

**POLIMEX-MOSTOSTAL CAPITAL GROUP**

**DIRECTORS' REPORT ON THE OPERATIONS OF THE GROUP FOR THE YEAR  
ENDED 31 DECEMBER 2011**



Warsaw, March 20, 2012.

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

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## 1. Economic activities of Polimex-Mostostal Capital Group

On 31 December 2010 the legal procedures of the incorporation of the seven subsidiaries into Polimex-Mostostal S.A. were completed, whereas in the first half of 2011 the acquired assets were fully assimilated into the organizational structures of the Company. As a result of the reorganization realization forces were concentrated in particular in power engineering and chemistry sector. Additionally, the Company increased the opportunity to move freely human resources and equipment between its individual organizational units, thus decreasing the negative effect of seasonal and cyclical nature of the construction market. Accompanying centralisation and optimisation of the functioning of back office operations facilitated the performance of investment tasks and at the same time the costs of carrying economic activity decreased.

In the reporting period the consolidation activities also included the Issuer's subsidiaries. Specialising in railroad construction, Torpol Sp. z o.o. acquired the manufacturing company of Elmont-Kostrzyń Wlkp. Sp. zo.o., in which it held 100% of capital. Fabryka Kotłów Sefako S.A. took up measures aimed at the acquisition of Centralne Biuro Konstrukcji Kotłów S.A., in which the Issuer holds 98.5% of equity. In both cases the concentration of resources should facilitate conducting bidding operations and further performance of contracts.

Polimex-Mostostal Capital Group provides a wide range of construction and erection services. It mostly constructs comprehensive industrial buildings, modernises existing processing lines and offers servicing of production machinery. It constructs public utility buildings, stadiums as well as shopping and entertainment centres. It executes large investment projects in the area of road and railroad construction. A significant portion of deliveries for mounted facilities comes from Company's own production plants. The Capital Group is one of the largest manufacturers and exporters of steel products (including platform grates) in Poland. It is also an undisputable leader in modern corrosion protection, in particular in hot galvanizing and the major producer of power boilers. It provides installations for transporting and storing liquid fuels, equipment for drilling platforms and it makes overhauls of ships.

The Issuer and Torpol S.A. (in 2011 Torpol Sp. z o.o.) specialise in managing large investment project as the general contractor for the investment. Execution of tasks requiring the highest competence both in quality and the technical and technological level of services and deliveries is a direction that is being developed.

Within the Capital Group there are design offices, which are aimed at individual segments of the operations of the Capital Group.

The Capital Group conducts activity in five operating segments: production, construction, power engineering, chemistry as well as roads and railroads.

**Production** is an activity differentiating Polimex-Mostostal Group from companies of the similar profile of operations. No competitor operating on the Polish market has production plants offering such a wide range of products for domestic and foreign customers. The Capital Group manufactures steel structures for the sectors of power engineering, petrochemistry, metallurgy, mining industry, communications, roads and for the construction of halls, shopping centres, sports facilities and public utility buildings. The offer includes a wide range superstructures and covers for large-size structure and industrial construction, elements for bridges, flyovers and footbridges as well as barriers and acoustic screens for road industry. The Group specialises in the production of platform grates, shelving systems, communications towers and the elements of construction formworks. Moreover, the offer includes deliveries of pressure pipelines for transportation of liquid fuel. A new product is activity in the off-shore market and overhauls of ships. Abroad, the production of steel structures and products is conducted in Ukraine and Romania.

In the **construction industry** the Group's operations focus on mounting various types of public utility and commercial buildings located mostly in the area of Poland and Romania, where the Issuer owns a subsidiary. The Group owns modern technologies in the scope of production and erection of large-size steel structures used while mounting office buildings, retail centres, warehouses and sports facilities. Moreover, the Group delivers

and assemblies steel structures for the needs of industry, in the first place for power engineering and chemistry. It performs developer's Project mostly in the area of Warsaw, Krakow and Opole. The significant events in this segment of the Company operations, which occurred in 2011, were:

- Signing the contract to construct the building of the Regional Court and of the District Court in Zamość.
- Setting the foundation stone for the construction of the European Centre of Solidarity in Gdańsk.
- Signing the contract for the construction of "Olimpia" Retail and Entertainment Centre in Belchatów.
- Signing the contract for the construction of teaching and administration facility of the University of Gdansk.
- Completing and officially opening the Legia football stadium in Warsaw.
- Signing the contract for the modernization of Ernest Pohl's Stadium in Zabrze.
- Signing the contract for the construction of "Outlet Park" Shopping Centre in Szczecin.
- Signing the contract for the construction of the International Congress Centre in Katowice.
- Signing the contract for the general contracting of the Car Part Production Plant in Walbrzych.
- Signing the contract for the construction of the Central Europe Shopping Centre in Gliwice.
- Concluding the contract for the construction of a sports hall in Bacau, Romania.
- Selecting as the most advantageous one (the contract was signed in February 2012) the offer for the construction of Lublin Conference Centre and the principal office of the Office of Marshal in Lublin.
- Completing the implementation of the "Gotten haulage from the 2.1 shaft in the Stefanów Field to Zakład Przeróbki Mechanicznej Węgla in the Bogdanka Field" investment.

In **power engineering** the Group specialises in comprehensive execution of facilities for professional, industrial and municipal energy sector. It is a producer of water and steam boilers of medium capacity. In the scope of large capacity boilers the offer includes deliveries of the pressure part. The Group installs power blocks, including boilers for supercritical parameters and constructs accompanying buildings such as combustion gas cleaning plants, water treatment plants or fuel delivery and slag collection installations. It also renders overhaul, modernisation and maintenance services for different types of power machineries. It is the producer of transformers. Group's partners are European and world industry leaders: Siemens, Alstom, Doosan, Babcock, Hitachi, Lurgii, Foster Wheeler, Metso and Vattenfall. The significant events in this segment of the Group operations, which occurred in 2011, were:

- Assembly of the pressure elements of two boilers in Neurath Power Plant in Germany.
- Assembly of the pressure elements of boilers in Westfalen Power Plant in Germany.
- Assembly of the pressure elements of boilers in Moorburg Power Plant in Germany.
- Completing the execution of the contract for the delivery and assembly of the steel structure and the assembly of machinery for coal feed system for the power block in Belchatów Power Plant.
- Assembly of the catalytic flue denitrating system in Siekierki Heat and Power Plant in Warsaw.
- Making the Combustion Gas Desulfurization System (IOS III) in Elektrownia Kozienice S.A.
- Construction of the new water treatment plant in Zakłady Azotowe in Kędzierzyn Koźle.
- Preparing the design, performing the delivery, installation, assembly and commissioning of a turbine system for the paper plant in Kwidzyn.
- Construction of the power unit with a fluidized-bed boiler, back-pressure turbine, two peak boilers and the heat accumulator in Bielsko-Biała Heat and Power Plant EC1.

Of key importance for the further development of the Group will be the performance of the contract concluded on 15 February 2012 for the construction of two power blocks in Opole Power Plant worth PLN 11.5 billion gross. The contract will be performed by the consortium of companies with Polimex-Mostostal S.A. being the consortium member. The value of works entrusted to the Company is estimated at about 42% of the contract value. The completion of the contract will introduce the Group to the group of top European companies operating in power engineering sector.

In **chemical sector** the Capital Group performs contracts in the form of general contracting of production facilities for chemical plants and refineries, biofuel plants and of infrastructure for transfer and storage of gas and liquid fuels. Additionally, the Group renders services in the scope of delivery and assembly of specialist production systems and delivers all types of containers, pipelines, processing furnaces and similar equipment. The Group specialises in overhauls of processing lines at plants while at the same time they conduct their business activity. The Group collaborates with companies of European and global reach such as Technip, Krupp Mannesmann and Alstom.

Group's operations in the scope of environment protection are included in the chemistry segment. Comprehensive sewage treatment plants are built and the existing ones are modernised and extended. The Group specialises in the construction of municipal and industrial waste treatment plants. It also participates in the programme of construction of municipal waste incineration plants.

The most significant events in this segment of operations, which occurred in 2011, were:

- Completing as a general contractor of the construction and assembly works under the investment task "Construction of Terephthalic Acid Production Plant (PTA)" in Włocławek.
- Performing works for the hydrocracking installation (MHC) under the Programme 10+ implemented by Lotos S.A. Group.
- Turn-key construction of tank terminal with the capacity of 185,000 m<sup>3</sup> for storing mineral oils, vegetable oils and liquid fuels in the Rotterdam port.
- Signing the contract for the construction of municipal waste treatment complex in Sulnówek.

The activity of the Group in the scope of **road and railroad construction** included designing and construction of roads and railroads together with comprehensive technical infrastructure. In the scope of road construction, the Group is building, among other things, the sections of motorways A1 (Stryków – ‘Tuszyn’ junction), A2 (Stryków – Konotopa), A4 (East Rzeszów junction– Wierzbna near Jarosław junction) and A4 (Szarów – Brzesko) and S69 express road in the section Mikuszowice junction - Żywiec, whereas in the scope of railroads the works are conducted in the Kraków-Rzeszów section (stage III) and in the Warsaw-Gdynia section (stage II) of the railway lines. Other significant events in this segment of the Company operations, which occurred in 2011, were:

- Signing the contract to reconstruct the section of the No. 1 and No. 86 national roads within the boundaries of the city of Tychy.
- Concluding the contract to modernize the Łódź Fabryczna railway station together with full infrastructure.
- Concluding two contracts to realize the sections of Warszawa-Gdynia railway line (in the area of Gdańsk).
- Opening of the section of the A-1 motorway from "Sośnica" junction to "Maciejów" junction (with the junction).

The activities of the Capital Group conducted in the five above mentioned segments are the source of its competitive advantage, as owing to the product and market diversification the risk of conducting business is significantly reduced.

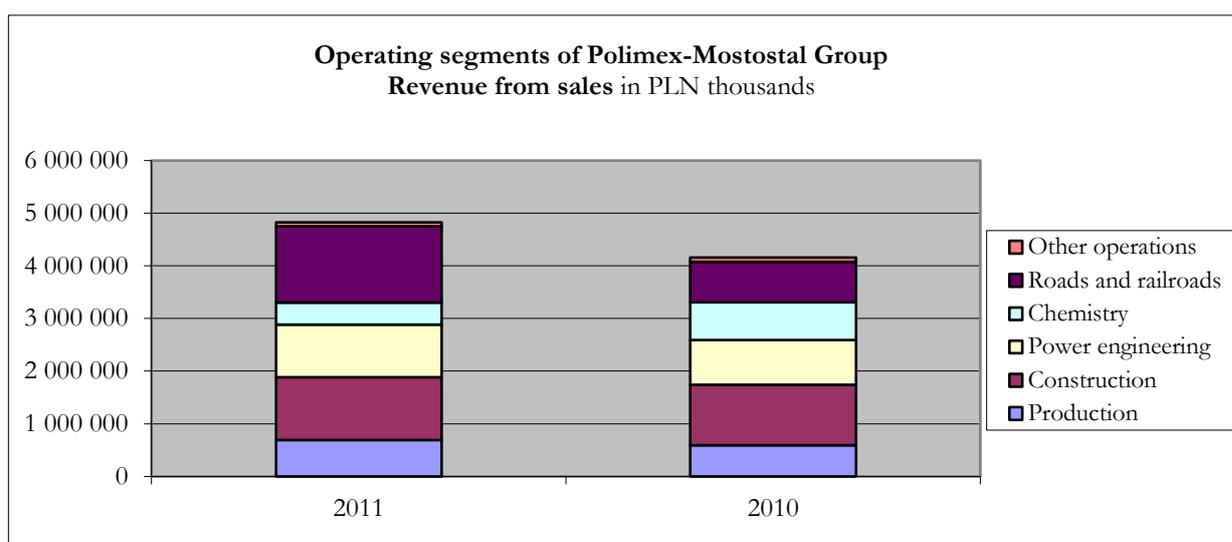
## 1.1. Revenues and their structure

In 2011 Polimex-Mostostal Capital Group raised revenue from sales in amount of PLN 4,826,795 thousand.

PLN  
thousands

Segment	Change 2011 / 2010	2011		2010	
		value	share	value	share
Production	16.3%	687 857	14.3%	591 474	14.2%
Construction	4.2%	1 198 277	24.8%	1 149 968	27.6%
Power Engineering	17.7%	997 144	20.6%	847 399	20.4%
Chemistry	-41.7%	419 058	8.7%	718 189	17.3%
Roads and railroads	88.5%	1 449 302	30.0%	768 664	18.5%
Other operations	-11.8%	75 157	1.6%	85 207	2.0%
<b>Total revenue from sales</b>	<b>16.0%</b>	<b>4 826 795</b>	<b>100.0%</b>	<b>4 160 901</b>	<b>100.0%</b>

The largest share in sales was attributed to Roads and railroads - 30.0% (an increase of 88.5% as against comparative data for 2010), Construction - 24.8% (an increase in sales of 4.2% as against comparative data for 2010), and then to Power Engineering – 20.6% (an increase in sales of 17.7% as against comparative data for 2010). A very significant increase in the revenue of Roads and Railroads segment was the result of the dynamic growth of works in the scope of road and railroad infrastructure. Whereas a decrease in revenue of Chemistry segment was the result of completion by Polimex-Mostostal S.A. of the contract for general contracting of construction and assembly works under the investment task “Construction of Terephthalic Acid Plant (PTA) Wloclawek” (total sales for the above mentioned contract amounted to over PLN 280 million),



## 1.2. Main products and services

The scope of activity of Polimex-Mostostal Capital Group in 2011 did not change as against a prior period and in its basic range it included:

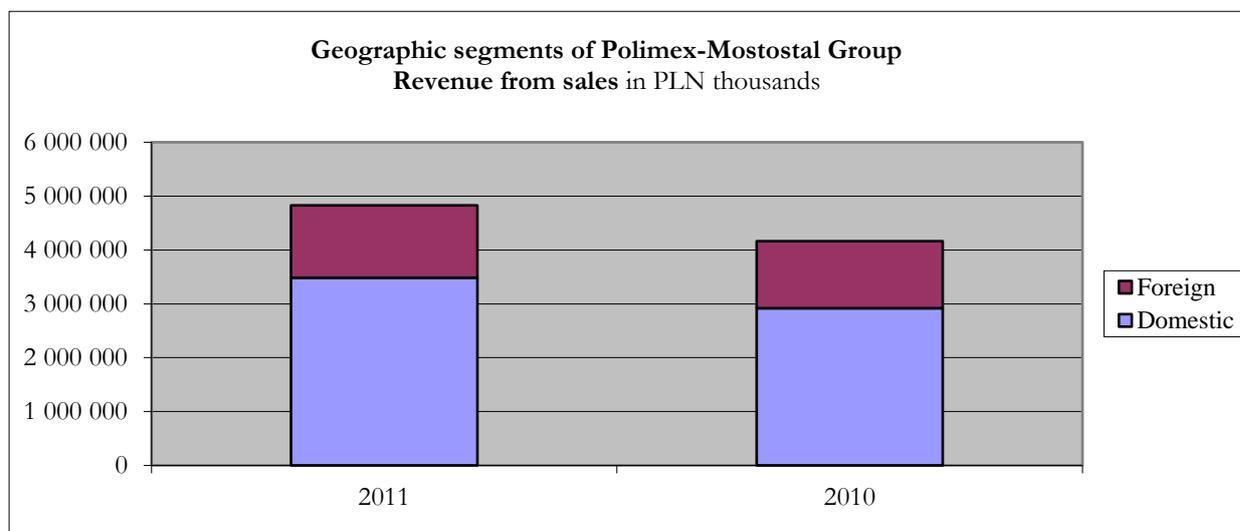
- preparation of preproject studies and analyses and of project initial and working documentation;
- comprehensive services for investment process, completion of deliveries of equipment and industrial installations;
- general contracting of industrial facilities and public utility buildings, roads and railroads;
- assembly of special equipment, in particular for chemical and power engineering industry;
- production of power boilers based on client's or own documentation;
- production and overhauls of transformers;
- continuous and full-scale servicing of industrial plants;
- manufacturing of steel structures for the needs of industrial construction mainly for power engineering and petrochemical industry;
- production, delivery and erection of steel structures used while mounting shopping centres, warehouse halls, sports facilities and public utility buildings, petrol stations, warehouse terminals, drilling rigs and off-shore structures; the Group executes orders using its own typical technical solutions or according to customers' individual projects;
- production, delivery and assembly of bridges, flyovers, footbridges, gantries as well as protection and acoustic barriers used in road construction;
- production and delivery of welded and pressed platform grates of MOSTOSTAL type together with fixing elements, which ensure quick and safe assembly; grates are used in production plants as a component of platforms for servicing production lines and of circulation paths at pipelines and containers; they are also used as pavements at footbridges and bridges, as duct covers, protection of manhole frames and as stair steps;
- production and delivery of shelving systems, pallets and containers for transportation of various types of products and a wide range of construction accessories including construction props used to mount floor slabs;
- services in the scope of corrosion protection of steel structures by means of:
  - hot (dip) galvanizing,
  - Duplex system (galvanising + hydrodynamic painting),
  - hydrodynamic painting;
- hardware and transport services.

## 1.3. Trade areas and sources of supply

Value and geographic structure of Polimex-Mostostal S.A. Capital Group's sales in 2011 were as follows:

Market	Change 2011 / 2010	2011		2010	
		value	share	value	share
		PLN thousands			
Domestic	19.5%	3 488 129	72.3%	2 919 304	70.2%
Foreign	7.8%	1 338 666	27.7%	1 241 597	29.8%
<b>Total revenue from sales</b>	<b>16.0%</b>	<b>4 826 795</b>	<b>100.0%</b>	<b>4 160 901</b>	<b>100.0%</b>

As compared to 2010 there was observed an increase of sales to foreign markets of 7.8%. In 2011 the domestic market, where 72.3% of total revenues from sales were generated, remained the main market for Polimex-Mostostal S.A.



The key customers of **Polimex-Mostostal S.A.** in 2011 were: the General Directorate for National Roads and Motorways, Mostostal Warszawa S.A., TAURON Wytwarzanie S.A., the Municipality of Kraków, Botlek Tank Terminal – Holland, PKN Orlen S.A., Pittsburgh Glass Works (Poland) Sp. z o.o., the Capital City of Warsaw, Mostmar S.A. Only revenues from sales to the General Directorate for National Roads and Motorways exceeded 10% of the revenues from sales of Polimex-Mostostal S.A. and equalled 20% of Company's revenue. The General Directorate for National Roads and Motorways is not formally related to Polimex-Mostostal S.A. The key suppliers of Polimex-Mostostal S.A. in 2011 were: Doprastav S.A. (Branch in Poland), Thyssenkrupp Energostal S.A., Salzgitter Mannesmann Stahlhandel Sp. z o.o., Foster Wheeler Energia Polska Sp. z o.o., Poldim-Mosty Sp. z o.o., Konsorcjum Stali S.A., PPUH Konstalex Sp. z o.o. In 2011 purchases from individual suppliers did not exceed 10% of revenues from sales of Polimex-Mostostal S.A.

