turnover. Basic foreign currency for the Company turnover is still the euro. To minimise the negative impact of exchange rate risk on the performance of the enterprise, the Company actively uses exchange rate derivative instruments available on the market thus applying the exchange rate risk management strategy adopted by the Company. Open transactions of derivative instruments are subject to current valuation with its results included in the enterprise's books of account.

Bearing the above mentioned facts in mind, since 1 October 2008 the Company has been applying hedge accounting for foreign currency derivatives so as to ensure stability and comparability of financial results of the Company for individual reporting periods. Application of the hedge accounting makes it possible to symmetrically present the compensating impact on the financial result of the current period of the hedging instrument fair value and hedged item corresponding to it.

As a result gains/losses on hedging transactions affect the profit/loss in the same period as the gains/losses on items they hedge. Thanks to this, the economic nature of hedging transactions is better reflected in the financial statements of the enterprise.

Derivative instruments hedging cash flows are recognised at fair value, taking into account a change in this value:

in portion recognised as an effective hedge - directly in other comprehensive income,

in portion recognised as ineffective - in the income statement.

Book records and presentation are according to the accounting policies adopted by the Company and regulations in force which are based on the following legal acts:

IFRS 7 – Financial Instruments: Disclosure,

IAS 39 – Financial instruments: Recognition and Measurement,

IAS 32 – Financial Instruments: Disclosure and Presentation.

The Company has transactional foreign currency exposures. Over 25% of transactions executed by the Company are denominated in currencies other than the presentation currency, whereas nearly 85% of costs are denominated in this presentation currency.

The basic method of hedging against foreign exchange risk applied by the Company is natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency. If currency risk may not be hedged by natural hedging, the Company applies currency hedges – based on derivative financial instruments related to currency market – defined by the currency risk management strategies of the Company. These are in particular the following instruments:

- forward future contracts,
- currency PUT options (acquired options),
- structures optionally generated from PUT and CALL options – among the other things the so-called "zero-cost" symmetrical currency corridors built with PUT and CALL options of the same nominal value for the given expiry date of options (see details below).

Terms and conditions of hedging of derivative instruments are negotiated in a manner corresponding to terms and conditions of hedged item, and providing maximum hedging efficiency. In 2011, the Company consequently applied the rules and procedures of conduct implemented, aimed at mitigating the negative impact of the price risk on the result of the enterprise operations.

Disclosure on concluded hedging transactions

To limit the volatility of future cash flows related to foreign currency risk, at 31 December 2011 Polimex-Mostostal S.A. was a party to 12 hedging strategies as characterised below (nominal values of transactions as well as price conditions for instruments to be exercised after 31.12.2011):

### *A. Reducing volatility of cash flows related to the PLN/EUR pair.*

I. Foreign currency options

The Company is the party to 7 symmetrical option transactions concluded between 11 May 2011 and 2 November 2011. The total nominal value of currency options to be exercised over the period between 3 January 2012 and 3 December 2012 amounts to EUR 5,235,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise rates of PUT options the Company is entitled to range from 3.90 PLN/EUR to 4.35 PLN/EUR depending on a transaction. The exercise rates of CALL options issued by the Company range from 4.1650 PLN/EUR to 4.71 PLN/EUR depending on a transaction.

II. Forward future contracts

1. The forward future contract of 10 December 2010 to sell EUR 1,200,000 for PLN to be exercised on 30 April 2012. The forward rate was specified at 4.1117 PLN/EUR. It is the intention of the Company to gradually „shorten" transactions and materialise the hedged item in connection with which the hedging transaction was opened;

2. The forward future contract of 1 March 2011 to sell the total of EUR 385,000 for PLN to be exercised on 31 January 2012. Exchange rate was specified at 4.04 PLN/EUR. It is the intention of the Company to gradually „shorten" transactions and materialise the hedged item in connection with which the hedging transaction was opened;

3. The forward future contract of 11 March 2011 to sell the total of EUR 1,200,000 for PLN to be exercised at 31 January 2012. The forward rate was specified at 4.1045 PLN/EUR. It is the intention of the Company to gradually „shorten" transactions and materialise the hedged item in connection with which the hedging transaction was opened;

4. The forward future contract of 11 March 2011 to sell the total of EUR 630,000 for PLN to be exercised on 30 March 2012. Exchange rate was specified at 4.0975 PLN/EUR. It is the intention of the Company to gradually „shorten" transactions and materialise the hedged item in connection with which the hedging transaction was opened;

5. The series of forward future contracts of 8 July 2011 to sell the total amount of EUR 603,000 for PLN to be exercised in 2 dates in the period between 16 January 2012 and 3 February 2012. The forward rate for each maturity date was specified at 4.0015 PLN/EUR;

***B. Reducing volatility of cash flows related to the PLN/GBP pair.***

I. Foreign currency options

On 15 April 2010 and 5 May 2010 the Company agreed on conditions of symmetrical foreign currency option transactions aimed at limiting the volatility of projected cash flows in GBP. The total nominal value of currency options to be exercised over the period between 13 January 2012 and 13 April 2012 amounts to GBP 1,290,000 (in each case the nominal value of acquired PUT option clears the nominal value of issued CALL option). Exercise rates of PUT options the Company is entitled to amount to 4.38 PLN/GBP for the transaction of 15 April 2010 and 4.65 PLN/GBP for the transaction of 5 May 2010, while exercise rates of CALL options issued by the Company amount to 4.85 PLN/GBP and 5.1490 PLN/GBP respectively.