The key customers of **Torpol capital group** in 2011 were: PKP Polskie Linie Kolejowe S.A. (70% of group total sales), Zakład Robót Komunikacyjnych DOM w Poznaniu Sp. z o.o., ALUSTA S.A., Skanska S.A. and Road and Greenery Administration in Gdańsk. None of the above mentioned suppliers is formally related to Torpol Company. The key suppliers of Torpol capital group in 2011 were: ALUSTA S.A. (10% of group total purchases), Arcelor Mittal Steel Poland S.A. (8% of group total purchases), Thales Polska Sp. z o.o. (6% of group total purchases), Przedsiębiorstwo Handlowo-usługowe ELEKTRO-TEL-BUD, POZBUD T&R S.A., Wytwórnia Podkładów Strunobetonowych S.A. w Mirosławiu Ujskim, FEROCO S.A., Elektroskandia Polska S.A., Track Tec S.A., BUDNET Waldemar Illmann w Czerwonaku, Kolejowe Zakłady Nawierzchniowe COGIFER POLSKA S.A., Tor-Mel Sp. z o.o., PROJEKT-BUD Sp. z o.o. and PKP Polskie Linie Kolejowe S.A. From the above mentioned suppliers only FEROCO S.A. is related to Torpol, where it holds 0.57% of share.

The key customers of **Sefako capital group** in 2011 were: Alstom Power Systems GmbH – Germany, Babcock & Wilcox Volund A/S – Denmark, Baumgarte Boiler Systems GmbH – Germany, Novmar Sp. z o.o., Martin GmbH fur Umwelt und Energietechnik – Germany, JEE Engineering Corporation Italy Branch, MW Power Oy – Finland, Foster Wheeler Energia Polska Sp. z o.o., Visser & Smit Hanab GmbH – Germany. The 10% threshold of sales of Sefako capital group was exceeded only for two clients: Alstom Power Systems GmbH – Germany (14%) and Babcock & Wilcox Volund A/S – Denmark (12%) The entities are not formally related to Sefako S.A. The main suppliers of Sefako Capital Group in 2011 were: Aquilex Welding Services Poland Sp. z o.o., Soning-Stal Sp. z o.o., Ekoinstal Jan Klusko i Partnerzy Sp. z o.o., PGE Obrót S.A., R-line Lepiarczyk Sp.j., Panas Transport, Bowim S.A., ZRE Katowice S.A., Przedsiębiorstwo Usługowe „BHM-3” Henryk Szulistowski. In 2011 purchases from individual suppliers did not exceed 10% of total revenues from sales of Sefako capital group.

#### 1.4. Information on significant transactions concluded by the Issuer or its subsidiary with related party otherwise than under market conditions

According to information acknowledged by the Issuer, transactions concluded in 2011 by the Issuer or its subsidiaries with related entities were concluded under market conditions, and their nature and terms resulted from operating activity.

#### 1.5. Investments – fixed and intangible assets

Group's capital expenditure on fixed assets and intangible assets in 2011 amounted to PLN 146,374 thousand. Amortisation and depreciation in 2011 was PLN 95,630 thousand.

The structure of capital expenditure on fixed and intangible assets of Polimex-Mostostal Group in 2011.

PLN thousands			
Investment in property, plant and equipment	Change 2011 / 2010	2011	2010
Land and buildings	-40.3%	56 151	94 087
Plant and equipment	-7.8%	75 443	81 825
Motor vehicles	31.5%	18 151	13 799
Other fixed assets	-11.7%	5 268	5 968
Fixed assets under construction incl. advance payments	-43.5%	-16 462	-29 151
<b>Total</b>	<b>-16.8%</b>	<b>138 551</b>	<b>166 528</b>
<b>Investment in intangible assets</b>	<b>59.4%</b>	<b>7 823</b>	<b>4 907</b>
<b>Total property, plant and equipment and intangible assets</b>	<b>-14.6%</b>	<b>146 374</b>	<b>171 435</b>

In 2011 the majority of the investment of Polimex-Mostostal Capital Group was investments in plant and machinery (of which: Polimex-Mostostal S.A. - a generator of impact tests and a generator power system, road graders, a metal spraying chamber, construction machinery of general use, steel sheet drilling machine; Torpol Group – an overhead lines train, a track welder, a telescopic leader rig, platform wagons; Sefako Group - a station of weld surfacing with inconel; Energomontaż Północ Gdynia – purchasing production machinery for the investment at former Gdynia Shipyard). Expenditure for land and buildings included mostly modernisations of office building in Warsaw and Katowice, carried out by Polimex Mostostal S.A., and expenditure for storage hall in Częstochowa, construction of a production hall by Energomontaż Północ Gdynia at the former Gdynia Shipyard and adaptive reuse of the hall for the purpose of the station of weld surfacing with inconel. In connection with the completion of continued investment tasks the value of fixed assets under construction (successively transferred to target classification groups) decreased as compared to the beginning of the year 2011. Among fixed assets under construction a significant item was the continuation of the construction of production installations at the port quay in Civitavecchia (Italy) by the Grande Meccanica Company. In the scope of investment in intangible assets the main investments related to computer software. As a result of limiting implemented investment programmes, the total value of capital expenditure decreased as against 2010 by 14.6%.

#### 1.6. Equity investments

##### 1.6.1. Changes in investment portfolio

On 31 December 2010 an entry on the combination of Polimex-Mostostal S.A. with seven subsidiaries was disclosed in the National Court Register. In this manner formal procedures connected with the incorporation were completed. In the 1st half of 2011 the acquired companies were assimilated with the organizational structure of the Issuer.

One of the consequences of the combination was gaining by Polimex-Mostostal S.A. direct control over the companies that up to that moment had been in the capital groups of the incorporated companies. The key ones are as follows:

- companies that previously were in Energomontaż-Północ Group:
  - Energomontaż Północ Gdynia Sp. z o.o.
  - Energop Sp. z o.o.
  - Energomontaż-Nieruchomości Sp. z o.o.
  - Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.
- companies that previously were in Naftobudowa Group:
  - NAF Industriemontage GmbH
- companies that previously were in Naftoremont Group:
  - Grande Meccanica SpA
  - Modul System Service Sp. z o.o.
  - Sinopol Trade Center Sp. z o.o.

More information on operations of the above mentioned companies is presented in section 4.2 of this report.

The list of other changes in the investment portfolio of the Issuer which occurred from 1 January 2011 till the date of preparation of this report is as follows:

- On 01.06.2011 the General Meeting of Shareholders of Grande Meccanica SpA with its registered office in Narni, Italy adopted a resolution on increasing the share capital of the company from EUR 1.0 million to EUR 2.3 million. The Issuer covered the entire issue by setting off the loans and paying in cash. On 26.08.2011 another resolution was adopted on increasing the share capital up to the amount of EUR 3.3 million. The company allotted the acquired funds to investments in means of production. On 30.01.2012 yet another resolution was adopted on increasing the share capital up to the amount of EUR 4.3 million which will be allotted to the completion of production installations located in Civitavecchia sea port. The Issuer owns 100% of the share capital of Grande Meccanica.
- In the 1st half of 2011 the Issuer continued buying out shares of Centrum Projektowe Polimex-Mostostal Sp. z o.o. As a result of acquiring 8 shares for PLN 1.4 thousand, the Issuer increased its share in the company share capital to 99.57% and in votes up to 99.28%. The difference is the effect of voting preference of shares held by company founders.
- On 16.02.2011 an Extraordinary General Meeting of Shareholders of Energomontaż-Północ Gdynia Sp. z o.o. adopted a resolution to increase its share capital from PLN 12,860.0 thousand to PLN 21,860.0 thousand. The Issuer covered the entirety of the new issue spending PLN 9,000.0 thousand on this purpose. After the registration of the new issue, the Issuer's share in company's share capital increased up to 99.998%. The company invested the acquired funds within the Special Economic Zone located at the Gdynia Port.
- On 18.07.2011 the General Meeting of Shareholders of Energomontaż-Północ - Technika Spawalnicza i Laboratorium Sp. z o.o. adopted a resolution to increase the share capital of the company from PLN 143.0 thousand to PLN 2,430.5 thousand. All issued shares were covered by the Issuer in return for cash, contribution to property, plant and equipment and setting of receivables. The company allotted acquired funds to purchasing laboratory equipment. The Issuer holds (directly and through a subsidiary) 100% of capital in Energomontaż-Północ – Technika Spawalnicza i Laboratorium.
- On 30.12.2011 the Meeting of Shareholders of Energop Sp. z o.o. adopted a resolution to increase the share capital from PLN 18,500.0 thousand to PLN 23,153.5 thousand. All shares were covered by the Issuer through the contribution to property, plant and equipment. The Issuer's share in the share capital of Energop Sp. z o.o. held directly and indirectly through a subsidiary is 100%.

- On 23.09.2011 the Meeting of Shareholders of Energomontaż Magyarország (Hungary) adopted a resolution to increase the share capital by HUF 250,000.0 thousand. All shares were covered by the Issuer. The Issuer's share in the share capital of the company amounts to 100%.
- On 12.04.2011 the Issuer disposed of all the shares held in Orlen Wir Sp. z o.o. for PLN 27.2 thousand. Before the transaction the Issuer held 0.56 % of the share capital of the company.
- In Ukraine the Issuer owns two companies: Tchervonograd Metal Structure Plant with its registered office in Tchervonograd and Polimex-Mostostal Ukraine with its registered office in Zhytomir. Both companies were established as joint stock companies. In mid 2011 a new law became effective which amended the prior legal status of each type of companies. The Issuer decided that according to new regulations, the most appropriate form for functioning of Tchervonograd Metal Structure Plant would be „Additional liability company”, whereas for Polimex-Mostostal Ukraine it would be „Limited liability company” (both legal forms are close to Polish limited liability company). Accordingly, legal forms of both companies were amended appropriately. On 15.07.2011 the Meeting of Shareholders of Tchervonograd Metal Structure Plant adopted a resolution to increase the share capital from UAH 9.880.9 thousand to UAH 16,810.9 thousand. The Issuer covered the shared in cash and by contributing to property, plant and equipment (the production line). The Issuer holds 99.61% of share capital in Tchervonograd Metal Structure Plant and 100% of shares capital in Polimex-Mostostal Ukraine.
- The Issuer, by means of an acquisition, came into the possession of 1,790 shares of the Prinz-1 Company. As a result of the transaction the Issuer's share in the share capital of the company increased from 88.62% to 89.62%.
- On 02.02.2010 an application was filed with the District Court for the Kraków-Śródmieście to open the liquidation of PUT Nafto-Tur Sp. z o.o with the registered office in Kraków, a subsidiary of Naftobudowa S.A. (in the reporting period the subsidiary of Polimex-Mostostal S.A.). The company was deleted from the court register on 26.01.2011.
- On 11.07.2008, application on opening of liquidation procedure against subsidiary Szczecińskie Przedsiębiorstwo Budowlane Przembud Sp. z o.o. with the registered office in Szczecin, in which the Issuer held 75.54% of the share capital, was submitted to the District Court for the Capital City of Warsaw. The company was deleted from the national court register on 23.08.2011.
- On 29.06.2010, application on opening of liquidation procedure against Terminal LNG S.A. with the registered in Warsaw, in which the Issuer held 30.51% of the share capital, was submitted to the District Court for the Capital City of Warsaw. The company was deleted from the national court register on 17.10.2011.

Cash expenses for acquisition of financial assets (shares / equity interests) by Polimex-Mostostal S.A. in 2011 are given in the table below:

2011	PLN thousands	
	value	share
<b>Cash expenditure for acquisition of financial assets (shares / equity interests)</b>		
Grande Meccanica SpA	4 622.9	25.5%
Centrum Projektowe Polimex Mostostal Sp. z o.o.	1.4	0.1%
Tchervonograd MSP	550.0	3.0%
Energomontaż Północ Gdynia Sp. z o.o.	9 000.0	49.6%
Energomontaż Północ TSIL Sp. z o.o.	279.1	1.5%
Energomontaż Magyarország	3 682.8	20.3%
<b>Total cash expenditure for acquisition of shares / equity interests in 2011</b>	<b>18 136.2</b>	<b>100.0%</b>

Additionally, the changes in the investment portfolio of the Issuer's subsidiaries are as follows:

- On 4.06.2011 an Extraordinary Meeting of Shareholders of Torpol sp. z o.o. (currently Torpol S.A.) adopted a resolution to combine the companies of Torpol sp. z o.o. and Elmont-Kostrzyń Wlkp. Sp. z o.o. by transferring the entire assets of Elmont-Kostrzyń to Torpol. Due to the fact that Torpol held 100% of shares in Elmont-Kostrzyń, there was no need to increase the share capital of Torpol. The combination was entered into the National Court Register on 01.07.2011. The Issuer owns 100% of share capital in the Torpol Company.
- On 8.12.2011 Torpol Sp. z o.o. acquired 100% of shares in MW Legal 5 Sp. z o.o. and in the same month it increased the share capital of the company up to PLN 76,505.0 thousand by making contribution of an organized part of an enterprise i.e. the Division for Sales and Intellectual Property Management.
- In December 2009 Torpol Sp. z o.o. acquired 0.57% of share capital of Feroco S.A. spending the amount of PLN 163.9 thousand.

#### *1.6.2. Investment plans*

The investment plans of the Group companies were prepared at the level exceeding planned amortization/depreciation. The majority of expenditure will be assigned to development undertakings. The exceptions are modernizations of office buildings, which are owned by the Issuer, located at ul. Czackiego 15/17 and at ul. Elektryczna 2A in Warsaw. Among the investment in the Capital Group one should emphasize planned for 2012 the completion by Energomontaż-Północ Gdynia Sp. z o.o. of the production installation on the acquired quay of Gdynia Shipyard, owing to this the company will gain the opportunity to manufacture elements of thick-walled rectification columns for chemical industry, large-size elements for nuclear power sector and the supporting elements of sea drilling towers. The majority of manufactured products will be transported to the construction site by sea. Similar, yet to a smaller scale, investment will be implemented in Grande Meccanica SpA (Italy), which has access to the quay in the Civitavecchia sea port. Fabryka Kotłów Sefako S.A. will incur expenditure aimed at the development of own technical thought (design office, computer software) as well as at its production capacity (specialist machinery). One should also pay attention to the acquisition by Torpol S.A. of specialist equipment to conduct railroad works.

Initiatives in the scope of new capital investments will be undertaken as they arise, depending on the acquisition opportunities perceived, their compliance with the strategic targets adopted and possibilities of financing.

#### *1.6.3. Assessment of feasibility of investment tasks, including equity investments as against internal assets, including changes in financing structure for these operations*

The Issuer assesses financing of its investment plans in 2012 as fully feasible on condition that appropriate own funds are generated and debt as well as finance lease financing are acquired.

### **1.7. Information on contracts significant for operations of the Issuer's Capital Group**

The following are significant performance contracts concluded by Polimex-Mostostal S.A. in 2011:

- The contract concluded on 8.06.2011 with Projekt Echo – 55 Sp. z o.o. with the registered office in Kielce to construct "Olimpia" Retail and Entertainment Centre in Belchatów. The remuneration of the Issuer acting as the general contractor was specified at PLN 80.3 million net.
- The contract concluded on 17.06.2011 to design and construct a multipurpose sports hall for 6,000 spectators in Bacau, Romania. The value of the contract concluded by the consortium of Polimex-Mostostal S.A. (the consortium leader) and Instakon OY, Finland (the consortium partner) amounts to approx. EUR 14.1 million net. The main contractor of works together with the delivery of steel structures is Coifer Impex SRJ, Romania (the Issuer's subsidiary).

- The contract concluded on 26.08.2011 with the Commune of Świecie for the construction of Inter-Commune Complex for the Treatment of Municipal Waste for the poviats of Świecie and Chelmno in Sulnówek. The net value of the contract is PLN 34.5 million.
- The contract concluded on 12.07.2011 the University of Gdansk for the construction of a teaching and administrative building of the University of Gdansk in Gdansk. The net value of the contract is PLN 62.8 million.
- The contract concluded on 24.08.2011 to perform the first stage of the modernisation of the Ernest Pohl's football stadium in Zabrze. The scope of works includes the construction of three new stands. The net value of the contract is PLN 156.5 million.
- The contract concluded on 31.08.2011 with the Municipal Administration of Roads and Bridges in Tychy for the general contracting of construction works for the project "Reconstruction of national roads No.1 and 86 Gdańsk-Cieszyn within the boundaries of the city of Tychy – DK-1 section". Net value of the contract amounts to PLN 121.9 million.
- The contract concluded on 03.10.2011 with the City of Katowice for "Construction of multifunction building of the International Congress Centre in Katowice". Net value of the contract amounts to PLN 205.4 million.
- The contract concluded on 21.10.2011 with Halla Engineering & Construction Corporation Branch in Poland for "Construction of Car Parts Manufacturing Plant in Walbrzych". Net value of the contract amounts to PLN 87.2 million.
- Signing on 10.11.2011 the contract with Helical Sośnica Sp. z o.o. for „Construction of Central Europe Shopping Centre in Gliwice”. Net value of the contract amounts to PLN 181.6 million.
- Receiving on 17.11.2011 the notification from PGE Elektrownia Opole S.A. on selecting as the most advantageous one the tender submitted by the consortium of RAFAKO S.A. (consortium leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A. in proceedings conducted in the form of public procurement made in competitive negotiations with the publication to grant a public procurement entitled "Construction of No.5 and No.6 power blocks at PGE Elektrownia Opole S.A.". The contract was signed on 15.02.2012. The value of contracted works is PLN 9,397.0 million net of which about 42% is attributed to Polimex-Mostostal S.A.
- The contract concluded on 07.04.2011 with the District Court in Zamość for the construction of the Regional Court and District Court in Zamość. Net value of the contract amounts to PLN 72.6 million.
- The contract concluded on 10.03.2011 with EUROVIA POSKA S.A. for the modernization of the road access to the Szczecin port. Net value of the contract amounts to PLN 35.7 million.
- The contract concluded on 30.08.2011 with „Projekt 5 – Grupa Echo Spółka z ograniczoną odpowiedzialnością” spółka komandytowo – akcyjna for the construction of „Outlet Park” Shopping Centre in Szczecin. Net value of the contract amounts to PLN 48.6 million.
- The contract concluded on 26.10.2011 with Neste Oil Netherlands B.V. for the disassembly, prefabrication and assembly of pipelines for biodiesel installation in Rotterdam. The value of the contract is EUR 7.1 million.

The key performance contracts concluded by the **Issuer's Group companies** in 2011 include:

- Torpol S.A. (in 2011 Torpol Sp. z obo.):
  - The contract signed on 11.02.2011 to perform construction works of modernisation of railroad infrastructure of stations and lines in the area of LCS Ciechanów, Ciechanów - Mława section from km 99.450 to km 131.100. LOT A - stations: Konopki, Mława and LOT B - lines: Ciechanów - Konopki, Konopki – Mława under the Project „Modernisation of E 65/CE 65 railroad in Warszawa - Gdynia section- area of LCS Ciechanów”. The parties to the contract are: PKP Polskie Linie Kolejowe S.A. (Polish Railroads) with the registered office in Warsaw (the Employer) and the consortium of the

following companies: FEROCO S.A. with the registered office in Poznań (the consortium leader) and TORPOL Sp. z o.o. with the registered office in Poznań, Zakład Robót Komunikacyjnych – DOM w Poznaniu Sp. z o.o. with the registered office in Poznań and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. z with the registered office in Zawiercie. The net remuneration for performing the subject matter of the contract was specified at PLN 397.7 million, of which PLN 121.8 million is attributable to TORPOL.