The parameters of the hedging instruments presented above fully guarantee the level of exchange rate relations required by the Company and necessary for reaching planned financial results on a hedged item. As a result, possible negative cash flows resulting from the settlement of the hedging instruments should not be perceived as a loss, but only as an unrealised additional benefit (above the previous assumption of the Company).

Summing up, as at 31.12.2011 Polimex-Mostostal S.A. had open hedging transactions for the amount of EUR 9,253,000 thousand and GBP 1,290,000. In each case the hedged item is highly probable future cash flows from foreign currency contracts being executed by the Company (supply of steel products and rendering of construction services).

Maturity of all above mentioned hedging transactions falls in 2012. The table below presents the schedule for the settlement of PLN/EUR hedging instruments in each quarter of 2012:

| Quarter the hedging instrument is exercised in 2012* | Nominal value of a hedging instrument | | |
|---|---|---|---|
| | Nominal value of PUT = CALL options in EUR thousands | Nominal value of future contracts in EUR thousands | **Total in the period in EUR thousands** |
| 1st quarter | 2 985 | 2 818 | 5 803 |
| 2nd quarter | 1 004 | 1 200 | 2 204 |
| 3rd quarter | 1 073 | 0 | 1 073 |
| 4th quarter | 173 | 0 | 173 |
| **Total in 2012** | **5 235** | **4 018** | **9 253** |

**the age composition of forward contracts maturity according to the projections of occurrence of a hedged item.*

Since 1 October 2008 the Company has been applying hedge accounting. It covers all transactions of derivative instruments of currency exchange rate, concluded in compliance with the applied strategy of hedging of currency risk, meeting the criteria of hedge accounting.

Measurement of derivative instruments as at 31 December 2011.

As at 31 December 2011, fair value of the open derivative instruments was assessed at minus PLN 3,000.1 thousand. In accordance with the hedge accounting policy approved by the Company, effectiveness of hedging connections was measured. Cash flow hedging was recognized as highly effective and the change of the effective part of fair value of financial instruments was shown directly in other comprehensive income in the position “Revaluation capital” according to the following order (amounts after including the effect in the deferred tax) – data in PLN thousands:

| As at 31.12.10 | Movement in 2011 | As at 31.12.11 |
|---|---|---|
| 3 851 | (5 018) | (1 167) |

Temporary value of currency options which was excluded from the efficiency measurement was reflected in the profit and loss account in financial activity (finance costs / finance income).

It should be emphasized that the measurement presented above is only of computational nature and does not affect current liquidity or general financial situation of the Company.

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Company assessed the foreign currency exposure in 2012 as follows:

| **Detailed list** | **2012** |
|---|---|
| Projected foreign currency proceeds – equivalent in EUR thousands | 217 722 |
| Projected foreign currency expenditures – equivalent in EUR thousands | 126 853 |
| **Business exposure to foreign currency risk in EUR thousand** | **90 869** |
| Open hedging transactions as at 31.12.2011 to be exercised in 2012; in EUR thousands | 9 253 |
| **Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands** | **81 616** |

The nominal value of open hedging instruments as at 31 December 2011 accounts for 10% of total projected exposure to foreign currency risk in 2012. Foreign currency cash flows for contracts concluded by the Company by the date of the completion of this list account for more than 67% of business exposure computed as above. As a result, business exposure to foreign currency risk for cash flows contracted as at 31.12.11 was covered in 15% by hedging transactions.

Fluctuations of the exchange rate of PLN/EUR shall have a neutral impact upon financial performance of the Company in the scope of cash flows from foreign currency contracts under hedging instruments. Current influence of this parameter shall relate to the part of foreign currency revenues (net proceeds) as yet not covered by hedging transactions.

After 31 December 2011 Polimex-Mostostal S.A. entered into the following hedging transaction:

- the series of forward future contract of 19 January 2012 to sell the total of EUR 1,660,000 for PLN to be exercised in two dates: 30 May 2012 and 28 December 2012. The exchange rate for each date was specified at 4.3929 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- the forward future contract (a synthetic one constructed with currency options) of 19 January 2012 to sell the total of EUR 1,750,000 for PLN to be exercised at 30 April 2012. The forward rate was specified at 4.3730 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

- the forward future contract (a synthetic one constructed with currency options) of 19 January 2012 to sell the total of EUR 1,790,000 for PLN to be exercised at 30 April 2012. The forward rate was specified at 4.3730 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- on 27 February 2012 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The nominal value of currency options which are to be exercised on 21 June 2012 is EUR 167,000 thousand (the nominal value of the PUT option clears the value of issued CALL option). The exercise rate of the PUT option the Company is entitled to is 4.10 PLN/EUR, whereas the exercise rate of CALL option issued by the Company is 4.48 PLN/EUR.