- Two contracts signed on 02.03.2011 with PKP Polskie Linie Kolejowe S.A. (the Employer) to perform construction works in the area of LCS Gdańsk: LOT A - stations, LOT B – lines and LCS Gdynia: Lot A – stations, LOT B - lines under project No. 7.1-1.2 "Modernisation of E 65/C-E 65 railroad in the section Warszawa - Gdynia – area of LCS Gdańsk, LCS Gdynia", of the total amount of PLN 850.6 million net. The contractor for these works is the consortium of the following companies: TORPOL Sp. z o.o. with the registered office in Poznań, FEROCO S.A. with the registered office in Poznań, Przedsiębiorstwo Robót Komunikacyjnych DOM w Poznaniu Sp. z o.o. with the registered office in Poznań and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. with the registered office in Zawiercie. The net remuneration for the execution of construction works in the area of LCS Gdańsk: LOT A - stations, LOT B – lines was specified at PLN 479.1 million, and the value of works attributable to TORPOL Sp. z o.o. (the consortium leader) amounts to PLN 306.9 million. The net remuneration for the execution of construction works in the area of LCS Gdynia: LOT A - stations, LOT B – lines was specified at PLN 371.5 million, and the value of works attributable to TORPOL Sp. z o.o. (the consortium partner) amounts to PLN 84.7 million net.
- The contract signed on 18.08.2011 with PKP Polskie Linie Kolejowe S.A. (Polish Railroads) with the registered office in Warsaw, the City of Łódź and Polskie Koleje Państwowe S.A. (Polish National Railways) with the registered office in Warsaw (Employer) for „Modernisation of Warsaw Łódź railroad, stage II, LOT B2 – Łódź Widzew – Łódź Fabryczna section with the Łódź Fabryczna station and the construction of underground section of the Łódź Fabryczna station servicing departures and arrivals of trains and passengers”. Extension of the road system and infrastructure around the multimodal Łódź Fabryczna station– construction of an integrated interchange over and under ul.Węglowa”. Total remuneration for all works to be executed by the consortium composed of: TORPOL Sp. z o.o. (the consortium leader) and Astaldi S.p.A. with the registered office in Rome, Italy, Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. with the registered office in Zawiercie and Przedsiębiorstwo Budowy Dróg i Mostów Sp. z o.o. with the registered office in Minsk (the consortium partners) amounts to PLN 1,430.3 million net, of which approx.40% is attributable to TORPOL Sp. z o.o.
- The contract signed on 17.08.2011 with Trakcja – Tiltr S.A. with the registered office in Warsaw the contract for the design and construction of Kraków – Medyka – state border railroad, Podłęże – Bochnia section under the project of „Modernisation of E30/C-E30 railroad, Kraków – Rzeszów section, stage III”. The net value of the contract is PLN 290.3 million.
- The contract concluded on 20.01.2011 with PKP Polskie Linie Kolejowe S.A. with the registered office in Warsaw (the Employer) to design and perform construction works covered with the task entitled "Modernisation of No.356 Poznań Wschód – Bydgoszcz railway line in the territory of Wielkopolskie voivodship having a key importance in servicing the connections of small places with Poznań agglomeration in the section Poznań Wschód – Gołańcz – Stage I”. The contractor of this contract is the consortium of the following companies: TORPOL Sp. z o.o. (consortium leader), Feroco S.A. with the registered office in Poznań and Zakład Robót Komunikacyjnych – DOM w Poznaniu Sp. z o.o. with the registered office in Poznań. The net value of the contract and the value of works performed by Torpol amounts to PLN 123.5 million.
- Energomontaż – Północ Gdynia Sp. z o.o.,
  - The contract signed on 28.11.2011 with Kvaerner Stord to deliver steel structures for ELDFISK 2/75 extracting platform of the net value of EUR 14.4 million.

The description of other significant contracts and events which occurred in 2011 is presented in the sections of this Report that follow.

## 2. Current and expected financial position

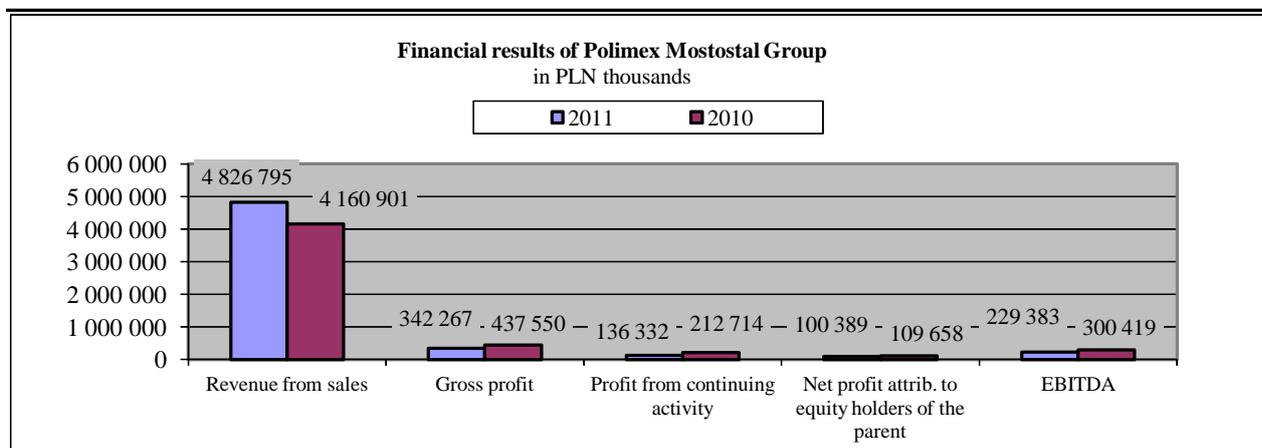
### 2.1. Profit

In 2011 Polimex-Mostostal Group generated sales revenue in the amount of PLN 4,826,795 thousand (an increase of 16.0% as against comparative data for 2010). In 2011 net profit attributable to equity holders of the parent reached PLN 100,389 thousand (a decrease of 8.5% as against comparative data for 2010). From continuing operations the Group made the profit of PLN 136,332 thousand (a decrease of 35.9% as against comparative data for 2010). EBITDA value amounted to PLN 229,383 thousand (a decrease of 23.6% as against comparative data for 2010).

In 2011 one-off events having a significant effect on the net profit attributable to equity holders of the parent include: release of the provision for jubilee bonuses in connection with the implementation of the Employee Pension Scheme at Polimex-Mostostal S.A. (approx. PLN 27.9 million), recognition of an asset for projected relief due to the appurtenance to "Starachowice" Special Economic Zone by Sefako S.A. (approx. PLN 15.7 million) and a recognition of 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 (approx. PLN 13.2 million).

The financial results of the Capital Group in 2011 are presented below:

PLN thousands	2011	2010	Change
<b>Revenue from sales</b>	<b>4 826 795</b>	<b>4 160 901</b>	<b>16.0%</b>
Cost of sales	-4 484 528	-3 723 351	20.4%
<b>Gross profit</b>	<b>342 267</b>	<b>437 550</b>	<b>-21.8%</b>
Other operating income	31 452	26 251	19.8%
Selling costs	-35 519	-30 316	17.2%
Administrative expenses	-183 611	-210 438	-12.7%
Other operating costs	-18 257	-10 333	76.7%
<b>Profit from continuing activity</b>	<b>136 332</b>	<b>212 714</b>	<b>-35.9%</b>
Finance income	36 952	21 252	73.9%
Finance costs	-84 178	-78 088	7.8%
Share in associate's profit	3 203	-675	-574.5%
<b>Profit before tax</b>	<b>92 309</b>	<b>155 203</b>	<b>-40.5%</b>
Income tax	10 577	-35 902	-129.5%
<b>Net profit</b>	<b>102 886</b>	<b>119 301</b>	<b>-13.8%</b>
<b>Net profit attributable to equity holders of the parent</b>	<b>100 389</b>	<b>109 658</b>	<b>-8.5%</b>
<b>EBITDA</b>	<b>229 383</b>	<b>300 419</b>	<b>-23.6%</b>



Generated results show that in 2011 Polimex-Mostostal Capital Group reported results lower than in the previous year. The main reasons for poorer performance were as follows:

- Low margins for road contracts resulting from more severe competition among contracts together with the need to prefinance the works in the period of a couple of months.
- Shifting the dates of issuing calls for tenders and of realization of modernization projects in the Polish power engineering sector together with significant bidding costs.

In the Issuer's opinion, the following factors will have a beneficial effect on Polimex-Mostostal Group's financial results:

- **High value of the backlog held by the Group.**
- **Highly probable possibility of the acquisition and performance of a number of giant modernisation projects in the Polish power engineering sector**, which are necessary to maintain the national energy security.

Polimex-Mostostal S.A. as a Member of the Consortium composed of Rafako S.A.(Leader), Polimex - Mostostal S.A. and Mostostal Warszawa S.A. on 15.02.2012 concluded with PGE Elektrownia Opole S.A. 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. The total value of the contract amounts to PLN 9,397.0 million net (PLN 11,558.3 million gross). The share of Polimex-Mostostal S.A. in the consortium is 41.77%. The main scope of the Issuer's works includes the construction of turbine islands together with infrastructure. The Company shall also execute electrical installations together with control and measurement instruments and automatic control. It shall also participate in design works.

Currently Polimex-Mostostal S.A. is taking part in tender procedures for the construction of 900 – 1000 MW Power blocks in Kozienice (approx. PLN 5.5 billion), in Pelpin (approx. PLN 11 billion) and in Ostrołęka (approx. 5.5 billion) – all together with Hitachi, independently in Jaworzno (approx. PLN 5.5 billion) and in Włocławek (approx. PLN 1.5 billion) for steam and gas blocks. A tender was also submitted for the Combustion Gas Desulphurisation System at PKN Orlen S.A. worth approx. PLN 0.6 billion.

- **Good prospects of domestic construction.** Construction and assembly production executed within the country was 14.6% higher in December 2011 than in the prior year and 40.6% higher as compared to November 2011. In the period from January to December 2011 construction and assembly production was 16.3% higher than in the analogous period of 2010<sup>1</sup>. In this situation it should be concluded that the prospects of construction industry remain good. The opinion may be justified by the fact that on 08.02.2012 Polimex-Mostostal S.A. signed the contract to implement two separate investment tasks “Lublin Conference Centre” and “Construction of the principal office of the Office of Marshal in Lublin” with the necessary technical infrastructure worth PLN 95.8 million in total
- **Good prospects on domestic railroad market.** According to the estimates of the Ministry of Infrastructure expenditure for modernisation of railroad infrastructure will double and will amount to PLN 8 billion in 2012. It will remain at this level until 2014. Torpol Group is considered to be of four major entities on this market (the remaining three are Trakcja-Tiltra S.A., Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and Feroco S.A.).  
In case of the domestic road market, although the value of investments will decrease starting from 2012, Polimex-Mostostal S.A., which does not have large own resources in road construction, will be able to adjust to anticipated lower level of orders relatively easily.
- **Actions taken to intensify Company's presence on foreign markets.** For many years Polimex-Mostostal Group has been active on foreign markets selling there a significant portion of its steel products and steel

<sup>1</sup> Index numbers of industrial and construction-assembly production in December 2011, Polish Central Statistical Office, 19.01.2012.

structures and executing construction and assembly services for, among other things, power engineering and chemistry sector. Torpol S.A. is performing the contract in Norway to construct a two track tram line between the centre of the city of Bergen and the airport in Flesland. Further expansion in the Scandinavian market is expected.

Among the countries where Polimex-Mostostal S.A. is currently seeking new tasks are Romania, Belarus, Moldova and Kazakhstan. Potentially interesting market are the Arab countries and the countries of Northern Africa where the Company has been active since the 1960s constructing many industrial buildings and where the brand of Polimex is still recognised and well assessed.

- **Intensification of activities aimed at increasing the level of utilization of the new production installations.**
- **Integration of the support function, optimisation of purchasing costs and integration of operating activity (moving on from division based structure to segment based one)** related to the process of combination of Polimex-Mostostal S.A. with the Group's seven subsidiaries completed on 31.12.2010.

Current backlog of the Polimex-Mostostal Group's business, not including sales attributable to consortium members, amounts to PLN 12.1 billion, of which PLN 12.0 billion is concluded contracts and PLN 0.1 billion is contracts in the final stage of negotiations. The current backlog for individual years is as follows: 2012 – PLN 4.3 billion (concluded contracts PLN 4.2 billion, contracts in the final stage of negotiations PLN 0.1 billion); 2013 – PLN 2.8 billion (concluded contracts PLN 2.8 billion); 2014 PLN 2.3 billion (concluded contracts PLN 2.3 billion); in the coming years – PLN 2.7 billion (concluded contracts PLN 2.7 billion).

## 2.2. Assets amount and structure

As at 31.12.2011, the statement of financial position total of Polimex-Mostostal Capital Group amounted to PLN 4,511,465 thousand (an increase of 15.0% as against comparative data as at 31.12.2010). As at 31.12.2011 non-current assets amounted to PLN 1,755,958 thousand (an increase of 2.6% as against comparative data as at 31.12.2010), and current assets to PLN 2,755,148 thousand (an increase of 24.6% as against comparative data at 31.12.2010). Property, plant and equipment were the largest item in fixed assets structure constituting 23.1% of total assets. Trade and other receivables constituting 44.5% of total assets were the largest item of current assets.

Amount and structure of Capital Group assets as at 31.12.2011 was as follows:

PLN thousands	31.12.2011	% of assets	31.12.2010	% of assets
<b>Non-current assets</b>	<b>1 755 958</b>	<b>38.9%</b>	<b>1 712 197</b>	<b>43.6%</b>
Property, plant and equipment	1 044 862	23.1%	1 027 948	26.2%
Investment properties	58 824	1.3%	42 316	1.1%
Goodwill on consolidation	491 674	10.9%	487 001	12.4%
Intangible assets	25 788	0.6%	25 234	0.6%
Investment in associates measured using equity method	16 419	0.4%	14 659	0.4%
Financial assets	4 755	0.1%	4 196	0.1%
Non-current receivables	32 230	0.7%	46 184	1.2%
Non-current prepaid expenses	4 006	0.1%	949	0.0%
Deferred tax assets	77 400	1.7%	63 710	1.6%
<b>Current assets</b>	<b>2 755 148</b>	<b>61.1%</b>	<b>2 211 321</b>	<b>56.4%</b>
Inventories	445 111	9.9%	432 930	11.0%
Trade and other receivables	2 007 611	44.5%	1 376 087	35.1%
Income tax receivables	10 525	0.2%	6 808	0.2%
Prepaid expenses	17 655	0.4%	10 077	0.3%
Cash and cash equivalents	272 820	6.1%	373 814	9.5%
Financial assets	1 426	0.0%	11 605	0.3%
<b>Non-current assets held for sale</b>	<b>359</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
<b>TOTAL ASSETS</b>	<b>4 511 465</b>	<b>100.0%</b>	<b>3 923 518</b>	<b>100.0%</b>

### 2.3. Equity amount and structure

Equity attributable to ordinary equity holders of the parent at 31.12.2011 amounted to PLN 1,533,820 thousand (an increase of 5.9% as against comparative data at 31.12.2010), and liabilities amounted to PLN 2,965,496 thousand (an increase of 20.3% as against comparative data at 31.12.2010). The share premium, constituting 16.4% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 57.3% of total liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the Capital Group assets at 31.12.2011 is given below:

PLN thousands	31.12.2011	% of equity and liabilities	31.12.2010	% of equity and liabilities
<b>Equity</b> attributable to equity holders of the parent	<b>1 533 820</b>	<b>34.0%</b>	<b>1 449 011</b>	<b>36.9%</b>
Issued capital	20 846	0.5%	20 837	0.5%
Share premium	738 237	16.4%	737 454	18.8%
Treasury shares	-6 884	-0.2%	-6 884	-0.2%
Translation of a foreign operation	1 328	0.0%	-9 516	-0.2%
Supplementary capital	555 994	12.3%	471 415	12.0%
Other capital	-85 254	-1.9%	-85 254	-2.2%
Reserve capital	32 086	0.7%	33 221	0.9%
Revaluation reserve	-1 188	0.0%	3 810	0.1%
Retained earnings	278 655	6.2%	283 928	7.2%
<b>Non-controlling interests</b>	<b>12 149</b>	<b>0.3%</b>	<b>9 687</b>	<b>0.3%</b>
<b>Total equity</b>	<b>1 545 969</b>	<b>34.3%</b>	<b>1 458 698</b>	<b>37.2%</b>
<b>Liabilities</b>	<b>2 965 496</b>	<b>65.7%</b>	<b>2 464 820</b>	<b>62.8%</b>
Non-current liabilities	381 680	8.4%	756 857	19.3%
Current liabilities	2 583 816	57.3%	1 707 963	43.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 511 465</b>	<b>100.0%</b>	<b>3 923 518</b>	<b>100.0%</b>

## 2.4. Liquidity

In 2011 according to the Statement of Cash Flows of the Group there was a net decrease in cash and cash equivalents of PLN 100,994 thousand (a drop in debt financing dynamics). Cash and cash equivalents as at the end of 2011 amounted to PLN 272,820 thousand. Net cash from operating activities amounted to PLN 61,614 thousand (PLN 37,238 thousand in 2010). Net cash from investing activity amounted to PLN -99,982 thousand (PLN -128,248 thousand in 2010) and net cash from financing activity amounted to PLN -62,626 thousand (PLN 27,447 thousand in 2010).

## 2.5. Assessment of financial resources management

Financial ratios for the Polimex-Mostostal Capital Group	31.12.2011	31.12.2010
Current liquidity ratio ( <i>current assets : current liabilities</i> )	1.1	1.3
Quick liquidity ratio ( <i>(current assets less inventories less prepaid expenses) : current liabilities</i> )	0.9	1.0
Debt to assets ( <i>(Total equity and liabilities less equity) : total assets</i> )	65.7%	62.8%
Net debt / EBITDA ( <i>(interest payables less cash) : EBITDA</i> )	2.7%	1.6%
Net profit margin ( <i>net profit attributable to equity holders of the parent : revenue from sales</i> )	2.1%	2.6%
EBITDA margin ( <i>EBITDA : revenue from sales</i> )	4.8%	7.2%
Earnings per share ( <i>net profit attributable to equity holders of the parent : weighted average number of shares</i> )	0.19	0.21

The values of Capital Group's statement of financial position ratios as well as income statement ratios mentioned above should be considered as correct. At the statement of financial position date, Polimex-Mostostal Capital Group maintained proper liquidity and repaid contracted debt. Current and quick liquidity ratios were on the safe level and were equal to 1.1 and 0.9 respectively. Net debt / EBITDA ratio was 2.7, i.e. clearly less than 3.0. A decrease in EBITDA margin and net profit margin was the result of a lower gross profit as against comparative period, with increased sales at the same time. Lower administrative expenses and improvement of the balance of finance income and costs did not compensate the decrease in gross profit.

## 2.6. Information on loans and borrowings drawn

Total debt of the Capital Group at the end of 2011 amounted to PLN 889.0 million, of which, loans and borrowings PLN 489.0 million, issued debentures PLN 400.0 million (the principal amount). Debt of the parent company amounted to PLN - 692.9 million, of which PLN 292.9 million was loans and borrowings, 400.0 million PLN was issued debentures. **The key crediting banks** in 2011 were:

- for the parent company: Pekao S.A., PKO BP S.A., BPH S.A. and Bank Ochrony Środowiska S.A.,
- for Group companies: PKO BP S.A., Bank Millennium S.A., RBS Bank (Polska) S.A., Unicredit, PEKAO S.A. and BZ WBK S.A.

As at 31.12.2011, the following loans and borrowings were to be repaid at the earliest taken out by:

- Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. (PLN 0.5 million, repayment date - 31.12.2011, a loan drawn at Pekao S.A.),
- ZUT Sp. z o.o. (PLN 1.5 million, repayment date - 31.01.2012, loan drawn at Pekao S.A.),
- Tchervonograd Metal Structure Plant Company with additional liability (EUR 0.18, repayment date - 31.01.2012, bank overdraft at Bank Kredobank),
- Turbud Sp. z o.o. (PLN 1.0 million, repayment date - 31.01.2012, bank overdraft at PEKAO S.A.),
- Sefako S.A. (PLN 2.0 million and PLN 5.0 million, repayment date - 02.02.2012, two working capital facilities at Nordea Bank Polska S.A.),

The above mentioned credit facilities have been renegotiated. At present, the date of repayment of the above mentioned loans is: for Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. – 31.12.2012; ZUT Sp. z o.o. for the loan decreased to PLN 1.0 million – 31.01.2013; TMSP – 31.01.2013; Turbud Sp. z o.o. for the loan decreased to PLN 0.5 million – 31.08.2012; Sefako S.A. – for revolving working capital facility in the amount of PLN 5.0 million- 31.01.2014, for bank overdraft in the amount of PLN 2.0 million - 01.02.2013.

Apart from the above, at present investment loans are of the longest repayment dates:

- loan at Orzesko-Knurowski BS for Centrum Projektowe Polimex-Mostostal Sp. z o.o. in amount of PLN 14.0 million – repayable on 18.12.2023,
- the investment loan at Bank Millennium S.A. in the amount of EUR 6.0 million for Energomontaż-Północ Gdynia Sp. z o.o. – repayable on 31.12.2018,
- the loan at Intensa Sanpaolo in the amount of EUR 3.3 million for SC Coifer Impex srl – repayable on 08.12.2017,
- the loan at PKO BP S.A. for Sefako Sp. z o.o. in amount of PLN 48.1 million – repayable on 30.01.2016,
- the loan at Bank PKO BP S.A. for Polimex-Mostostal S.A. in the amount of PLN 150.0 million – repayable on 31.08.2015,
- the loan at BRE Bank S.A. for Polimex-Development Inwestycje Sp. z o.o. Apartamenty Tatarska S.K.A. (the subsidiary of Polimex-Development Kraków Sp. z o.o.) in the amount of PLN 10.2 million, repayable on 15.08.2014,
- the loan at BOŚ S.A. for PRInż-1 Sp. z o.o. in the amount of PLN 2.7 million – repayable on 30.06.2014.

In majority, Polimex-Mostostal S.A. and the Group companies continued current loan contracts and guarantee facilities. Part of the loans was renegotiated or repaid, also a number of new contracts were concluded (the balances of the utilisation of loans are presented in the Financial Statements of Polimex-Mostostal Capital Group for the 12 month period ended 31 December 2011).

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.

- At the end of 2011, the balance of loans and borrowings drawn by **Polimex-Mostostal S.A.** (excluding the Debenture Issue Scheme) amounted to PLN 292.9 million, of which bank loans were PLN 290.4 million and loans drawn were PLN 2.5 million (excluding interest accrued but not payable). Polimex – Mostostal S.A. continued previously concluded **loan contracts**:
  - Working-capital non-revolving facility in convertible currency (EUR) granted by PKO BP S.A. up to EUR 3.4 million (as at the end of 2011 debt balance amounted to EUR 1.9 million) and repayable on 26.12.2012. The rate of interest - EURIBOR 1M plus margin.
  - Working-capital non-revolving facility in Polish zloty granted by PKO BP S.A. up to PLN 11.2 million and repayable on 26.12.2012, as at the end of 2011 debt amounted to PLN 6.3 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - Credit facility in the maximum amount of PLN 21.5 million (i.e. 25% of the granted limit) under the multipurpose credit limit at PKO BP S.A. increased up to PLN 86.0 million, with the repayment date extended until 12.02.2013 and with the option to issue guarantees until 12.02.2013. The above mentioned amendments to the limit were introduced with the annex of 11.02.2011 (extending the limit utilization period) and of 14.06.2011 (increasing the amount of the limit from PLN 30.0 million to PLN 86.0 million and including into the limit the limits of the following companies incorporated in 2010: Naftoremont Sp. z o.o. – the limit of PLN 10.0 million, Naftobudowa S.A. the limit for bank guarantees in the amount of PLN 25.0 million and EceRemonot Sp. z o.o. – credit limit in the amount of PLN 1.0

million). As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR 3M plus margin.

- Bank overdraft facility increased up to PLN 50.0 million granted by Bank Ochrony Środowiska S.A. and repayable on 03.07.2011. (before it was PLN 30.0 million) and extended with an annex of 08.12.2011 until 03.07.2012. As at the end of 2011 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- Working-capital facility in a current account in the amount of PLN 40.0 million granted by Kredyt Bank S.A. and repayable on 30.10.2011. The repayment period was extended until 30.10.2012 under the annex of 28.10.2011. As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR O/N plus margin.
- the contract of a loan in the form of multipurpose multicurrency credit line in the total amount of PLN 420.0 million made available by PEKAO S.A. The loan was made available in the form of: (a) a working capital facility up to PLN 200.0 million (of which: PLN 50.0 million is bank overdraft; PLN 150 million a revolving credit facility in a form of tranches to finance contracts that are being executed), (b) bank guarantees granted by the Bank up to the total amount not exceeding PLN 250.0 million; however, utilisation of PLN 250.0 million depends on decreasing the drawing of the working capital facility by PLN 30.0 million. The credit facility was granted by 31.07.2012. The following were debited to the limit:
  - the bank overdraft in the amount of PLN 50.0 million repayable by 31.07.2011,
  - the loan in the form of a multicurrency credit facility in the amount equal to PLN 70.0 million repayable by 31.07.2011,
  - the non-revolving working capital facility in the amount of PLN 50.0 million repayable by 27.07.2011,
  - the credit and guarantee facility with the limit of PLN 100.0 million repayable by 31.07.2011,
  - the bank overdraft acquired with the incorporated company of ZRE Krakow Sp. z o.o. in the amount of PLN 5.0 million and repayable by 31.12.2011,
  - the general agreement to issue bank guarantees (the limit of PLN 118.5 million; the validity date – 31.07.2011),
  - the general agreement to issue bank guarantees /bid bonds/ (the limit of PLN 30.0 million; the validity date – 31.07.2011).

As at the end of December 2011 there was no debt in the bank overdraft, whereas the credit in the form of tranches was used in its full amount of PLN 150.0 million. The interest rate was determined for the bank overdraft based on WIBOR 1M /EURIBOR 1M SPOT/LIBOR 1M SPOT plus margin, and for the loan in tranches based on WIBOR 1M SPOT/EURIBOR 1M SPOT/LIBOR 1M SPOT plus margin.

- The investment loan in amount of PLN 150.0 million granted by PKO BP S.A and repayable on 31.08.2015. The loan is assigned to financing of capital expenditure on construction within the Tarnobrzeg Special Economic Zone (TSEZ) Siedlce Sub-zone, a steel structure plant, galvanising plant and paint shop. As at 31.12.2011, debt amounted to PLN 111.9 million. The rate of interest was determined based on WIBOR 1M plus margin, and for debt in foreign currency - EURIBOR 1M plus margin.
- The multipurpose multicurrency credit facility in the amount of PLN 47.0 million, under which one may issue bank guarantees up to the total amount not exceeding PLN 47.0 million, granted by BPH S.A. and repayable by 30.11.2012. Under the provisions of the annex of 29.11.2011 the above mentioned credit facility replaced the existing multipurpose multicurrency credit line with the limit of PLN 42.0 million, which may be utilized in the form of a guarantee facility up to PLN 5.0 million, and the bank overdraft acquired with the incorporated company of Naftobudowa S.A. for the amount of PLN 10.0 million. As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.

- Revolving working capital facility in the amount of EUR 3.0 million with DZ Bank Polska S.A. (before it was the credit facility of Naftobudowa S.A.) repayable by 30.08.2011, extended until 31.10.2012. As at 31.12.2011 the debt amounted to EUR 2.9 million. The rate of interest was determined based on EURIBOR RB plus margin.
- Overdraft facility in amount of PLN 15.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. The repayment period was extended until 20.03.2012 under the annex of 17.03.2011. Then with an annex of 08.11.2011 the credit facility was consolidated with the credit facility in the amount of PLN 5.0 million. As at the end of 2011 within one credit facility up to PLN 20.0 million there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 5.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. With the annex of 17.03.2011 the credit facility was extended until 20.03.2012 and then with an annex of 08.11.2011 it was consolidated with the above mentioned credit facility in the amount of PLN 15.0 million.
- Working capital facility in the current account granted by BGŻ S.A. in the amount of PLN 15.0 million and repayable on 31.05.2011. Under the annex of 19.01.2011 the amount of the facility was increased to PLN 25.0 million (while the guarantee limit was decreased by PLN 10.0 million). Under the annex of 15.07.2011 the facility was increased up to PLN 35.0 million and the repayment date was extended until 30.05.2012. As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- Bank overdraft in the amount of PLN 0.5 thousand with Bank DnB Nord Polska S.A. (before it was the credit facility of EPE Rybnik Sp. z o.o.) repayable until 29.06.2011, under the annex of 15.07.2011 it was extended until 29.06.2012. As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for the non-revolving working capital facility acquired with the incorporated company of ECeRemont Sp. z o.o. concluded with PKO BP S.A. in the amount of PLN 0.6 million and repayable by 04.10.2012. As at 31.12.2011, debt amounted to PLN 0.2 million. The rate of interest was determined based on WIBOR 3M plus margin.
- The contract for the investment loan acquired with the incorporated company of EPE Rybnik Sp. z o.o. concluded with Bank DnB Nord Polska S.A. in the amount of PLN 0.5 million and repayable by 31.03.2013. As at 31.12.2011, debt amounted to PLN 0.2 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract concluded with ING Bank Śląski S.A. to make available a credit line in the amount of PLN 200.0 million which may be utilised in the form of a credit facility in the amount of PLN 30.0 million and valid until 30.11.2011. The contract is automatically extended on the same terms and conditions for another 12 month periods of crediting until 30.11.2021 unless it is terminated by one of the parties. The above mentioned contract replaced the contract for a guarantee facility in the amount of PLN 36.0 million and validity until 31.03.2011. As at 31.12.2011, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for a credit limit acquired with the incorporated company of Energomontaż-Północ S.A. concluded with Bank DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract may utilise the guarantee limit up to PLN 27.0 million, additionally Energomontaż-Północ Gdynia Sp. z o.o. may utilise a bank overdraft up to the maximum of PLN 5.0 million –at present the granted sublimit is PLN 2.0 million). The final availability date was set at 30.06.2012. The rate of interest was determined based on WIBOR 1M plus margin.

Moreover, on 16.12.2011 the Company concluded with PKO BP S.A. the contract of revolving working capital facility in Polish zloty in the amount of PLN 100.0 million, which may be utilised until 30.06.2013

and is repayable by 30.06.2014. The rate of interest of the credit facility was determined based on WIBOR 3M plus margin. As at 31.12.2011, the credit facility was not utilised.

In 2011 Polimex-Mostostal S.A. also utilized loans raised with Depolma GmbH and Polimex Hotele Sp. z o.o.:

- In December 2011, Polimex-Mostostal S.A. and Depolma GmbH signed Annex No. 7 to the Loan Contract of December 2004 extending repayment period until 10.12.2012. As at 31.12.2011, the balance of the loan amounted to EUR 0.2 million (excluding interest). The rate of interest was determined based on EURIBOR 12M plus margin.
- In December 2011, Company signed with Polimex Hotele Sp. z o.o. Annex No. 5 to Loan contract of December 2006 in amount of PLN 1.9 million extending repayment period until 31.12.2012. The rate of interest was determined based on WIBOR 1M plus margin.

In 2011 the Company concluded the following contracts:

- on 14.01.2011 with PEKAO S.A. the contract to provide e-financing services with the limit of PLN 120.0 million and the maximum clearing cycle until 31.12.2012,
- on 18.07.2011 with Bank Millennium S.A. a reverse factoring contract with the limit of PLN 22.0 million and expiry date at 17.07.2012, whose limit as at the date of preparation of this report was decreased to PLN 18.0 million\*),
- on 18.07.2011 with Bank Millennium S.A. a factoring contract with the limit of PLN 36.7 million and expiry date at 17.07.2012, whose limit was decreased under the annex of 29.09.2011 to PLN 34.4 million\*), As at the date of preparation of this report the limit was decreased to PLN 18.0 million\*),
- on 29.09.2011 with Bank Millennium S.A. a factoring contract (the limit of PLN 20.5 million; expiry date 25.09.2012)

and continued collaboration under the following contracts:

- the factoring contract with risk taking of 24.11.2010 concluded with Bank Millennium S.A. with the limit of PLN 150.0 million and the expiry date at 30.06.2011, under the annex of 16.05.2011 it was extended until 31.12.2011 (as at the date of preparation of this report the contract was not extended),
- the factoring contract of 29.09.2010 concluded with Bank Millennium S.A. with the limit of PLN 83.3 million valid until 28.09.2011, under the annex of 18.07.2011 it was decreased to PLN 76.3 million and under the annex of 29.09.2011 it was extended until 15.03.2012. (as at the date of preparation of this report the contract was not extended and is valid until the date of repayment of debt financed by the Bank i.e. until 31.03.2013)

\*) total concentration under the reverse factoring contract and the factoring contract will not exceed PLN 18.0 million.

Under the **Debenture Issue Plan** the total 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:

- **coupon debentures:**

- on 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100.0 million and with the maturity at 25.07.2012, and
- on 16.10.2007 another tranche of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 73.0 million and with the maturity at 25.01.2013,

Both blocks of coupon debentures have been consolidated and to 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;

- **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 30.03.2012.
- **Polimex-Development Kraków Sp. z o.o.** signed annexes to two investor's loans in the amount of PLN 30.4 million and PLN 10.0 million concluded with PKO BP S.A. extending final repayment period until 30.06.2012. The rate of interest for the loans is WIBOR 3M plus margin. The subsidiary of **Polimex-Development Inwestycje Sp. o.o. Apartamenty Tatarska S.K.A.** concluded with BRE Bank S.A. the contract of investment loan in the amount of PLN 10.2 million repayable on 15.08.2014.
- **Polimex-Mostostal Development Sp. z o.o.** signed three contracts: with Nordea Bank Polska S.A. for an investment loan (PLN 8.2 million), for a revolving working capital facility (PLN 2.0 million) and for a bank overdraft (PLN 0.5 million) repayable by 17.05.2013, 17.05.2013 and 18.05.2012, respectively (the rate of interest for the above mentioned products amounts to WIBOR 1M plus margin),
- **Moduł System Serwis Sp. z o.o.** signed an annex to a bank overdraft contract with ING Bank Śląski S.A. (the limit of PLN 1.0 million) extending the repayment period until 01.09.2012 (the rate of interest is WIBOR 1M plus margin).
- **Sinopol Trade Center Sp. z o.o.** signed in May 2011 an annex to a bank overdraft contract with Polski Bank Spółdzielczy w Ciechanowie (the limit of PLN 1.05 million) extending the repayment period until 05.05.2012 (the rate of interest is WIBOR 3M plus margin).
- **Torpol S.A.** acquired the credit lines of the incorporated in 2011 Elmont Kostrzyn Wlkp. Sp. z o.o., a subsidiary (Alior Bank S.A. two limits of PLN 1.5 million each and Bank Millennium S.A. the limit of PLN 3.0 million) without extending them, and then concluded new bank overdraft contracts: with Bank Millennium S.A. with the limit of PLN 10.0 million, increased to PLN 13.0 million and repayable on 04.04.2012 (the interest rate was determined based on WIBOR 1M plus margin), with PEKAO S.A. with the limit of PLN 5.0 million and repayable on 30.06.2012, with Alior Bank with the limit of PLN 5.0 million, increased under an annex to PLN 10.0 million and repayable on 06.09.2012, with Bank DnB Nord Polska S.A. with the limit of NOK 10.0 million and repayable on 30.06.2012 and as at the date of preparation of this report the company signed an annex to the contract of a bank overdraft with BZ WBK S.A. (PLN 20.0 million) extending the availability of the limit until 28.02.2013 and increasing the amount of the facility to PLN 25.0 million.
- **PRInż-1 Sp. z o.o.** concluded two new investment loan contracts with Volkswagen Bank Polska S.A. and three contracts with Getin Bank S.A. to purchase vehicles in the total amount of PLN 0.3 million, under the annex of 08.06.2011 the Company extended the repayment of the revolving credit at BOŚ S.A. until 02.06.2012 and increased the amount of the loan from PLN 3.5 million to PLN 9.0 million. Moreover, it extended the repayment date of a bank overdraft granted by BOŚ S.A. and decreased its amount from PLN 2.5 million to PLN 2.2 million. The new repayment date is at 12.07.2012, and the interest rate for loans at BOŚ S.A. is WIBOR 1M plus margin.
- **Fabryka Kotłów Sefako S.A.** concluded an annex to the bank overdraft contract with PEKAO S.A. increasing the limit from PLN 6.0 million to PLN 10.0 million, and extending the repayment period by 31.10.2012 and the annex to bank overdraft contract (the limit of PLN 2.0 million) with Nordea Bank Polska S.A. extending the repayment period until 02.02.2012. The rate of interest of the credit facilities was determined based on WIBOR 1M plus margin. Furthermore, as at the date of preparation of this report the above mentioned credit facility at Nordea Bank Polska S.A. and the revolving working capital facility with the limit of PLN 5.0 million at this bank were extended until 01.02.2013 and 31.01.2014, respectively. **SPEC Sp. z o.o.**, a subsidiary, repaid when due (February 2011) the bank overdraft at PKO BP S.A. (the limit of PLN 0.2 million) and concluded an annex to the contract with Bank Spółdzielczy w Sędziszowie increasing

the amount of the credit facility from PLN 1.25 million to PLN 1.4 million and extending the availability of the limit until 31.07.2012.