**Polimex-Mostostal Capital Group**

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

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

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the terms of the hedged item so as to maximise hedge effectiveness. The Group Companies monitor the market situation on regular basis and confront hedging transactions they held with projected exposure to foreign currency risk. In 2011 the Company is consequently applied the implemented policies for foreign currency risk management.

Disclosure on the volume of concluded hedging transactions
The Group companies limit the volatility of future foreign currency cash flows in view of their exposure to foreign currency risk. In each case the hedged position is highly probable future cash flows from export contracts or domestic contracts denominated in a foreign currency.

At 30 December 2011 total maximum nominal value of open hedging transactions entered into by the Group companies (including Polimex-Mostostal S.A.) amounted to EUR 12,578.6 thousand and GBP 1,290.0 thousand.

Maturity of all above mentioned hedging transactions falls in 2012. The time composition of hedging instruments for the foreign currency risk for EUR PLN pair (according to the criterion of planned exercise date) is presented in the table below.

| Instrument settlement period | Maximum nominal amount of hedging instruments to be settled in EUR thousands* |
|---|---|
| 1st quarter | 9 128.6 |
| 2nd quarter | 2 204.0 |
| 3rd quarter | 1 073.0 |
| 4th quarter | 173.0 |
| **Total in 2012** | **12 578.6** |

**the age composition of forward contracts maturity according to the projections of occurrence of a hedged item.*

Measurement of derivative instruments as at 31 December 2011.

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

As at 31 December 2011 the total fair value of open instruments hedging foreign exchange risk in the Group was calculated at the amount of minus PLN 3,952.0 thousand. The valuation in 99% is attributable to companies applying hedge accounting. Movements in the derivative instrument revaluation reserve in the Group Companies (including Polimex-Mostostal S.A.) are presented in the table below (movements after taking into consideration the effect on deferred tax) – in PLN thousands.

| As at 31.12.10 | Movement in 2011 | As at 31.12.11 |
|---|---|---|
| 3 810 | (4 998) | (1 188) |

It should be emphasized that the measurement presented above is only of computational nature and does not affect current liquidity or general financial situation of the Group.

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Capital Group assessed the foreign currency exposure in 2012 as follows:

| **Detailed list** | **2012** |
|---|---|
| Projected foreign currency proceeds – equivalent in EUR thousands | 305 909 |
| Projected foreign currency expenditures – equivalent in EUR thousands | 149 889 |
| **Business exposure to foreign currency risk in EUR thousand** | **156 020** |
| Open hedging transactions as at 31.12.2011 to be exercised in 2012; in EUR thousands | 12 579 |
| **Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands** | **143 441** |

The nominal value of open hedging instruments as at 31 December 2011 accounts for 8% of total projected exposure to foreign currency risk in 2012. Foreign currency cash flows for contracts concluded by the Group companies by the date of the completion of this list account for nearly 78% of business exposure computed as above. As a result, business exposure to foreign currency risk for cash flows contracted as at 31.12.11 was covered in 10% by hedging transactions.

Fluctuations of PLN/EUR exchange rate will have a neutral effect on the Capital Group financial results in the scope of cash flows from foreign currency contracts covered by hedging instruments. Current effect of this market parameter will only relate to the portion of foreign currency transactions (net proceeds), which will not be covered with hedging transactions.

After 31 December 2011 Group Companies (apart from Polimex-Mostostal S.A.) entered into the following hedging transactions:

*FK Sefako S.A.*

- on 4 January 2012 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The nominal value of currency options which are to be exercised on 1 February 2012 is EUR 100,000 thousand (the nominal value of the PUT option clears the value of issued CALL option). The exercise rate of the PUT option the Company is entitled to is 4.42 PLN/EUR, whereas the exercise rate of CALL option issued by the Company is 4.53 PLN/EUR;

(in PLN thousands)

– the forward future contract of 25 January 2012 to sell EUR 300,000 for PLN to be exercised on 24 February 2012. Future rate was specified at 4.2960 PLN/EUR.

– the forward future contract of 09 February 2012 to sell EUR 300,000 for PLN to be exercised on 19 March 2012. Future rate was specified at 4.2260 PLN/EUR;

– on 27 February 2012 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The nominal value of currency options which are to be exercised on 4 April 2012 is EUR 200,000 thousand (the nominal value of the PUT option clears the value of issued CALL option). The exercise rate of the PUT option the Company is entitled to is 4.16 PLN/EUR, whereas the exercise rate of CALL option issued by the Company is 4.1950 PLN/EUR;

– the forward future contract of 13 March 2012 to sell USD 200,000 for PLN to be exercised on 30 April 2012. Future rate was specified at the level of 3.1680 PLN/USD.

– the forward future contract of 16 March 2012 to sell EUR 100,000 for PLN to be exercised on 7 May 2012. Future rate was specified at 4.1496 PLN/EUR.