- **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** signed an annex to the multipurpose facility contract concluded with Pekao S.A. (PLN 1.3 million) extending the repayment period until 31.07.2012 (the interest rate for the loan is WIBOR 1M plus margin) and an annex to the bank overdraft contract with Bank Millennium S.A. in the amount of PLN 3.4 million extending the repayment period until 27.05.2012. Moreover, in October 2011 the Company concluded with Orzesko-Knurowski Bank Spółdzielczy a new contract of the bank overdraft in the amount of PLN 2.0 million repayable on 19.10.2012.
- **WBP Zabrze Sp. z o.o.** signed an annex to the Contract of overdraft facility (the limit of PLN 2.4 million) extending the validity date until 28.08.2012 (the rate of interest based on WIBOR 6M plus margin).
- **ZUT Sp. z o.o.** signed with Pekao S.A. an annex to the contract for overdraft facility (PLN 1.0 million) increasing the limit to PLN 1.5 million and extending the repayment period by one year i.e. until 31.01.2012. The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report the repayment of the facility was shifted to 31.01.2013 and the facility was decreased to PLN 1.0 million.
- **Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.** concluded with PEKAO S.A. an annex to the bank overdraft contract with the limit of PLN 0.3 million extending the repayment period until 31.12.2011 and increasing the limit to PLN 0.5 million (the interest rate for the loan is WIBOR 1M plus margin). As at the date of preparation of this report, the loan repayment date was shifted until 31.12.2012.
- **StalFa Sp. z o.o.** signed with Alior Bank S.A. an annex to the bank overdraft contract (the limit of PLN 7.0 million) extending the repayment date until 30.03.2012 and a new loan contract with the limit of PLN 2.0 million, which replaced the current limit of PLN 3.0 million, repayable on 28.02.2013. The rate of interest for the both loans is based on WIBOR 1M plus margin. At the same time the company repaid two loans drawn at BNP Paribas Bank Polska S.A. (former Fortis Bank S.A.) in the total amount of PLN 11.0 million, and in their place it concluded two new loan contracts with Kredyt Bank S.A. (the investment loan of PLN 2.3 million repayable on 24.05.2013 and the bank overdraft of PLN 5.7 million repayable on 31.12.2012). The bank overdraft in the amount of PLN 1.0 million at PEKAO S.A. was extended by 31.07.2012.
- **Tchervonograd Metal Structure Plant** concluded annexes increasing the amount of the loans at Bank Ukragazprombank from EUR 0.25 million to EUR 0.26 million and from UAH 0.6 million to UAH 4.3 million and extending the availability of the loans to 05.12.2011 and then until 23.08.2012. Moreover, the Company concluded a new contract with Bank Kredobank with the limit of EUR 0.19 million and repayable on 31.01.2012 extended as at the date of preparation of this report until 31.01.2013 and USD 0.34 million repayable on 08.12.2013 (fixed interest rate).
- **Energomontaż-Północ Gdynia Sp. z o.o.** together with Polimex-Mostostal S.A., Energop Sp. z o.o. concluded an annex the quadrilateral bank overdraft contract with DnB Nord Polska S.A., (the loan is utilised by Energomontaż-Północ Gdynia Sp. z o.o.; the maximum limit is PLN 5.0 million – currently granted sublimit PLN 2.0 million) extending the repayment period until 30.06.2012 (the interest rate is WIBOR 1M plus margin). The Company concluded a new investment loan contract with Bank Millennium S.A. with the limit of EUR 6.0 million and repayable on 31.12.2018 and extended the bank overdraft contract at this Bank (the limit of PLN 6.0 million) until 12.12.2012.
- **Energop Sp. z o.o.** concluded an annex to the loan contract with RBS Bank Polska S.A. under which it utilizes the bank overdraft in the amount of EUR 1.2 million and the investment loan in the amount of EUR 4.0 million. Under this annex the repayment date of the loan was postponed until 31.08.2012. As at the date of preparation of this report, the investment loan repayment date was postponed until 14.03.2014.
- **Coifer Impex SRL** concluded an annex to the bank overdraft contract with Unicredit Tiriac Bank with the limit of EUR 4.5 million extending the repayment period until 28.11.2012.

- **PPU Elektra Sp. z o.o.** concluded with Bank Millennium S.A. two contracts: for a bank overdraft (PLN 1.0 million) repayable on 21.03.2012 and for maturity reverse factoring (PLN 1.0 million) available until 27.03.2012 (the interest rate for both products is WIBOR 1M plus margin). Working capital facilities at PKO BP S.A. with the total limit of PLN 0.67 million were repaid.
- **Turbud Sp. z o.o.** concluded with PEKAO S.A. a bank overdraft contract of PLN 1.0 million repayable on 31.12.2012. As at the date of preparation of this report the limit was decreased to PLN 0.5 million and the repayment was postponed until 31.08.2012. Moreover, the Company concluded a new loan contract with PEKAO BP S.A. in the amount of PLN 0.3 million and the availability from 10.02.2012 to 31.08.2012.

As at the end of 2011, the weighted average margin for loans of Polimex-Mostostal Capital Group computed based on limits attributable to the Group was: for loans in Polish zloty: WIBOR 1M + 1.4601 p.p., WIBOR 3M + 2.1958 p.p., WIBOR ON + 1.9500 p.p., WIBOR 6M + 2.8500 p.p., and for foreign currency loans: EURIBOR 1M + 1.5973 p.p., EURIBOR 3M + 2.5755 p.p., LIBOR 1M + 0.9500 p.p. Whereas the weighted average margin for loans whose beneficiary was Polimex-Mostostal S.A. (not taking into consideration the Debenture Issue Scheme) computed based on the amount of funding granted to the Company was as at the end of 2011: for loans in Polish zloty WIBOR 1M + 1.3858 p.p., WIBOR 3M + 1.6357 p.p., WIBOR ON + 1.9500 p.p., and foreign currency loans EURIBOR 1M + 2.0871 p.p.

## 2.7. Information on granted guarantees and borrowings

In 2011 Polimex-Mostostal S.A. granted new **loans** to Group Companies under contracts listed below:

- The contract of 27.01.2011 granting Polimex-Mostostal Ukraine a loan in the amount of PLN 7.1 million for partial financing of investment process in galvanising plant in Zhytomir. As at 31.12.2011, PLN 6.6 million was paid out under the loan contract. The interest rate is fixed. The loan is repayable on 30.08.2012.
- The contract of 23.02.2011 granting PPU Elektra Sp. z o.o. a loan in the amount of PLN 1.0 million to finance the repayment of two loan contracts and to finance current operations. The rate of interest was determined based on WIBOR 3M plus margin. The repayment of the loan was extended and is on 31.03.2012.
- The contract of 03.03.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 1.7 million for financing current activities and the implementation of investment tasks in the 1<sup>st</sup> half of 2011. The rate of interest was determined based on WIBOR 1M plus margin. The repayment of the loan was extended and falls on 31.12.2012.
- The contract of 24.03.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.4 million to finance the VAT relating to bringing in the contribution to the special purpose vehicle established to execute the Tatarska 9 investment. PLN 1.5 million was paid out under the loan. The rate of interest was determined based on WIBOR 1M plus margin. The loan was repayable on 30.06.2011. The loan was repaid by the Company in 2011.
- The contract of 19.05.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.9 million for financing of current activities of the company in 2011. As at 31.12.2011, PLN 1.3 million was paid out under this loan contract. The rate of interest was determined based on WIBOR 1M plus margin. The loan repayment date was agreed with the repayment of credit facilities contracted by the Company at Nordea Bank Polska: the investment loan and the bank overdraft (the furthest repayment date is on 17.05.2013).
- The contract of 27.05.2011 granting PRInż Sp. z o.o. a loan in the amount of PLN 2.5 million to finance its current operations. As at the date of preparation of this report PLN 1.8 million was paid out under this loan. The rate of interest was determined based on WIBOR 3M plus margin. The loan was repayable on 31.12.2011. As at the date of preparation of this report, the repayment date was postponed until 31.12.2012.
- The contract of 27.05.2011 granting Tchervonograd Metal Structure Plant a loan in the amount of USD 0.9 million to complete the investment process and support the activity in the scope of pressed grates repayable

on 31.12.2011. In December 2011, the company repaid USD 0.6 million. As at the date of preparation of this report the amount of the loan was decreased to the balance to be repaid i.e. USD 0.3 million and the repayment date was shifted to 31.03.2012.

- The contract of 01.07.2011, granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 1.65 million to finance its current operations in the 2<sup>nd</sup> half of 2011 and repayable by 31.12.2011, which was extended under the annex until 31.12.2012. As at 31.12.2011, PLN 0.8 million was paid out under this loan contract. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract of 19.08.2011 granting SC Coifer Impex srl a loan in the amount of EUR 2.0 million to finance its current operations. As at 31.12.2011 the balance of the loan to be repaid was EUR 1.3 million. The rate of interest - EURIBOR 1M plus margin. The loan is repayable on 31.12.2012.

Moreover, in the reporting period the following annexes to the previously concluded contracts were signed:

- to the contract of 6.12.2010 granting ZBI Turbud Sp. z o.o. a loan in amount of PLN 1.5 million for financing of the current activities and preparation works for the new investment at ul.Jachowicza and ul.11 listopada in Plock. The rate of interest was determined based on WIBOR 1M plus margin. The new loan repayment date for the 1<sup>st</sup> tranche in the amount of PLN 0.75 million fell on 30.06.2011 (the tranche was repaid on 15.06.2011), and for the 2<sup>nd</sup> tranche in the amount of PLN 0.75 million it was by 31.12.2011. As at the date of preparation of this report the repayment of the final portion of the debt in the amount of PLN 0.28 million (the principal amount without accrued undue interest) was postponed until 30.04.2012.
- to the contract of 23.03.2010 granting Polimex-Mostostal Development Sp. z o.o. a loan in the amount of PLN 6.0 million for financing of the investment at ul. Pustuleczki in Warsaw. The rate of interest was determined based on WIBOR 3M plus margin. Under the annex the loan repayment date was agreed with the repayment of credit facilities contracted by the Company at Nordea Bank Polska: the investment loan and the bank overdraft (the furthest repayment date is on 17.05.2013).
- to the Contract of 09.11.2009 granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 2.5 million for financing the current activities including among others costs of projects and fees connected with completing of the investments: "Lelka / Roentgena", "Pustuleczki / Rolna / Makolągwy" and "Smulikowskiego" in Warsaw. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the loan repayment date was agreed with the repayment of credit facilities contracted by the Company at Nordea Bank Polska: the investment loan and the bank overdraft (the furthest repayment date is on 17.05.2013).
- to the Contract of 28.09.2007 granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 8.2 million for financing of the purchase of lots situated in Warsaw at Roentgena street, at the corner of Lelka street. The rate of interest was determined based on WIBOR 3M plus margin. Under the annex the loan repayment date was agreed with the repayment of credit facilities contracted by the Company at Nordea Bank Polska: the investment loan and the bank overdraft (the furthest repayment date is on 17.05.2013).
- to the contract of 16.08.2010 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.45 million for financing current activities and the implementation of investment tasks in the 2<sup>nd</sup> half of 2010. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was postponed until 31.12.2012.
- to the contract of 29.01.2010 granting Modul System Serwis Sp. z o.o. a loan in the amount of PLN 1.0 million, which was acquired together with the incorporated company of Naftoremont Sp. z o.o. Under the concluded annex the repayment date was postponed until 31.12.2012. The rate of interest was determined based on WIBOR 1M plus margin.

On 01.06.2011 the decision was made by the shareholders of Grande Meccanica SpA to increase the Company's capital by EUR 1.3 million. Due to the above mentioned fact the loans granted to the Company on 31.03.2011 in the amount of EUR 0.8 million and on 21.12.2010 in the amount of EUR 0.4 million (excluding accrued interest and repaid tranches) and Company liabilities to Polimex-Mostostal S.A. in the total amount of ca. EUR 0.1

million were set off against the liability of Polimex-Mostostal S.A. arising from the above mentioned increase of capital.

At the end of December 2011 the total amount of loans paid out by Polimex-Mostostal S.A. was equal to PLN 51.6 million (excluding accrued undue interest), of which PLN 21.3 million of developer loans (excluding accrued undue interest).

The amount of **guarantees** granted by Polimex-Mostostal S.A. as at 31.12.2011 was PLN 257.2 million, of which for Capital Group companies it was PLN 254.9 million. Coifer Impex SRL was the key beneficiary of guarantees granted, for which at the end of 2011 Polimex-Mostostal S.A. granted guarantees in the amount of PLN 41.3 million (i.e. EUR 9.3 million) for Intensa Sanpaolo Bank Romania in connection with credit contracts and for suppliers i.e. Arcelormittal Distribution Romania srl, SC Konig Frankstahl srl, Sidma Romania, SC ThyssenKrup Materials Romania srl, Salzgitter Mannesmann Stahlhandel Sp. z o.o. and Smart Trans in connection with payment liabilities of the company. Energomontaż-Północ Sp. z o.o. is the second largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for Bank Millennium S.A. for credit and guarantee facilities, which amounted in total to PLN 38.5 million.

Apart from the companies mentioned above, Polimex-Mostostal S.A. delivered guarantees for repayment of loans and guarantee liabilities/bill payables/ payment liabilities drawn by: Torpol Sp. z o.o. (PLN 36.1 million), PRINŻ-1 Sp. z o.o. (PLN 19.6 million), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 20.3 million), Sefako S.A. (PLN 14.1 million), Turbud Sp. z o.o. (PLN 0.8 million), WBP Zabrze Sp. z o.o. (PLN 5.9 million), PXM Projekt-Południe Sp. z o.o. (PLN 3.0 million), Stalfa Sp. z o.o. (PLN 15.5 million), Grande Meccanica SpA (PLN 9.3 million, i.e. EUR 2.1 million), PPU Elektra Sp. z o.o. (PLN 3.5 million), Polimex-Mostostal Development Sp. z o.o. (PLN 10.7 million), Modul System Serwis Sp. z o.o. (PLN 4.6 million), Sinopol Sp. z o.o. (PLN 1.0 million), Energop Sp. z o.o. (PLN 28.1 million), Tchervonograd Metal Structure Plant (PLN 0.2 million) and ZT Sp. z o.o. (PLN 2.6 million).

Among Polimex-Mostostal Group companies, the largest number of guarantees (in amounts before consolidation) was delivered to Sefako S.A. (PLN 3.9 million). These guarantees were related mostly to companies within the Capital Group.

Within the Group loans were granted by Polimex-Development Kraków Sp. z o.o. – the loans for BR Development (the total amount of PLN 0.54 million), by Energomontaż Nieruchomości Sp. z o.o. – the loan for Energop Sp. z o.o. (PLN 3.5 million) and for Energomontaż-Północ Gdynia Sp. z o.o. (PLN 2.49 million).

At the end of 2011, weighted average margins for loans granted by Polimex-Mostostal S.A. and Group Companies to other Group Companies amounted to:

- for loans in Polish zloty: WIBOR 1M + 2.40 p.p.,
- for loans in Polish zloty: WIBOR 3M + 1.87 p.p.,
- for loans in Polish zloty: WIBOR 6M + 0.50 p.p.,
- for loans in foreign currency: interest based a fixed interest rate or on EURIBOR 1M + 3.00 p.p.

Loans granted by Polimex-Mostostal S.A. include the amount of debt of Capital Group companies arising from taken loans and borrowings mentioned in section 2.6.

## **2.8. Information on contract performance bonds and bid bonds**

In 2011, the parent and companies of the Capital Group to large extent utilised contract performance and bid bonds delivered by banks and insurance companies. At the end of 2011, the value of all bonds delivered upon request of Polimex-Mostostal S.A. translated into Polish zloty amounted to PLN 1,259.7 million. At the same time, the value of guarantees delivered by banks and insurance companies upon request of the Group companies amounted to PLN 376.9 million. A significant increase in the liabilities of the parent arising from issued bonds as compared to the end of 2010 (PLN 1,191.7 million) was the result of, among others, concluding new contracts and the necessity to hedge appropriately their performance both during the contract performance and in the

guarantee and warranty period (e.g. construction of A-4 motorway Rzeszów section, reconstruction of DK No.1 and No.86 Gdańsk –Cieszyn within the boundaries of the city of Tychy, the modernization of Ernest Pohl's stadium in Zabrze – phase 1, the construction of the "Central Europe" Shopping Centre in Gliwice, the construction of MCP in the plant in Walbrzych). A large number of tenders in which the Company takes part together with the need of submitting the bid security in the form of bank and insurance guarantees affect significantly the increase in value of the issued guarantees. Among Group companies, the largest number of guarantees and bonds was delivered upon request of: Torpol Sp. z o.o. (PLN 266.5 million), Sefako S.A. (PLN 63.3 million), Energomontaż-Północ Gdynia Sp. z o.o. (PLN 13.4 million) and Grande Meccanica SpA (PLN 11.5 million).

In 2011, **Polimex-Mostostal S.A.** concluded further contracts concerning opening of bank and insurance guarantees:

- in March 2011 with ING Bank Śląski S.A. a contract for credit facility in the amount of PLN 200.0 million, which may be utilised in the form of bank guarantees and in the form of a loan up to PLN 30.0 million, repayable by 30.11.2011 (the contract is automatically extended on the same terms and conditions for further 12 month crediting periods until 30.11.2021 unless it is terminated by any of the parties. This contract replaced the contract for a guarantee facility in the amount of PLN 36.0 million and validity until 31.03.2011. The granted limit covers the guarantees issued upon the request of Polimex-Mostostal S.A. and the ones of the incorporated companies: Naftoremont Sp. z o.o. and Energomontaż-Północ S.A., whose limits expired in November 2009, with BRE Bank S.A. a framework contract for guarantee facility in the amount of PLN 75.0 million valid until 31.08.2011, whose limit was increased as the result of concluding the annex to PLN 95.0 million and its validity was extended until 31.08.2012,
- in May 2011: with Caixabank S.A. Branch in Poland the contract for bank guarantee facility in the amount of PLN 60.0 million for an indefinite time, with RBS Bank (Polska) S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries, the framework contract relating to the regulations of delivering bank guarantees and opening letters of credit with the limit of PLN 200.0 million (sublimits of PLN 10.0 million for each of the above mentioned subsidiaries), for an indefinite time (the contract replaced the current limit of PLN 150.0 million and the limit of the incorporated Energomontaż-Północ S.A. and its subsidiaries in the amount of PLN 50.0 million), as at the date of preparation of this report the annex was concluded decreasing the limit granted from PLN 200.0 million to PLN 150.0 million (the sublimits for subsidiaries remained unchanged),
- in June 2011: with BNP Paribas Bank Polska S.A. the contract for guarantee facility with the limit of PLN 80.0 million and the first current availability period starting on 18.06.2012 (the crediting period to 19.06.2021), with TUiR Warta S.A. the contract to grant insurance contract performance bonds under the guarantee limit of PLN 60.0 million valid until 09.01.2012. As at the date of preparation of this report the validity was shifted to 09.01.2013,
- in July 2011: with BGŻ S.A. the contract for granting guarantees, sureties and opening letters of credit in the amount of PLN 115.0 million valid until 31.05.2012. The contract replaced the prior limit of PLN 75.0 million valid until 15.07.2011, with PEKAO S.A. the contract for the credit facility in the form of a multipurpose multicurrency credit line in the total amount of PLN 420.0 million. The loan was made available in the form of: (a) a working capital facility up to PLN 200.0 million (*of which: PLN 50.0 million is bank overdraft; PLN 150 million a revolving credit facility in a form of tranches to finance contracts that are being executed*), (b) bank guarantees granted by the Bank up to the total amount not exceeding PLN 250.0 million; however, utilisation of PLN 250.0 million depends on decreasing the drawing of the working capital facility by PLN 30.0 million. The credit facility was granted by 31.07.2012. The general contract to issue bank guarantees (the limit of PLN 118.5 million; valid until 31.07.2011.) and the general contract to issue bank guarantees/bid bonds (the limit of PLN 30.0 million valid until 31.07.2011) were debited to the new guarantee limit.
- in December 2011: with Raiffeisen Bank Polska S.A. the contract for debt limit with the limit of PLN 100.0 million with the option to issue orders for bank and trade guarantees until 30.09.2012 and to use it in the

form of factoring services until 28.02.2012. Within the limit the Company may issue bank guarantees up to PLN 100.0 million, trade guarantees up to PLN 60.0 million and use factoring services up to PLN 60.0 million, assuming that the amount of debt arising from the utilization of the limit in the above mentioned forms does not exceed the amount of the limit. This contract replaces the contract for the assignment of debt with the limit of PLN 100.0 million under which bank guarantees were issued, valid until 28.09.2012 (the final repayment date for the product is 27.12.2018).