*Torpol Sp. z o.o.:*

– on 26 January 2012 the company shifted the maturity of the future forward contract to be exercised on 31.01.2012. The shift in maturity referred to the amount of EUR 1,500.0 thousand with the exercise rate at 4.13 PLN/EUR. The new maturity was determined at 31 July 2012. The operation adjusted the parameters of the hedging instrument to the expected exercise date of the business item it covered;

– on 27 January 2012 the company shifted the maturity of the future forward contract to be exercised on 31.01.2012. The shift in maturity referred to the amount of EUR 1,500.0 thousand with the exercise rate at 4.11 PLN/EUR. The new maturity was determined at 31 July 2012. The operation adjusted the parameters of the hedging instrument to the expected exercise date of the business item it covered;

**Foreign currency risk exposure***

| | *31 December 2011* | | | *31 December 2010* | | |
|---|---|---|---|---|---|---|
| | *EUR* | *USD* | *GBP* | *EUR* | *USD* | *GBP* |
| Trade receivables | 74 961 | 4 870 | 486 | 75 524 | 5 844 | 856 |
| Hedged bank loans | 16 409 | - | - | 14 663 | - | - |
| Trade payables | 33 205 | 928 | 366 | 32 776 | 1 073 | - |
| **Gross carrying amount** | 25 347 | 3 942 | 120 | 28 085 | 4 771 | 856 |
| Estimated sales forecast | 244 312 | - | 4 845 | 325 622 | 2 821 | 4 747 |
| Estimated purchase forecast | 146 211 | 15 124 | 902 | 144 102 | 18 864 | 189 |
| **Gross exposure** | 98 101 | (15 124) | 3 943 | 181 520 | (16 043) | 4 558 |
| Forward foreign currency contracts | (1 018) | - | - | (46 026) | (1 350) | (1 669) |
| Foreign currency option contracts | (5 235) | | (1 290) | (7 039) | | (2 080) |
| **Net exposure** | 117 195 | (11 182) | 2 773 | 155 340 | (12 622) | 1 665 |

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

(in PLN thousands)

**Foreign currency risk sensitivity analysis at 31 December 2011**

| | *Carrying amount* | *EUR/PLN* | | *USD/PLN* | | *GBP/PLN* | |
|---|---|---|---|---|---|---|---|
| | | *exchange rate (10% change)* | *exchange rate ((10) % change)* | *exchange rate (10% change)* | *exchange rate ((10)% change)* | *exchange rate (10% change)* | *Exchange rate ((10) % change)* |
| Cash and cash equivalents | 124 165 | 11 823 | (11 823) | 222 | (222) | 371 | (371) |
| Trade and other receivables | 349 929 | 32 948 | (32 948) | 1 789 | (1 789) | 256 | (256) |
| Derivative financial instruments | - | - | - | - | - | - | - |
| Trade and other payables | 151 760 | (14 666) | 14 666 | (317) | 317 | (193) | 193 |
| Bank loans, borrowings and other sources of finance | 72 477 | (7 248) | 7 248 | - | - | - | - |
| **Effect on profit before tax** | - | 22 857 | (22 857) | 1 694 | (1 694) | 434 | (434) |
| Derivative financial instruments | (2 176) | (3 645) | 3 433 | - | - | (604) | 464 |
| **Effect on total comprehensive income** | **(2 176)** | **(3 645)** | **3 433** | - | - | (604) | 464 |

**Foreign currency risk sensitivity analysis at 31 December 2010**

| | *Carrying amount* | *EUR/PLN* | | *USD/PLN* | | *GBP/PLN* | |
|---|---|---|---|---|---|---|---|
| | | *exchange rate (10% change)* | *exchange rate ((10) % change)* | *exchange rate (10% change)* | *exchange rate ((10)% change)* | *exchange rate (10% change)* | *Exchange rate ((10)% change)* |
| Cash and cash equivalents | 61 586 | 5 807 | (5 807) | 257 | (257) | 94 | (94) |
| Trade and other receivables | 333 226 | 31 315 | (31 315) | 1 729 | (1 729) | 393 | (393) |
| Derivative financial instruments | 29 122 | 2 753 | (2 753) | (399) | 399 | - | - |
| Trade and other payables | 142 930 | (13 975) | 13 975 | (318) | 318 | - | - |
| Bank loans, borrowings and other sources of finance | 58 074 | (5 807) | 5 807 | - | - | - | - |
| **Effect on profit before tax** | - | 20 093 | (20 093) | 1 269 | (1 269) | 487 | (487) |
| Derivative financial instruments | 18 831 | (12 772) | 13 351 | - | - | (1 932) | 1 928 |
| **Effect on total comprehensive income** | **18 831** | **(12 772)** | **13 351** | - | - | (1 932) | 1 928 |

## 39.3. Raw material price risk

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

## 39.4. Credit risk

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

(in PLN thousands)