Moreover, in 2011, the Company concluded the following annexes:

- to the contract with Bank Millennium S.A. for guarantee facility which increased the limit from PLN 143.2 million to PLN 163.2 million (consolidation of Polimex-Mostostal S.A.'s existing limit and that of the incorporated company of Naftobudowa S.A.), which extended the contract validity period by another year i.e. until 30.08.2012,
- to the contract with Bank Millennium S.A. for documentary letters of credit in the amount of PLN 10.0 million, which extended the validity of the contract by another year i.e. until 30.08.2012,
- to the contract for bank guarantee facility in the amount of PLN 100.0 million at Deutsche Bank Polska S.A. extending its validity until 30.03.2012,
- to the contract on setting of the concentration limit in the form of a revolving facility to grant bank guarantees at BOŚ S.A. in the amount of PLN 120.0 million, which extended the limit by another year i.e. until 30.06.2012 and then decreased the limit to PLN 100.0 million (at the same time the balance of the limit in the amount of PLN 20.0 million increased the credit limit at this Bank),
- to the framework contract for bank guarantees at PKO BP S.A. (the limit of PLN 200.0 million) extending the life of the contract until 17.11.2011, and then until 17.11.2012,
- to the contract of multipurpose credit limit in the amount of PLN 30.0 million with PKO BP S.A. extending the limit validity until 12.02.2013 and increasing the limit up to PLN 86.0 million. Prior guarantee limits of the incorporated companies of Naftoremont Sp. z o.o. (the multipurpose limit of PLN 10.0 million valid until 24.06.2011) and Naftobudowa S.A. (the limit for bank guarantees in the amount of PLN 25.0 million valid until 13.05.2011) were included in this contract. Within the increased limit, Polimex-Mostostal S.A. may utilise a bank loan in Polish zloty up to 25% of the limit and issue national trade bank guarantees up to 100% of the limit,
- an annex to the contract for granting a guarantee facility at Bank DnB Nord Polska S.A., (the limit of EUR 11.5 million) extending the life of the contract until 30.06.2012,
- an annex to the contract for a credit limit acquired with the incorporated company of Energomontaż-Północ S.A. concluded with DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract may utilise the guarantee limit up to PLN 27.0 million, and additionally Energomontaż-Północ Gdynia Sp. z o.o. may utilise a bank overdraft up to PLN 5.0 million. Under the annex the final availability date was set at 30.06.2012,
- to the framework contract to grant bank guarantees and open letters of credit at Credit Agricole CIB S.A. Branch in Poland (the limit of PLN 190.0 million), which technically extended the date of limit availability. As at the date of preparation of this report the terms and conditions of the contract were renegotiated, the amount of the limit was decreased to PLN 146.0 million and the availability of the product was extended until 30.11.2012.
- to the contract for guarantee facility at Svenska Handelsbanken AB S.A. Branch in Poland (the limit of PLN 54.5 million) extending product availability until 31.08.2012,
- to the contract with Kredyt Bank S.A. to grant guarantee facility (the limit of PLN 147.4 million) extending the limit availability until 31.10.2012,
- to the contract for multipurpose multicurrency credit facility in the amount of PLN 47.0 million, under which one may issue bank guarantees up to the total amount not exceeding PLN 47.0 million, granted by BPH S.A. that may be utilized until 30.11.2012. Under the provisions of the annex of 29.11.2011 the

above mentioned credit facility replaced the existing credit line with the limit of PLN 42.0 million, which may be utilized in the form of a guarantee facility up to PLN 5.0 million, and the bank overdraft acquired with the incorporated company of Naftobudowa S.A. for the amount of PLN 10.0 million.

- an annex to the general contract with InterRisk TU S.A. Vienna Insurance Group for granting insurance bid bonds increasing the limit from PLN 40.0 million to PLN 45.0 million and extending the validity until 18.07.2012,
- to the trilateral general contract for granting contract performance bonds concluded with TU InterRisk S.A. and Torpol Sp. z o.o. increasing the limit from PLN 40.0 million to PLN 48.5 million and extending its validity until 30.01.2012. As at the date of preparation of this report the contract was not extended.
- to the contract for issuing of contract performance bonds within the revolving limit of PLN 25.0 million with TU Euler Hermes S.A. extending the limit availability period until 30.04.2012,
- to the contract with TU Allianz Polska S.A. for granting contract performance bonds under a revolving limit increasing the limit from PLN 25.0 million to PLN 70.0 million and extending the life of the contract until 31.12.2011, and as at the date of preparation of this report by 31.12.2012,
- to the contract for co-operation in the scope of issuing insurance guarantees within the limit granted at STU Ergo Hestia S.A. increasing the limit from PLN 70.0 million to PLN 90.0 million,

Moreover, as at the date of preparation of this report the annex was concluded with Polbank EFG S.A. to the contract for multifunction credit limit which may be utilised in the form of guarantee facility (PLN 100.0 million) extending the limit availability until 04.01.2013.

The key banks servicing Polimex-Mostostal S.A. in the scope of guarantees are: Bank Millennium S.A. (PLN 118.8 million), Kredyt Bank S.A. (PLN 134.3 million), Pekao S.A. (PLN 202.4 million) and PKO BP S.A. (PLN 98.7 million). Among issuers of insurance guarantees, the largest share was attributed to: TUiR Warta S.A. (PLN 33.7 million), STU Ergo Hestia S.A. (PLN 66.4 million) and TU Allianz Polska (PLN 21.1 million).

Companies of the Group concluded the following Contracts and Annexes complementing currently valid contracts:

- **Fabryka Kotłów Sefako S.A.** concluded an annex to the contracts for guarantee facilities with PKO BP S.A. increasing the limit from EUR 10.0 million to EUR 16.0 million and extending its validity until 20.06.2012, with PEKAO S.A. (the limit of PLN 20.0 million) extending its validity until 31.10.2012, with Nordea Bank Polska S.A. (the limit of EUR 3.0 million) extending the validity of the limit until 02.02.2012 and then as at the date of preparation of this report until 01.02.2013 and with TU Generali S.A. extending the availability of the limit of PLN 2.0 million by 28.10.2012.
- **Moduł System Serwis Sp. z o.o.** concluded an annex to the contract of guarantee facility with ING Bank Śląski S.A. in the amount of PLN 1.0 million extending the period of placing orders until 01.09.2012 and the contract of insurance guarantees with UNIQUA TU S.A. with the limit of PLN 0.35 million and utilization period until 21.07.2012.
- **PRInż-1 Sp. z o.o.** concluded with Bank Ochrony Środowiska S.A. an annex to the contract for revolving facility for the delivery of bank guarantees with a limit of PLN 4.5 million extending the validity period until 15.07.2012.
- In June 2011 **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded an annex with Bank Millennium S.A. to the contract for bank guarantees with the limit of PLN 1.5 million extending the validity of the limit until 27.05.2012.
- **PxM Projekt Południe Sp. z o.o.** concluded with PEKAO S.A. an annex to the contract to open bank guarantee facility with the limit of PLN 1.5 million extending the utilisation period until 31.07.2012 and with Bank Millennium S.A. an annex to the contract of bank guarantees and letters of credit (PLN 1.5 million) extending the validity until 30.08.2012.

- **Torpol Sp. z o.o.** concluded annexes: to the contract of debt limit at Raiffeisen Bank Polska S.A. decreasing the limit to PLN 10.0 million, and then increasing it to PLN 50.0 million and extending its utilisation period until 02.07.2014; to the trilateral contract with InterRisk TU S.A. Vienna Insurance Group and Polimex-Mostostal S.A. increasing the limit from PLN 40.0 million to PLN 48.5 million and extending its availability until 30.01.2012 (as at the date of preparation of this report the contract was not extended); to the contract of bank guarantees at BZ WBK S.A. extending the availability of the limit of PLN 58.0 million until 29.02.2012; and then as at the date of preparation of this report until 28.02.2013; to the contract to temporarily grant contract insurance bonds with PZU S.A. increasing the limit from PLN 57.7 million to PLN 80.0 million and extending the utilisation period until 25.05.2012; to the general contract to grant contract bonds with TUiR Allianz Polska S.A. decreasing the limit granted from PLN 25 million to PLN 23 million and extending its availability until 01.08.2012; to the contract to grant contract bonds under the revolving limit at TU Euler Hermes S.A. in the amount of PLN 25.0 million extending the utilisation period until 31.08.2012 and the annex renewing the contract to grant contract insurance bonds under the guarantee limit of PLN 20.0 million, increased up to PLN 50.0 million at TUiR Warta S.A. and extending its validity until 09.01.2012 (as at the date of preparation of this report the contract was not extended). Moreover, the Company concluded the contract for granting guarantees and opening letters of credit with Bank Millennium S.A. in the amount of PLN 20.0 million, decreased to PLN 18.0 million and validity until 04.04.2012, and a new contract for granting guarantees with BGŻ S.A. in the amount of PLN 50.0 million and validity until 31.05.2012 (the contract replaced the limit of PLN 50.0 million valid until 25.08.2011), a new contract of credit facility with the limit of NOK 40.0 million with DnB Nord Polska to be used for bank guarantees (valid until 29.06.2012), with PEKAO S.A. the contract to grant contract performance bonds in the amount of PLN 70.4 million valid until 05.06.2020, with HDI Asekuracja TU S.A. (the legal successor of HDU Gerling) the contract of guarantee facility in the amount of PLN 15.0 million valid until 22.03.2012. Expiring in 2011 guarantee limits of Elmont Kostrzyń Wlkp. Sp. z o.o., the company incorporated by Torpol S.A., at TUZ S.A. (PLN 2.8 million) and at TU Europa S.A. (PLN 3.0 million) were not extended. However, Torpol Sp. z o.o. concluded with PTU S.A. the contract of the limit in the amount of PLN 5.0 million which may be utilized until 27.11.2012 and an annex to the contract with TU Generali S.A. extending the amount of the limit from PLN 2.0 million to PLN 4.0 million and extending the availability of the limit until 06.11.2012. The two above mentioned limits were arranged so as to service the guarantees issued for contracts of Elmont Kostrzyń Wlkp. Sp. z o.o., the incorporated company.
- In May 2011 **ZUT Sp. z o.o.** concluded with UNIQUA TU S.A. a contract for guarantee limit of PLN 0.5 million and validity until 23.05.2011 (extension of existing co-operation).
- **PPU Elektra Sp. z o.o.** concluded with Bank Millennium S.A. the contract for guarantee limit (PLN 1.0 million) valid until 21.03.2012.
- **Turbud Sp. z o.o.** concluded with UNIQUA TU S.A. a contract for guarantee limit of PLN 1.0 million and validity until 21.04.2012.
- **Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o.** and Polimex-Mostostal S.A. concluded with RBS Bank (Polska) S.A. the framework contract relating to regulations of granting bank guarantees and opening letters of credit with the limit of PLN 200.0 million (sublimits of PLN 10.0 million for each of the above mentioned subsidiaries), for an indefinite time (the contract replaced the limit of former Energomontaż-Północ S.A. and its subsidiaries in the amount of PLN 50.0 million). As at the date of preparation of this report the annex was signed decreasing the limit granted from PLN 200.0 million to PLN 150.0 million (the sublimits for subsidiaries remained unchanged). Moreover, in 2011 the Companies concluded an annex to the credit limit acquired by Polimex-Mostostal S.A. together with Energomontaż-Północ S.A., the incorporated company, with Bank DNB Nord Polska S.A. Under the granted limit the parties to the contract may utilise the guarantee limit of up to PLN 27.0 million. Under the annex the final availability date was set at 30.06.2012.

The main banks and insurance companies servicing the Group companies in the scope of guarantees are: PKO BP S.A. (Sefako S.A.), Pekao S.A. (PxM Projekt Południe Sp. z o.o., ZIT Grupa Kapitalowa Polimex Sp. z o.o., Sefako S.A., Turbud Sp. z o.o., Torpol Sp. z o.o.), BZ WBK S.A. (Torpol Sp. z o.o.), BGŻ S.A. (Torpol Sp. z o.o.), Raiffeisen Bank Polska S.A. (Torpol Sp. z o.o.) and InterRisk TU S.A. Vienna Insurance Group (Torpol Sp. z o.o.), PZU S.A. (Torpol Sp. z o.o.), TUIR WARTA S.A. (Torpol Sp. z o.o.) as well as TU Euler Hermes S.A. (Torpol Sp. z o.o.).

## **2.9. Description of external and internal factors significant for development of the Issuer's Capital Group as well as business development perspectives, including elements of market strategy**

External factors, independent of the Group companies, as well as internal factors, tightly connected with their operations have an impact on the Capital Group's development perspectives until the end of this financial year.

### **External factors**

Economic activities of Polimex-Mostostal Capital Group are conducted mainly in Poland and EU countries as well as in Ukraine. Changes of the macroeconomic situation in these regions have an impact on the development of the Capital Group. GDP growth rate, relationships between exchange rates, changes of interest rates, inflation rate and the situation on the labour market are the most important. The above mentioned rates affect the size of the markets where the Capital Group operates as the economic situation in the European Union determines the value of expenditures on the implementation of investment programmes in the industry, whereas the state of domestic finances influences the scope and pace of implementation of central and local government programmes as far as expenditure on the development of the infrastructure is concerned.

In trade relations, macroeconomic situation has an effect on the terms and conditions of concluding contracts, whereas the deterioration of the position of trade partners may lead to payment gridlocks.

The situation on the labour market as well as the fluctuation of supply prices should be included in the list of significant factors that affect the prospects of the development of the Issuer's Capital Group. The increase of labour costs and prices of steel, zinc alloys and construction materials is not always fully compensated with an adequate growth of prices paid for the services offered, which may have a negative effect on the economic results of performed activities. Lack of qualified employees is becoming a more and more serious problem, which forces the Group companies to cover the costs of trainings.

The Group's development prospects depend also on the degree of intensification of activities of domestic and foreign competitors. Growth of competition induces decrease of margins. In recent years, competition of the entities outside the EU has increased significantly on the market for construction services.

Additionally, changes in the Polish law resulting from the implementation of regulations that are in force in the European Union, in particular in the scope of construction and environment law and within labour law, also affect the costs of activity of Group companies.

### **Internal factors**

Factors such as global financial crisis and excessive debt of a significant number of eurozone states, which accompanies it, have a negative effect on the situation on the markets where the Capital Group operates. A decrease in orders and the comeback of an unhealthy competition between companies may be observed. As a result the profitability of performed works goes down and the risk connected with proper performance of works by subcontractors goes up.

The Capital Group has been implementing the multiannual program which is aimed at decreasing the negative impact of the economic slowdown on the generated economic results.

The influence of the crisis on the value of investment market in individual sectors is not even. The Capital Group, which is conducting activity in several sectors and in different countries, is successful in acquiring orders which is confirmed by the record-high backlog of orders. For more detailed information see section 1.7 and 2.1 of this report.

Unstable market situation makes clients postpone the implementation of investment project, which were planned earlier. Such a situation forces the Capital Group to temporarily shift free resources to other segments. To facilitate this kind of activities and to reduce incurred costs the process of incorporation of the seven subsidiaries by Polimex-Mostostal S.A. was carried out. Divisions, which continue current activities within the Issuer's organizational structures, were established based on the acquired companies.

Consolidation processes were also conducted by Torpol Sp. z o.o., which in 2011 acquired the company of Elmont Kostrzyń Wlkp. dealing with power engineering and communication works, construction of overhead tram and rail lines as well as with assembly of railway automation machinery.

The Capital Group conducts both construction and assembly activities and production ones. Manufactured products are to a large extent intended for the needs of investment tasks performed. From 2008 to 2010 the largest in the history of the Capital Group investment programme was implemented, which included the construction of new processing lines in Siedlce, enabling a significant increase of production capacity of the Issuer in the scope of manufacturing steel structures and products and rendering galvanization services. Own deliveries of products crucial for the implementation of investment decrease the risk connected with untimely and improper performance of works. In the same period a production hall was constructed in Sędziszew, enabling Fabryka Kotłów Sefako S.A. to significantly increase the production of power boilers. In 2011 Energomontaż-Północ Gdynia Sp. z o.o. commenced the construction of production facilities in the area of Gdynia Port enabling the production of large-size steel structures and various types of installations for mining industry. The completion of the investment is planned this year.

In 2011 the programme of restructuring the Issuer's organisational structure and management system was started. The main aim of the reorganisation is to increase the value of Polimex-Mostostal Capital Group by means of improving the efficiency of operations, increasing market strength and decreasing costs. It was decided that the back office operations would be reorganized and then five operating segments would be formed: production, power engineering, maintenance, infrastructure and general construction. The Issuer's subsidiaries will actively co-operate, in their scope of competence, with individual segments.

The process of reorganisation of the Issuer's back office operations was completed. Centralisation programmes and the programmes for managing accounting and finance, human resources and administration processes were implemented. There has been an increase in the efficiency of work and the management in such areas as estate, fleet and company phones administration was facilitated. As a result, starting from 3rd quarter 2011 employment costs and administration costs decreased significantly. This year additional savings will be made by gradually extended purchasing platform that covers the entirety of material purchases and services rendered for the needs of Polimex-Mostostal S.A.

In 2012 works were commenced on the formation of the five operating segments. The aim is to facilitate decision processes, liquidate internal competition and optimize the use of human resources and equipment. As a result, the divisions operating within the structure of the Issuer, which up to now have enjoyed a large autonomy, will be managed centrally on segment basis. Implementation of the new organisation will make it possible to reveal the effects of synergies still in the 2<sup>nd</sup> half of 2012, whereas complete effects will be seen starting from the next year. As far as power engineering segment is concerned, concentration of resources enabling the performance of the largest power engineering projects (at the moment the contract to construct two power blocks at Opole Power Plant) is of key importance.

At the same time as the reorganisation described above, efforts were made to reduce the debt of Capital Group. Among other things, the disposal of certain real property and commenced developer's investments is planned. The target of the Board is to reach at the end of the year the ratio of "net debt/EBITDA" ranging from 3 to 3.5.

The company and the Group are not only extending their production potential, but are also continuing activities aimed at increasing the quality of provided products and services. An Integrated Management System is used in the Company whose key element is Quality Control System. Applied procedures guarantee constant improvement of the quality of provided services to the extent that ensures that customers' growing requirements are met. Additionally, the Code of Ethics adopted by Polimex-Mostostal specifies clearly the rules of open

communication with customers and of conducting customer satisfaction surveys. Building its competitive advantage, the Issuer and its subsidiaries count on high quality, which apart from price and meeting deadlines is a key factor to ensure the satisfaction of business partners.

Implemented investment programmes and the ones under way, completed incorporation of subsidiaries, conducted reorganization of back office operations and completed restructuring of operating segments will enable, as is the intention of the Board, reaching the following objectives:

- in increase of competitiveness mainly in the scope of the execution of large investment tasks for the benefit of industry as the Investment General Contractor (lower pressure on margins),
- a decrease of a negative effect of the business cycle by enabling a free flow of human resource and equipment between the Issuer's organisational units (improvement of economic effectiveness of conducted activity),
- reduction of costs incurred on own operations (as a result of restructuring of the Issuer's back office services and optimization of functioning of Issuer's operating segments),
- increase of share in Group's revenue of contracts with higher margins than the current average in the Group (power engineering contracts at the Issuer's and the production of Sefako and Energomontaż-Pólnoc Gdynia).

Realization of tasks specified in this manner will allow to strengthen competitive advantage in main markets where the Capital Group operates, to decrease costs of conducted operating activity and to set free the effects of synergy.

#### **2.10. Clarification of differences among financial performance given in annual report and previous forecasts of financial performance for a given year**

The forecasts regarding financial performance of Polimex-Mostostal S.A. or Polimex-Mostostal Group in 2011 were not published.

#### **2.11. Basis of preparation of annual financial statements**

Basis for preparation of annual financial statements are given in notes and explanations to the financial statements.

#### **2.12. Information on dividend paid (or proposed)**

The Management Board of the Company intends to request the dividend for 2011 not to be paid.

### **3. Risk management in the Issuer's Capital Group**

Dynamic development combined with a wide scope of economic activities, is the source of different risks and threats that may have potentially negative impact upon financial performance of Polimex-Mostostal Capital Group. Companies of the Capital Group continuously improve risk management methods, analyse external and internal factors that may have impact upon assumed objectives, improve procedures, and arrange training for improvement of qualifications of management and employees.

Risk Management Procedure currently applied by Polimex-Mostostal S.A. is based on international standards, but maintains and uses previous organisational and legal arrangements related to risk management adopted by the Group. Subsidiaries have also verified procedures binding risk management procedures, and now, work over alignment of risk management methods to international standards, applying in this scope the experience of the parent company. Naftobudowa S.A. has in its organisational structure Risk Management Department, which main task is the implementation of a unified procedure. In the opinion of the Management of the parent, the system regarding internal regulations, official responsibility and decision taking by management boards of the Group companies, facilitate risk identification and assessment, as well as taking actions against identified risk,

mitigating negative impact of events upon operations and value of the Group companies. Actions taken by the parent company, including analysis and training as well as decisions of the Management of the parent in the scope of implementation of uniform risk management procedure are compliant with recommendations and spirit of "Best Practices of WSE Listed Companies", and ensure that the parent and companies of the Capital Group will achieve their objectives.

### 3.1. Description of significant risk factors and threats

**The parent** of the Capital Group takes system actions aimed at mitigation of probability of negative events that may have negative impact upon financial performance of the Capital Group, and limitation of costs – if such events occur. Depending on nature of particular risk and its value, these are managed centrally, or in internal organisation entity at place of occurrence. In parallel, uniform procedures of identification, assessment and manner of conduct regarding particular risk categories, facilitating control and assessment of impact of undesired events upon economic activities of the parent, function in key areas of activities.

**Strategic risk** is managed centrally or directly by the Management Board of the parent (e.g. risk of development plans non-performed), or by separated organisational unit (e.g. risk of inefficient acquisitions).

**Financial risk** (described under item 3.2) is managed centrally by the Finance Department of the parent. Definition of threats and methods for limiting the level of strategic and financial risk on Group companies' basis is one of issues discussed on regularly held conferences of presidents of companies and management of Polimex-Mostostal S.A.

**Operational risks** (related mainly to assessment and fulfilment of service contracts and production) are managed at the level of particular plants or branches under criteria defined and monitored centrally, and in manner adequate to specificity of conducted economic activities. Co-operation of the Capital Group companies, both at the stage of bid and performance, has impact upon lowering the level of operational risk. Other types of risk are related to threat to the continuation of activity of the parent in particular segments of operations. They may arise from necessity of applying provisions of the law (e.g. health and safety, environmental protection), excessive employee's fluctuation, or be related to loss of material resources (the issue of third party liability and property insurance is discussed in greater detail in section 3.3). These risks are managed centrally, but belong to the managers of organisation units, where a given risk is directly identified. Preparing analysis of the current economic activities of the parent, one should point to lack of events significantly threatening the continuation of statutory activity.

These are the basic tools of risk management in the parent:

- Risk Management Procedure,
- Integrated Management System Procedures,
- Price Committee Operations,
- System of coordination meetings dealing with control of performance of construction projects,
- Uniform procedures for assessment of canvassing acquisitions by Business Combination and Acquisition Department,
- Strategy and policy of currency risk management.

Systematic mitigation of risk and threats related to economic activities is very important for the parent and other companies of Polimex-Mostostal Capital Group. The most important risk areas and potential threats that are concurrently monitored are:

- impact of macroeconomic environment upon development of the parent company and the Group,
- acquisition effectiveness,
- valuation of construction and assembly services,
- creation of order portfolio and performance of long standing investment contracts,

- amount of off-statement of financial position liabilities arising from hedges on construction contract performance,
- changes of the demand for specialist services of anticorrosive protection, including galvanizing and painting of steel structures,
- changes in commodity markets, mostly of steel and zinc prices,
- situation on skilled labour market.

The manner of management related to financial risk and negative consequences of the loss of material resources was discussed in sub-sections below (3.2 and 3.3).

Due to the fact that majority of the Capital Group revenue is generated on domestic market, development and financial performance of the Group **depend on macroeconomic position of Poland**, in particular volatility of Gross Domestic Product, the investment level, inflation rate, budget deficit and unemployment. In opinion of the Management of the parent, amendments made to legal provisions and tax law do not pose a threat to the further development of the Capital Group.

In turn, **political factors**, blocking pace of development of industries where the Capital Group operates by both, suspension of privatisation and lack of complete fulfilment of investment assumptions specified in governmental programmes (e.g. development of infrastructure) should be considered as risks that **may slow down development of the Capital Group**. Additionally, significant impediments are lengthy tender procedures as well as resignation from the implementation of investments often after completing two-stage tender procedures, which may last for about two years, due to lack of funding caused by, among other things, underestimating the investor's budget or due to the crisis on the financial market. A risk factor is also the reduction in procurement by public institutions due to the increase in budget deficit, which hinders the implementation of infrastructure undertakings. In opinion of the Management Board of the parent company, other market participants suffer from impact of the above factors in a similar way, so the Group is not in position worse than its competitors. Multibranch operations allow to allocate resources from crisis-stricken sectors to the ones that are still developing.

The parent company limits canvassing actions due to general crisis, but continuously analyse the market in terms of potential acquisitions of complementary companies. **Inefficient acquisition risk** in this area is mitigated by market and profitability analysis prepared by internal specialists and expertises of specialised advisory companies. In 2011 the parent company conducted the process of unification of procedures, among other things procedures relating to risk management in organisational units formed as a result of the merger with the seven subsidiaries operating in the industries of power engineering, petrochemistry and environment protection.

The principal operations of the Capital Group focus on rendering of services. **The risk of inadequate valuation of construction and erection works** is mitigated by the Price Committee, advisory authority of the parent's Management Board dealing with control over observance of rules for preparation of tenders applied by Polimex-Mostostal S.A. for contracts of medium and large value. Other companies of the Capital Group implement and apply assessment procedures adopted by the Price Committee and obligating the parent.

**The risk of ineffective construction contract performance** is managed by continued contract monitoring, and regular coordination meetings held for contract performance, identification of potential threats and development of remedy actions.

Contract performance bond risk. Concluding a contract, companies of the Capital Group often acting as a key contractor, are obliged to deliver performance bonds, on average in amount of about 10% of contract value. First, the Group companies take this risk, but in the course of outsourcing of the works to sub-contractors, they partially transfer this risk to sub-contractors, obligating them to deliver bonds covering the scope of their works. If sub-contractors are not able to deliver such security in form of bank guarantees or insurance guarantees, settlement is made by deduction of guarantee deposit. In this way, the Group companies transfers a portion of the performance bond to sub-contractors on pro rata basis.

**Raw materials price risk.** Economic effectiveness of production of the Capital Group depends to large extent on fluctuations in prices of raw materials, mainly steel and zinc composite. Employment of high class specialists on market analysis is the basic factor mitigating this type of risk. Moreover, the parent has implemented procedure for central acquisitions (scale economy, feasibility of negotiating lower purchase price). As far as zinc alloys supply is concerned, the parent is analysing efficacy of utilisation of different types of forward instruments available on financial market.

**Risk of change of demand for specialist services** of corrosion protection – galvanizing and painting of steel structures in the parent company. In the period of worsening of economic situation that was observed on the European market in 2009-2011, demand for high-quality, relatively expensive galvanizing services shifted towards cheaper methods of anticorrosive protection, including painting of steel structures. To minimise the effect of the shift of demand on their revenue, the Group companies enrich their offer, conduct marketing activities promoting the high quality of provided services and adjust service prices to market prices.

**Qualified labour acquisition risk.** Polish labour market position significantly determines operations of the home market companies operating in construction and assembly industries. The global financial crisis caused the suspension of numerous investments or shift of commencement dates of new investments, which increase the supply of qualified staff and construction companies capable of prompt and proper performance of construction and erection works in form of sub-contracting. The Group Companies analyse the situation on the labour market and manage effectively the human resources it owns. To retain valuable personnel and to constantly increase its qualifications, incentive programmes are implemented.

### **3.2. Information on financial instruments in the scope of: risk of changes of price, credit risk, significant disturbances in cash flows and loss of liquidity, as well as financial risk management objectives and methods assumed by the entity**

Financial performance of Polimex-Mostostal Group may fluctuate due to change in market factors, in particular quotations of resources prices, foreign currency exchange rates and interest rates. The Group managing its risk, mitigates fluctuation of future cash flows and potential economic losses arising from events having negative impact upon the financial performance.

**Credit risk** related to trade receivables is mitigated by diversification of customers and individual approach to each customer in terms of assessment of its credibility (both legal and economic). Additionally, credit risk is mitigated by:

- for foreign customers:
  - trade receivables insurance,
  - obtaining hedging of receivables in form of letters of credit and bank guarantees, but also insurance bonds,
- for domestic customers:
  - obtaining hedging of receivables in form of bank guarantees and insurance bonds,
  - hedging of receivables in form of registered pledge or mortgage, bills of exchange.

Credit risk is also mitigated by conclusion of transactions with public sector units. A considerable share in revenues of the Capital Group relates to proceeds from contracts concluded with the State Treasury companies, and local government units, giving insignificant risk of impairment. All companies of the Group verify position and financial credibility of trade partners, and partners of the Group willing to utilise commercial bank loan are verified under additional procedure regarding payment habits (analysis of payment capacity index, own experience or other companies of the Group).

**Interest rate risk.** The Group has cash in bank accounts and liabilities arising from bank loans and debentures issued. They are based on the floating interest rate. The companies monitor the situation on the financial market, analyse trends and prognoses in a scope of reference market rates in order to decide, in proper moment, to conclude contracts preventing them from the increase of debt interest costs which may be unbeneficial to the

Group companies. On 12 March 2010 Energop Sp. z o.o., the subsidiary, entered into interest rate swap transaction in the form of an amortised swap. The interest rate risk relating to the investment loan in EUR drawn by the Company is the subject of this hedging transaction. The output nominal value of the transaction was specified at EUR 4 million – the hedged amount of loan is reduced (amortised) on quarterly basis in the period from 30 September 2010 (transaction initial date) to 16 December 2013 (transaction final date). Quarterly, in the dates given in the transaction terms and conditions, the company makes an interest payment to the other party based on the fixed interest rate of 2.2% p.a. in exchange for interest payments based on the floating interest rate equal to EUR-LIBOR 3M.

**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., Sefako S.A., StalFa Sp. z o.o. and Energomontaż-Północ Gdynia Sp. z o.o. To minimise the negative impact of foreign currency risk on the effects of their operations, these companies actively use not only natural hedging methods but also foreign exchange derivative instruments available on the market.

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

- companies which have document risk management strategy and implemented hedge accounting policies; at the statement of financial position date this group includes Polimex-Mostostal S.A., Torpol Sp. z o.o. and FK Sefako S.A;
- 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.

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 currency contracts
- PUT/CALL currency options (acquired options),
- option structures built with PUT and CALL options – in particular symmetrical foreign currency corridors constructed 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. This issue was presented in detail in the consolidated financial statements for the year 2011.

### 3.3. Insurance contracts

In 2011 Polimex-Mostostal Group Companies used to a large extent insurance products available on the market, both property insurance (including in the first place liability insurance, business liability insurance, professional indemnity insurance [designer, architect and construction engineer insurance], D&O insurance policy and property against random events and against theft and burglary insurance, electronic equipment insurance, insurance of property in transport) as well as construction/erection insurance policies arranged under general

agreements and individual policies arranged for contracts being performed. All companies used motor insurance in the scope of third-party liability insurance, comprehensive motor insurance, theft insurance and accident insurance both under general (fleet) agreements as well as based on individual policies.

For the parent company, due to the fact that all existing insurance contracts (except for the general agreement of fleet insurance) had expired, new insurance contracts were negotiated and signed which resulted in issuing new policies for another period of one year. In 2011 the process of consolidation of insurance policies of the incorporated companies with the policies existing in Polimex-Mostostal S.A. was completed. All policies issued for the benefit of the incorporated companies expired and were not further extended. Overpaid premiums were reimbursed to the account of Polimex-Mostostal S.A. The assets of the incorporated companies were included in the assets of Polimex-Mostostal S.A and were provided insurance cover under the existing property insurance policy. Also all employees delegated to work outside the borders of Poland were covered with the Company's existing accident insurance.

Currently the following insurance policies are valid at the parent company:

- business operations insurance and property utilisation insurance in basic scope and with the guarantee sum of PLN 10 million (the underlying policy the Consortium of Generali/Allianz/HDU Asekuracja) as well as "oversized" policy with the liability limit in the amount of PLN 90 million per each event (Chartis Europe S.A. Branch in Poland). In February 2012 as a result of more and more common requests from Clients regarding the presentation in submitted bids of the environment liability policy, an annex was issued to the policy extending the insurance cover with the clause of "Environmental damage". Additionally, in May 2011 a third party liability insurance policy was issued by Chartis Insurance UK Limited based on English law valid for 12 months for contracts executed in the territory of Great Britain with the sum insured of GBP 5,000,000,
- liability insurance for appointed agents and members of the Board of Directors (Chartis Europe S.A. Branch in Poland), with the sum insured of PLN 20,000,000,
- construction/erection all risk insurance policy (CAR/EAR policy). The policy automatically covers with the insurance contracts which are to be implemented within 48 months and are worth up to PLN 300,000,000. (consortium of TUiR Warta S.A./STU Ergo Hestia S.A./AXA TUiR S.A.). The policy was issued for one year period and is automatically extended for another 12 month period assuming that the claims ratio calculated in percentage as the quotient of the amount of damages paid and reserved to the total amount of gross written premium at the end of 2012 does not exceed 60%. For contracts with the execution period exceeding 48 months or worth more than PLN 300,000,000 individual insurance policies were arranged (still active are individual policies issued for performed contracts "The construction of Szarów-Brzesko A4 motorway" worth PLN 778.9 million for the period from 26.01.2010 to 25.01.2012, for "The construction of Stryków-Tuszyn A1 motorway" for the sum of PLN 1,332.5 million from 22.12.2010 to 21.08.2013 and for "The construction of S-69 Bielsko Biała – Żywiec – Zwardoń express road" for the sum of PLN 866.9 million from 19.08.2010 to 17.12.2012). The policy is valid until 01.01.2012,
- property insurance policy, property against random events, property against burglary, including cash in hand and transport, electronic equipment insurance against all types of risks, profit loss insurance with the sum insured of PLN 300,000,000 and liability limit of PLN 60,000,000 per event, insurance of machines against all risks, property insurance in national transport (property insurance policy) – with the consortium of TUiR WARTA S.A./STU Ergo Hestia SA.,
- policy for property insurance in international transport (Cargo) with Chartis Europe S.A.
- policy for compulsory insurance of employees delegated or directed to work outside the borders of the Republic of Poland under the policy for "Collective accident insurance on foreign business trips" issued by Chartis Europe S.A. Branch in Poland,
- insurance policy for workers employed in national construction sites under the policy "Collective accident insurance" with Chartis Europe S.A. Branch in Poland,

- professional indemnity insurance (liability arising from pursuing the profession of designer, architect or construction engineer) with the Consortium of Generali TU S.A./HDI Asekuracja TU S.A./ TUiR Allianz Polska SA. With the liability limit of PLN 10,000,000 (underlying policy) and an oversize Policy with the liability limit of PLN 10,000,000 (Consortium of TUiR Warta SA/STU Ergo Hestia SA). Both policies are valid until 01.01.2012,
- policy for compulsory liability insurance for entities authorized to provide bookkeeping services with PZU S.A.
- general motor insurance (fleet insurance) concluded with TUiR Warta S.A. valid 21.04.2010 to 20.04.2012.