## 39.5. Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted payments.

| *31 December 2011* | *On demand* | *3 months and less* | *3-12 months* | *1-5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Interest bearing bank loans and borrowings | - | 16 731 | 335 558 | 127 471 | 9 280 | 489 040 |
| Debentures | - | 32 500 | 302 242 | 73 000 | - | 407 742 |
| Other non-current liabilities, of which: | - | - | - | 82 218 | 12 043 | 94 261 |
| - Leases | - | - | - | 31 005 | 12 043 | 43 048 |
| - Derivatives | - | - | - | - | - | - |
| Trade and other payables, of which: | 555 180 | 1 190 195 | 59 947 | - | - | 1 805 322 |
| - Leases | - | 4 582 | 13 740 | - | - | 18 322 |
| - Derivatives | | 1 907 | 2 162 | - | - | 4 069 |
| | **555 180** | **1 239 426** | **697 747** | **282 689** | **21 323** | **2 796 365** |

| *31 December 2010* | *On demand* | *3 months and less* | *3-12 months* | *1-5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Interest bearing bank loans and borrowings | - | 22 936 | 254 471 | 172 795 | 11 347 | 461 549 |
| Debentures | - | 39 331 | - | 367 435 | - | 406 766 |
| Other non-current liabilities, of which: | - | - | - | 80 198 | 6 677 | 86 875 |
| - Leases | - | - | - | 31 930 | 6 677 | 38 607 |
| - Derivatives | - | - | - | - | - | - |
| Trade and other payables, of which: | 250 936 | 975 015 | 62 374 | 302 | 172 | 1 288 799 |
| - Leases | - | 4 138 | 11 577 | - | - | 15 715 |
| - Derivatives | | 141 | 424 | - | - | 565 |
| | **250 936** | **1 037 282** | **316 845** | **620 730** | **18 196** | **2 243 989** |

(in PLN thousands)

# 40. Financial instruments

## 40.1. Fair values of individual categories of financial instruments

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

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

| | *Category in accordance with IAS 39* | *Carrying amount* | | *Fair value* | |
|---|---|---|---|---|---|
| | | *31 December 2011* | *31 December 2010* | *31 December 2011* | *31 December 2010* |
| ***Financial assets*** | | **2 225 282** | **1 729 307** | **2 225 282** | **1 729 307** |
| Long-term shares and interests | | 1 019 | 1 176 | 1 019 | 1 176 |
| Available-for-sale financial assets | AFS | - | 594 | - | 594 |
| - non-current | | - | - | - | - |
| - current | | - | 594 | - | 594 |
| Financial assets held to maturity, | HtM | 177 | 158 | 177 | 158 |
| - non-current | | 177 | 158 | 177 | 158 |
| - current | | - | - | - | - |
| Current financial assets at fair value | | - | - | - | - |
| Other financial assets | LaR | 4 962 | 3 819 | 4 962 | 3 819 |
| - non-current | | 3 559 | 2 862 | 3 559 | 2 862 |
| - current | | 1 403 | 957 | 1 403 | 957 |
| Trade receivables | LaR | 1 946 281 | 1 339 692 | 1 946 281 | 1 339 692 |
| Derivative financial instruments, of which: | FVtPoL | 23 | 10 054 | 23 | 10 054 |
| - *Forward* foreign currency contracts . | FVtPoL | 23 | 8 907 | 23 | 8 907 |
| - Currency futures contracts | FVtPoL | - | 1 147 | - | 1 147 |
| - Interest rate options | | - | - | - | - |
| - Interest rate swaps (IRS) | | - | - | - | - |
| Cash and cash equivalents | FVtPoL | 272 820 | 373 814 | 272 820 | 373 814 |

| | *Category in accordance with IAS 39* | *Carrying amount* | | *Fair value* | |
|---|---|---|---|---|---|
| | | *31 December 2011* | *31 December 2010* | *31 December 2011* | *31 December 2010* |
| ***Financial liabilities*** | | **2 163 406** | **1 638 525** | **2 163 406** | **1 638 525** |
| Bank overdraft | FLaAC | 69 375 | 111 676 | 69 375 | 111 676 |
| Interest-bearing bank loans and borrowings, of which: | FLaAC | 419 665 | 349 873 | 419 665 | 349 873 |
| - non-current at floating interest rate* | FLaAC | 136 751 | 183 074 | 136 751 | 183 074 |
| - current at floating interest rate* | | 282 914 | 165 731 | 282 914 | 165 731 |
| - non-current at fixed interest rate | FLaAC | - | 1 068 | - | 1 068 |
| - other - non-current | FLaAC | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other liabilities (non-current), of which: | FLaAC | 94 261 | 86 875 | | 94 261 | 86 875 | |
| - Finance lease and hire purchase contracts | FLaAC | 43 048 | 38 607 | | 43 048 | 38 607 | |
| - Guarantee payments and deposits | | 49 234 | 45 637 | | 49 234 | 45 637 | |
| - Other | FLaAC | 1 979 | 2 631 | | 1 979 | 2 631 | |
| Trade payables | FLaAC | 1 557 714 | 1 073 821 | | 1 557 714 | 1 073 821 | |
| Short-term lease | | 18 322 | 15 715 | | 18 322 | 15 715 | |
| Derivative financial instruments, of which: | FVtPoL | 4 069 | 565 | | 4 069 | 565 | |
| Recognised in revaluation reserve | FVtPoL | - | - | | - | - | |
| - foreign currency *option* contracts | FVtPoL | (1 466) | - | | (1 466) | - | |
| - forward foreign currency contracts | FVtPoL | - | - | | - | - | |
| Recognised in the profit and loss | FVtPoL | 4 069 | 565 | | 4 069 | 565 | |
| - currency futures contracts | FVtPoL | 4 069 | - | | 4 069 | - | |
| - forward foreign currency contracts | FVtPoL | - | 565 | | - | 565 | |

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

### Year ended 31 December 2011

| | *Category in accordance with IAS 39* | *Interest income / (expense)* | *Foreign exchange gains / (losses)* | *Released provisions for impairment* | *Sales adjustment for hedging transactions* | *Valuation gains / (losses)* | *Gain / (loss) on disposal* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| ***Financial assets*** | | ***7 559*** | ***19 258*** | ***2 802*** | ***43*** | ***529*** | ***(705)*** | ***632*** | ***30 118*** |
| Shares and interests | | - | - | - | - | - | - | 100 | 100 |
| Available-for-sale financial assets | AFS | - | - | - | - | - | - | - | - |
| Financial assets held to maturity, | | - | - | - | - | - | - | - | - |
| Financial assets at fair value | | - | - | - | - | - | - | - | - |
| Other financial assets | LaR | 2 965 | 2 105 | - | - | - | - | 449 | 5 519 |
| Trade and other receivables | LaR | 2 944 | 4 322 | 2 802 | 43 | 568 | (38) | 69 | 10 710 |
| Derivative financial instruments | FVtPoL | - | - | | - | 134 | (678) | 14 | (530) |
| Cash and cash equivalents | FVtPoL | 1 650 | 12 831 | - | - | (173) | 11 | - | 14 319 |

| | *Category in accordance with IAS 39* | *Interest income / (expense)* | *Foreign exchange gains / (losses)* | *Released provisions for impairment* | *Sales adjustment for hedging transactions* | *Valuation gains / (losses)* | *Gain / (loss) on disposal* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| ***Financial liabilities*** | | ***(65 475)*** | ***(11 082)*** | ***4 511*** | ***(14)*** | ***(604)*** | ***(1 031)*** | ***(1 704)*** | ***(75 399)*** |
| Bank overdrafts | | (4 152) | - | - | | | | (197) | (4 349) |
| Interest-bearing bank loans and borrowings | FLaAC | (32 691) | (4 044) | - | - | - | (798) | (305) | (37 838) |
| Debentures | FLaAC | (24 964) | - | - | - | - | - | - | (24 964) |
| Other non-current liabilities | FLaAC | (129) | - | 4 355 | - | - | - | - | 4 226 |
| - leases | | (271) | (466) | - | - | - | - | - | (737) |
| Trade and other payables, of which: | FLaAC | (3 410) | (6 144) | 156 | - | (56) | - | (1 202) | (10 656) |
| - leases | | (3 012) | (43) | - | - | (32) | - | - | (3 087) |
| Derivative financial instruments | FVtPoL | (129) | (894) | - | (14) | (548) | (233) | - | (1 818) |
| ***Total*** | | ***(57 916)*** | ***8 176*** | ***7 313*** | ***29*** | ***(75)*** | ***(1 736)*** | ***(1 072)*** | ***(45 281)*** |

(in PLN thousands)

## Year ended 31 December 2010

| | *Category in accordance with IAS 39* | *Interest income / (expense)* | *Foreign exchange gains / (losses)* | *Released provisions for impairment* | *Sales adjustment for hedging transactions* | *Valuation gains / (losses)* | *Gain / (loss) on disposal* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| ***Financial assets*** | | ***6 372*** | ***(10 247)*** | ***5 490*** | ***15 584*** | ***4 312*** | ***3 647*** | ***386*** | ***25 544*** |
| Shares and interests | | - | - | - | - | - | - | - | - |
| Available-for-sale financial assets | AFS | - | - | - | - | - | - | - | - |
| Financial assets held to maturity, | | - | - | - | - | - | - | - | - |
| Financial assets at fair value | | 1 197 | - | - | - | - | - | - | 1 197 |
| Other financial assets | LaR | (96) | 114 | | - | (813) | - | 2 | (793) |
| Trade and other receivables | LaR | 1 865 | (12 628) | 5 490 | 6 105 | 563 | - | 384 | 1 779 |
| Derivative financial instruments | FVtPoL | - | - | | 9 479 | 4 489 | 3 647 | - | 17 615 |
| Cash and cash equivalents | FVtPoL | 3 406 | 2 267 | - | - | 73 | - | - | 5 746 |

| | *Category in accordance with IAS 39* | *Interest income / (expense)* | *Foreign exchange gains / (losses)* | *Released provisions for impairment* | *Sales adjustment for hedging transactions* | *Valuation gains / (losses)* | *Gain / (loss) on disposal* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| ***Financial liabilities*** | | ***(46 791)*** | ***4 532*** | ***4*** | ***-*** | ***1 182*** | ***(2 143)*** | ***(1 476)*** | ***(44 692)*** |
| Bank overdrafts | | (2 774) | - | - | | | | (151) | (2 925) |
| Interest-bearing bank loans and borrowings | FLaAC | (15 836) | - | - | - | - | - | (337) | (16 173) |
| Debentures | FLaAC | (26 341) | - | - | - | - | - | - | (26 341) |
| Other non-current liabilities | FLaAC | (246) | - | - | - | - | - | (29) | (275) |
| - leases | | (240) | (433) | - | - | - | - | - | (673) |
| Trade and other payables, of which: | FLaAC | (1 594) | 5 627 | 4 | - | 85 | - | (959) | 3 163 |
| - leases | | (1 069) | 506 | - | - | 130 | - | - | (433) |
| Derivative financial instruments | FVtPoL | - | (662) | | - | 1 097 | (2 143) | - | (1 708) |
| ***Total*** | | ***(40 419)*** | ***(5 715)*** | ***5 494*** | ***15 584*** | ***5 494*** | ***1 504*** | ***(1 090)*** | ***(19 154)*** |

*Abbreviations used:*

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

(in PLN thousands)

## 40.3. Interest rate risk

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

**Year ended 31 December 2011**

***Fixed rate***

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Finance lease and hire purchase contracts | - | - | - | - | - | - | - |
| Obligations under finance leases and hire purchase contracts recognised in the balance sheet item of long-term interest-bearing bank loans and borrowings | - | - | - | - | - | - | - |
| Bank loan | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | - | - |

***Floating rate***

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Cash assets | 272 820 | - | - | - | - | - | 272 820 |
| Loans granted | 91 | 8 | 8 | 8 | 8 | 21 | 144 |
| Bank overdrafts | 69 375 | - | - | - | - | - | 69 375 |
| Working capital facility and investment loan | 282 687 | 48 945 | 42 289 | 31 008 | 3 661 | 9 213 | 417 803 |
| Leases | 18 322 | 10 485 | 8 090 | 7 792 | 4 638 | 12 043 | 61 370 |
| Debentures | 334 742 | 73 000 | - | - | - | - | 407 742 |
| Borrowings | 227 | 392 | 392 | 392 | 392 | 67 | 1 862 |
| Total | 978 264 | 132 830 | 50 779 | 39 200 | 8 699 | 21 344 | 1 231 116 |

**Year ended 31 December 2010**

***Fixed rate***

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Finance lease and hire purchase contracts | - | - | - | - | - | - | - |
| Obligations under finance leases and hire purchase contracts recognised in the balance sheet item of long-term interest-bearing bank loans and borrowings | - | - | - | - | - | - | - |
| Bank loan | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | - | - |

***Floating rate***

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Cash assets | 373 814 | - | - | - | - | - | 373 814 |
| Loans granted | 44 | 60 | - | - | - | - | 104 |
| Bank overdrafts | 111 676 | - | - | - | - | - | 111 676 |
| Working capital facility and investment loan | 164 297 | 42 236 | 39 134 | 37 607 | 41 937 | 20 465 | 345 676 |
| Leases | 15 715 | 14 524 | 8 256 | 4 107 | 3 429 | 8 291 | 54 322 |
| Debentures | 39 331 | 294 435 | 73 000 | - | - | - | 406 766 |
| Borrowings | 1 434 | 1 453 | 652 | 152 | 152 | 354 | 4 197 |
| Total | 706 311 | 352 708 | 121 042 | 41 866 | 45 518 | 29 110 | 1 296 555 |

(in PLN thousands)

## 41. Capital management

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

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Interest-bearing bank loans, borrowings and debentures | 896 782 | 868 315 |
| Trade and other payables | 1 899 583 | 1 375 674 |
| Less cash and cash equivalents | 272 820 | 373 814 |
| Net debts | 2 523 545 | 1 870 175 |
| Equity attributable to equity holders of the parent | 1 545 969 | 1 458 698 |
| **Capital and net debt** | **4 069 514** | **3 328 873** |
| Gearing ratio (net debt/capital and net debt) | 62.0% | 56.2% |

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

Under Resolution No 2 of an Extraordinary Shareholder Meeting of 31 January 2006 the share capital of the Parent company may be conditionally increased by amount not higher than PLN 762,417 by issuing not more than 19,060,425 bearer shares at a value of PLN 0.04 each. The aim of increasing the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries.
In accordance with Resolution No 26 of 4 July 2008 the share capital of the Company may be conditionally increased by not more than PLN 928,687.32 by means of issuing not more than 23,217,183 series J bearer shares with nominal value of PLN 0.04 (say oh point zero four) each. The purpose of a conditional increase of the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries. The plan is for three years and the warrants will be issued after meeting assumed growth criteria for each of the reporting periods i.e. 2009, 2010 and 2011.

As at 31 December 2011 the balance of provision for these plans amounts to PLN 32,086 thousand (as at 31 December 2010 it was PLN 33,221 thousand). The above mentioned provision is recorded correspondingly as reserve capital. For details of the plan see note 30.4.

## 43. Long-term construction contracts

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

| | *Year ended 31 December 2011* | *Year ended 31 December 2010* |
|---|---|---|
| Revenue from rendering services accounted for using the method of contract completion for the given period, of which: | | |
| - revenue from sales (invoiced) | 3 766 114 | 3 844 989 |
| - other revenue (adjusted upwards) | 339 978 | 182 673 |
| **Total** | **4 106 092** | **4 027 662** |
| Total amount of incurred expenses and recognised gains (less recognised losses) | 3 716 873 | 3 543 895 |
| Advance payments received | 143 287 | 166 080 |
| Retained amounts | 91 769 | 82 729 |
| Gross amount owed by employers for works under the contract (asset) | 768 961 | 425 928 |
| Gross amount owed to employers for works under the contract (liability) | 98 268 | 95 213 |

(in PLN thousands)

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

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| To settle within: | | |
| - above 12 months | 31 349 | 39 353 |
| - up to 12 months | 60 420 | 43 376 |
| **Total** | **91 769** | **82 729** |

## 44. Employment structure

The average employment in the Group over the period of 2011 and of 2010 was as follows:

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| The Management Board of the Parent Company | 4 | 4 |
| Management Boards of Group companies | 44 | 65 |
| Back office | 1 635 | 2 132 |
| Production | 12 607 | 12 051 |
| **Total** | **14 290** | **14 252** |

## 45. Assets pledged as security

| | *31 December 2011* | *31 December 2010* |
|---|---|---|
| Property, plant and equipment | 734 515 | 622 340 |
| Inventories | 152 016 | 162 280 |
| Other | 8 877 | 1 449 |
| **Total** | **895 408** | **786 069** |

## 46. Events after the statement of financial position date

The following events that may have a significant effect on the position of the Group occurred after 31 December 2011:

Polimex-Mostostal S.A. (the parent company) as a Member of the Consortium composed of Rafako S.A.(Leader) with the registered office in Racibórz, Polimex - Mostostal S.A. with the registered office in Warsaw and Mostostal Warszawa S.A. with the registered office in Warsaw (hereinafter referred to as the General Contractor) on 15 February 2012 concluded with PGE Elektrownia Opole S.A. with the registered office in Bełchatów (Employer) the contract whose subject is design, as well as delivery, performing construction works, assembly, start-up and all services relating to this procedure rendered in turn-key system of the facility comprising power block No. 5 and power block No.6 in PGE Elektrownia Opole S.A. together with machines and equipment as well as relating buildings and structures. In accordance with the terms and conditions of the Contract the General Contractor assumes an obligation to complete the order within 54 (fifty-four) months of issuing the request to commence works as far as power block No. 5 is concerned and within 62 (sixty-two) months of issuing the request to commence works as far as power block No. 6 is concerned.

The total amount of the contract is PLN 9,397,000,000.00 net and the contract gross amount is PLN 11,558,310,000.00.
The total limit of contractual penalties to be paid by the General Contractor to the Employer for failure to reach the completion stage within the delivery deadline and for failure to fulfil indicated motion guarantees shall not exceed 30% (thirty per cent) of the price of block No.5 or block No.6, while the total amount of contractual penalties for failure to reach completion stage within the delivery deadline shall not exceed 15% of the price of block No.5 or block No.6, and the total amount of contractual penalties for failure to fulfil indicated motion guarantees shall not exceed 15% of the price of block No.5 or block No.6, together with contractual penalties for availability, while the total amount of contractual fines for availability shall not exceed 5% of the price of block No.5 or block No.6.

In case of failure to perform or improper performance of the contract in the scope of indicated motion guarantees or of failure to reach the completion stage within the delivery deadline, payment by the General Contractor of the contractual penalties agreed for this occasion as a rule excludes the possibility to claim compensation on general terms, exceeding the contractual penalties due. However, the Contract provides for the cases when the subject rule is excluded and the Employer may claim compensation on general terms, which would exceed the contractual penalties due.

Having concluded the contract, the parties entered into an additional contract according to the provisions of which in case of ascertaining that the contract is null and void as a result of accepting by the Regional Court in Łódź the complaint of Alstom Consortium, the parties shall reimburse what they have rendered to each other, among other things the General Contractor shall reimburse to the Employer the amount of prepayment paid.

Moreover, having concluded the contract, the parties signed Annex No.1 to the Contract in which they limited the risks of the parties relating to the complaint made by Alstom Consortium at the Regional Court in Łódź and relating to the judgement of the Voivodship Administrative Court in Warsaw revoking the decision on environment considerations of the permit to implement the undertaking.

The Board of Directors of Polimex-Mostostal S.A.

Konrad Jaskóła
President of the Board of Directors

Aleksander Jonek
Vice President of the Board

Grzegorz Szkopek
Vice President of the Board

Zygmunt Artwik
Vice President of the Board

The person entrusted
with keeping accounting books

Ewa Kaczorek
Chief Accountant

Warsaw, March 20, 2012.