In the analysed period, companies of the Capital Group utilised the same type of insurance. All Polimex-Mostostal Capital Group companies (Sefako S.A., Torpol Sp. z o.o., Polimex-Development Kraków Sp. z o.o., Polimex-Mostostal Development Sp. z o.o., ZUT Sp. z o.o., ZT Sp. z o.o., Stalfa Sp. z o.o., Modul System Servis Sp. z o.o., Sinopol Trade Center Sp. z o.o., Turbud Sp. z o.o., Polimex-Projekt Południe Sp. z o.o., PPU Elektra Sp. z o.o., PRInż-1 Sp. z o.o., Centrum Projektowe Polimex-Mostostal Sp. z o.o., SPEC Sp. z o.o., Energop Sp. z o.o., Energomontaż-Północ Gdynia Sp. z o.o., PxM Projekt Południe Sp. z o.o., S.C. Coifer Impex srl, Grande Meccanica SpA) purchased business liability insurance and the insurance policies were issued by such insurance companies as TUiR Warta SA, STU Ergo Hestia SA, Generali TU S.A. and for foreign companies by AXA/Generali and Fondriaria SAI. The sum insured ranged from PLN 0.2 million (Polimex Development Kraków Sp. z o.o.) to PLN 20.0 million (Sefako S.A.). Apart from the parent company business liability insurance in the form of an oversize policy was purchased by Energomontaż Północ Gdynia (at Chartis Europe S.A.). Professional indemnity insurance (of the designer, architect and construction engineer) was purchased by WBP Sp. z o.o., Polimex-Projekt Południe Sp. z o.o. and Torpol Sp. z o.o. (at STU Ergo Hestia S.A. and PZU S.A.). D&O insurance policy (liability insurance of the Management Board and Directors of the Company) is used, apart from Polimex-Mostostal S.A., at Sefako S.A., Torpol Sp. z o.o., Stalfa Sp. z o.o., Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o., Coifer Impex SRL and Grande Meccanica SpA (Chartis Europe S.A., AIG Europe S.A., TUiR Warta SA, LLOYDS, AXA). In the scope of insurance of structures and buildings, machines and machinery, equipment, property of third party, property against fire and other random events, property against theft and robbery, computer equipment, cargo in domestic transport the Group Companies have contracts signed with TU Compensa S.A., STU Ergo Hestia S.A., AXA SpA, Generali TU S.A., UNIQA TU S.A., PZM TU S.A., PTU S.A. The Companies also utilize motor insurance policies (general contracts and individual policies) at TUiR Warta SA, PZU SA, STU Ergo Hestia SA, Generali TU SA, UNIQA TU S.A., Compensa TU SA, PZU S.A. and ASIROM, BCR Asigurari, Generali and AXA SpA Ins. Co. (for Coifer Impex SRL and Grande Meccanica SpA). Due to the expiry in 2011 of general motor insurance contracts of Energomontaż Północ Technika Spawalnicza i Laboratorium Sp. z o.o. and Energop Sp. z o.o. the fleet of these companies was included with the consent of the parent company into the general contract of fleet insurance of Polimex-Mostostal S.A. and on the terms and conditions of this contract (but on the expense of the above mentioned companies) it is insured at TUiR Warta S.A. Certain companies (Sefako S.A., Torpol Sp. z o.o., Coifer Impex SRL, Energomontaż-Północ Gdynia Sp. z o.o., Polimex-Development Kraków Sp. z o.o. Energop Sp. z o.o.) also purchased construction/erection all risk insurance (CAR, EAR) at TUiR Warta SA, STU Ergo Hestia S.A., PZU SA, Generali (for Coifer Impex SRL). Due to the nature of conducted activities certain companies have purchased additional insurance policies (insurance of goods in international railway transport – Sefako S.A. and professional liability insurance of a carrier in national and international transport as well as professional liability insurance of a forwarding agent – Zakład Transportu Polimex Sp. z o.o. In both cases Generali TU S.A. is the insurer).

Companies delegating their employees to work at construction sites at home and/or abroad have also purchased accident insurance (Energop Sp. z o.o., Energomontaż Północ Gdynia Sp. z o.o.).

All the above mentioned contracts are the extension of contracts already existing in these companies before or new insurance contracts were signed. The policies, except for CAR/EAR insurance arranged individually for

contracts being performed, have validity for one year. Depending on their expiry dates they will be renegotiated or extended for another period of one year.

### **3.4. Description of basic features of internal audit and risk management system applied by the Issuer's business with regards to preparation of financial statements and consolidated financial statements**

Internal audit and risk management system applied by Polimex-Mostostal Capital Group constitutes management policy component and operate according to internal rules and regulations. Internal audit system comprises two, principal elements: functional control performed by management of particular organisation units as well as other employees within the scope of their duties, and institutional control performed by internal control units, aimed at examination of practical observance of binding procedures. The basic objective of internal functional control is to assure the correctness, fairness and timely execution of performed tasks. In practice, functional control is performed by each employee within the limits of defined procedures. Identification of initial risk present in a given organisation unit as well as taking measures aimed at keeping them at agreed level is made within functional control. Objective of institutional control is to examine correctness, legality and reliability of actions performed by particular organisation units of Polimex-Mostostal, conformity assessment of measures with internal procedures, and efficacy of functional control system.

With regards to preparation of financial statements, internal audit and risk management system is based on embedded reporting control mechanisms, internal regulations facilitating separation of duties, authorities and relations in scope of preparation of particular parts of statements, continuous assessment of conformity with accounting books and other documents being the basis of financial statements, as well as obligating provisions in the scope of accounting policies and preparation of financial statements.

To ensure the correctness and fairness of the books of account of Polimex-Mostostal S.A. and Group companies and to generate high quality financial data based on them, the scope was determined and the policies of financial reporting were adopted based on International Financial Reporting Standards and other regulations, as well as the series of internal procedures was implemented in the system of internal control. The Accounting Policy adopted by Polimex-Mostostal SA. is binding for the Group companies in the scope of presentation of information packages for the purpose of preparation of consolidated financial statements. The Financial Director and the Board of Management of Polimex-Mostostal S.A. are responsible for the correctness of the adopted and applied accounting policies.

The Chief Accountant and the Department of Reporting and Companies Service are responsible for the organisation of work relating to the preparation of financial statements. The entire process of preparation and publication of financial statements is conducted based on the formalised schedule of work drafted in agreement between the Finance Director and the Chief Accountant. The financial statements verified by the Finance Director are approved by the Management Board. The process of financial statement preparation includes statement verification by an independent auditor selected by the Supervisory Board in offering action out of the group of reputable audit companies, which guarantee high quality services and the required independence. The body supervising the financial reporting process and co-operating with an independent auditor is the Audit Committee appointed based on the competence of the Supervisory Board. The Audit Committee monitors in particular the process of financial reporting as far as the adopted Accounting Policies and legal requirements are

concerned and the efficiency of the systems of internal control and of risk management. In accordance with § 38.1 of the Company's Articles of Association, the Supervisory Board makes an annual assessment of the financial statements of the Company in the scope of their compliance with the books and documents as well as with the facts, and it informs the shareholders of the results of this assessment in its annual statement.

A significant element of the internal control system with regard to the process of preparation of financial statements is the control exercised by the units of internal audit and of internal control. At Polimex-Mostostal S.A. there is internal auditing operating based on „Regulations of the internal auditing" approved by the Management Board of the Company and prepared in accordance with International Standards for the Professional Practice of Internal Auditing. The Internal Audit Department is fully independent in its auditing procedures and covers by them all processes in the company including the areas affecting directly and indirectly the correctness of financial statements. While performing their tasks, in 2011 internal auditors identified and analysed the risk of examined processes and assessed the relevance and efficiency of control mechanisms. Polimex-Mostostal S.A. also takes action to cover the Group companies with the internal auditing.

The Group Companies adopt their own internal procedures in the scope of control systems and the assessment of risks arising from their operations. Internal control in the entities of the Group operates based on the regulations approved by the Management Boards of the companies. In the majority of companies the internal control is of institutional nature i.e. it is performed by a separate organisational unit. The companies regulate the internal control systems on their own depending on the scope of their operations and the needs of the Board.

Summarising, internal control and risk management system covers the whole operations of Polimex-Mostostal Group and are aimed at support of decision making processes, in particular contributing towards: efficiency and efficacy of actions, reliability of accounting reporting and consistency of action with commonly obligating provisions of the law and internal regulations.

## **4. Organisation of the Issuer's Capital Group**

### **4.1. Structure of the Capital Group**

The chart below presents the organisational structure of Issuer's Capital Group, including subsidiaries and associates as at the date of publication of this report. The chart does not include companies in liquidation or not conducting business activity.

### Polimex-Mostostal S.A.

<b>Domestic companies</b>		Share
▶ Torpol Sp. z o.o. (obecnie Torpol S.A.)		100.00%
▶ Fabryka Kotłów Sefako S.A.		89.20%
▶ StalFa Sp. z o.o.		100.00%
▶ Energop Sp. z o.o. *)		99.99%
▶ Energomontaż-Północ Gdynia Sp. z o.o.		99.99%
▶ PRInż-1 Sp. z o.o.		89.62%
▶ Zakład Instalacyjno-Budowlany Turbud Sp. z o.o.		100.00%
▶ Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.		100.00%
▶ Polimex-Mostostal ZUT Sp. z o.o.		100.00%
▶ Przeds. Produkcyjno-Usługowe Elektra Sp. z o.o.		100.00%
▶ Energomontaż-Północ - Technika Spawalnicza i Lab. Sp. z o.o. *)		99.96%
▶ Modul System Serwis Sp. z o.o.		100.00%
▶ Centrum Projektowe Polimex-Mostostal Sp. z o.o.		99.57%
▶ PxM Projekt Południe Sp. z o.o.		100.00%
▶ WBP Zabrze Sp. z o.o.		99.97%
▶ Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.		75.00%
▶ Centralne Biuro Konstrukcji Kotłów S.A.		98.50%
▶ Polimex-Development Kraków Sp. z o.o.		100.00%
▶ Polimex-Hotele Sp. z o.o.		100.00%
▶ Polimex-Mostostal Development Sp. z o.o.		100.00%
▶ Zarząd Majątkiem Górczewska Sp. z o.o.		100.00%
▶ Energomontaż-Nieruchomości Sp. z o.o.		100.00%
▶ Polimex-Cekop Development Sp. z o.o.		100.00%
▶ Sinopol Trade Center Sp. z o.o.		50.00%
▶ Polimex-Sices Polska Sp. z o.o.		50.00%
▶ Energomontaż-Północ Belchatów Sp. z o.o.		32.82%
▶ Laboratorium Ochrony Środowiska Pracy Sp. z o.o.		27.50%
*) Polimex-Mostostal holds 100% of capital directly and indirectly through a subsidiary.		
<b>Foreign companies</b>		
▶ Coifer Impex SRL (Romania)		100.00%
▶ Czerwonogradzki ZKM (Ukraine)		99.61%
▶ Depolma GmbH (Germany)		100.00%
▶ Energomontaż Magyarország (Hungary)		100.00%
▶ Grande Meccanica SpA (Italy)		100.00%
▶ Polimex-Mostostal Wschód (Russia)		100.00%
▶ Polimex-Mostostal Ukraina (Ukraine)		100.00%
▶ NafIndustriemontage GmbH (Germany)		100.00%

## 4.2. Information on key entities of the Capital Group

The key entities of the Capital Group are:

- **Torpol Sp. z o.o. (currently Torpol S.A.)**

Torpol, with the registered office in Poznań, started its operations in 1991 as a limited liability company. On 02.01.2012 Torpol was transformed into a joint stock company. The company offers full-scale execution of railway routes and stations, as well as tramways and traction. The Norwegian market is being developed where the Company is performing contracts for the construction of commuter rail service and is preparing for participation in the implementation of large railway investments. It also made an effort to acquire contracts in Serbia. The company runs capital group. The conducted investment plan allows for gradual widening of the scope of works executed by own means.

- **Fabryka Kotłów Sefako S.A. (Boiler Factory)**

The factory with the registered office in Sędziszów has been operating since 1974. The scope of operations of Sefako Boilers Factory S.A. is related to design, manufacture and sale of water and steam boilers of medium capacity, and contracting of pressure and high-pressure components of high power boilers. As the domestic market is in demand of coal dust and biomass-fired boilers, the company develops and implements internal technical solutions. Export constitutes the most of company sale. The investment plan completed in 2010 increased company production capacities in the scope of production of energy boilers.

- **StalFa Sp. z o.o.**

The company was established in 1995 on the initiative of Mostostal Siedlce S.A. The principal scope of StalFa Sp. z o.o. operations is related to manufacturing of light steel structures, telecommunication towers, palettes, grid containers and casing components. The production covers also deliveries for agriculture and forestry.

- **Energop Sp. z o.o.**

The company was established in 2003 on the initiative of Energomontaż-Północ S.A. The main activity of the company is manufacturing of pressure pipelines for the transportation of liquids mostly fuels. The company's offer also included manufacturing of steel structures, containers, silos, chimneys and air and exhaust ducts. Together with Energomontaż Północ Technika Spawalnicza i Laboratorium, a subsidiary, the Issuer holds 100% of share capital in the company.

- **Energomontaż Północ Gdynia Sp. z o.o.**

The company was established in 2001 on the initiative of Energomontaż-Północ S.A. The core of its activity is prefabrication of large-size steel structures for mining industry (mostly oil), petrochemistry and power engineering (including nuclear and renewable energy as well as sea wind energy sectors). The Company manufactures also structures and machinery installed in ports and on ships. As well as that it performs overhauls of ships. Additionally, the company assembles installations at heat and power stations as well as at paper, chemical and food plants. The key customers for the structures are foreign business partners, mostly from Scandinavia (Denmark, Norway).

- **PRInż -1 Sp. z o.o.**

The present form of PRInż-1 Company is the effect of acquisition of PRInż-9 in October 2008. The company offer covers construction of roads and all types of routes, including lighting and accessory infrastructure. The company closely co-operates with Zakład Budownictwa Drogowego, operating in the structures of Polimex-Mostostal S.A.

- **ZIB Turbud Sp. z o.o.**

Zakład Instalacyjno-Budowlany Turbud Sp. z o.o. deals with the performance of general construction works.

- **Zakład Transportu Grupa Kapitałowa Polimex-Mostostal Sp. z o.o.**

The company was established in March 1997 as part of transport department of Mostostal Siedlce S.A. Until 2008, it operated under the company Mostostal Siedlce Zakład Transportu Sp. z o.o. The company deals with rendering of services in the national and international transport by passenger vehicles, vans, TIR vehicles and busses, as well as servicing of vehicles.

- **Polimex-Mostostal ZUT Sp. z o.o.**

The company was established in 1998 as part of overhaul department of Mostostal Siedlce S.A. Until 2008, it operated under the name Mostostal Siedlce Zakład Usług Technicznych Sp. z o.o. The company deals with overhauls of machines, equipment, apparatus and power tools, and covers also productions of spare parts, maintenance, reviews, keeping documentation, distribution of electricity, thermal energy, water, industrial gasses, rendering of technical advisory services, preparation of expertise, rental of machines, equipment and apparatus.

- **Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.**

The company was established in 1988. It deals with the construction of high and medium voltage overhead power lines, medium and low voltage buried power lines, supply of transformer stations, construction of overhead and buried power lines of road lightning and corrosion protection of steel structures.

- **Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.**

The history of the company dates back to 1953. The main activity of the company is conducting of all types of tests relating to electrical and gas welding technology. Together with Energop, a subsidiary, the Issuer holds 100 % of company's share capital.

Apart from the laboratory mentioned above, the Issuer has equity links (27.5% of share capital) with Laboratorium Ochrony Środowiska Pracy Sp. z o.o. (Laboratory of Protection of Work Environment) that provides services in the scope described in the business name of the company.

- **Moduł System Service Sp. z o.o.**

The company was established in 2001 on the initiative of Naftoremont. The company, which has its registered office in Plock, is one of the largest national companies dealing with modular construction and steel frame construction for the purpose of housing and public building (e.g. kindergartens). Additionally, the company sells and rents various types of containers.

- **Design companies**

Design teams operate both, within organisation structures of particular companies of the Capital Group, and as independent design offices. Organisation and technical systems facilitating creation of integrated design centre focusing on needs of the Capital Group is under development. The following design offices operate as companies:

- Centrum Projektowe Polimex Mostostal Sp. z o.o. with the registered office in Gliwice,
- PXM Projekt Południe Sp. z o.o. with the registered office in Kraków,
- WBP Zabrze Sp. z o.o. with the registered office in Zabrze,
- Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. with the registered office in Bielsko-Biała,
- Centralne Biuro Konstrukcji Kotłów S.A. with the registered office in Tarnowskie Góry.

The above mentioned companies provide services for the following industries: power engineering, chemical, road construction and general construction.

- **Developer companies**

The developer companies that are within Polimex-Mostostal Capital Group deal with mounting of housing buildings, sale of flats and with real estate administration. One of the companies, Polimex-Cekop

Development, holds a block of shares of Polimex-Mostostal S.A. (2.52% of equity). In the Capital Group there are the following developer's companies:

- Polimex-Development Kraków Sp. z o.o.,
- Polimex-Hotele Sp. z o.o.,
- Polimex-Mostostal Development Sp. z o.o.,
- Zarząd Majątkiem Górczewska Sp. z o.o.,
- Energomontaż-Nieruchomości Sp. z o.o.,
- Polimex-Cekop Development Sp. z o.o.

Apart from the first in the list above, all other companies have their registered offices in Warsaw.

Apart from the mentioned above companies registered in Poland, in the composition of the Capital Group there are foreign companies which offer in the countries of their registration their own products or services or the ones produced by the Issuer's Group. The companies having its own capacity include:

- **S.C. Coifer Impex SRL**

The company has a registered office in Bucharest (Romania). The core activity of **Coifer Impex SRL** is rendering of erection works, and performance of construction and assembly contracts in form of general contracting. The company owns plants producing steel structures.

- **Grande Meccanica SpA**

The company has its registered office in Narni (Italy). It provides services for the benefit of refinery sector. At present the programme of the extension of the company's manufacturing capacities is under development.

- **Tchervonograd MSP**

The registered office of the company is in Tchervonograd (Ukraine). The company conducts business activity in the scope of manufacturing of steel structures and metal products, mostly platform gratings.

- **Polimex-Mostostal Ukraina SAZ**

The registered office of the company is in Zhytomir, Ukraine. The company conducts activity in the scope of construction and erection works. There is a plan to extend the scope of the company's operations with galvanisation services.

**The following companies act as trade agents:**

- Polimex-Mostostal Wschód (Russia)
- Depolma GmbH and Naf Industriemontage GmbH (Germany)
- Energomontaż Magyarország (Hungary)

The Issuer also holds 50% of share capital in Sinopol Trade Center Sp. z o.o., the company registered under the Polish law, whose operations are oriented to the Chinese market.

Out of the companies in which the Issuer holds a share of less than 50% in equity, Energomontaż Północ Belchatów Sp. z o.o. should be mentioned, whose main activity is a local mine and power plant.

#### **4.3. Employment**

In 2011 there was reported a slight increase in employment of 0.3% as compared with the average employment in 2010, which was the result of adjusting the level of employment to the current backlog of orders. Obtaining new orders in 2011 meant the necessity to actively acquire workforce and at the same time increase its efficiency. This process is to be continued in the coming years. It should be noticed that there was a significant decrease of employment in back office operations. The number of management boards of related companies was reduced, which was the result of the incorporation of 7 subsidiaries.

Employment structure in 2011 in Polimex-Mostostal Capital Group is given below:

Detailed list	Change 2011 / 2010	Employment *)	
		2011	2010
Management Board of the parent company	0.0%	4	4
Management Boards of related companies	-32.3%	44	65
Back office	-23.3%	1 635	2 132
Production	4.6%	12 607	12 051
<b>Total</b>	<b>0.3%</b>	<b>14 290</b>	<b>14 252</b>

\*) average employment in Full Time Equivalents (FTE)

#### 4.4. Changes in composition of management and supervisory authorities of the parent and their committees, basis of appointment and dismissal of executives as well as rights of management, in particular to taking decision on issue or redemption of shares

In the period from 01.01.2011 until the statement publication day, composition of **the Management Board of Polimex-Mostostal S.A.** was as follows:

- Konrad Jaskóła - President of the Management Board,
- Aleksander Jonek - Vice President of the Management Board,
- Grzegorz Szkopek - Vice President of the Management Board,
- Zygmunt Artwik - Vice President of the Management Board.

The term in office of the members of the Management Board expires on 18.05.2013, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for the last complete year of holding the position on the Board.

The rules for appointment and dismissal of executives are given in the Articles of Association. On 29 February 2011 the Extraordinary Meeting of Shareholders introduced amendments to the Company's Articles of Association, including ones referring to the rules on appointing the members of the Board and the procedure of specifying the scope of responsibilities of each of its members. This issue was discussed further in Section 9 of this Report. In the reporting period the rules presented in this section were in force.

According to § 39 and § 42 of Articles of Association, the Supervisory Board is in charge of defining number of members of the Board of Directors, as well as appointment and dismissal of members of the Board of Directors. The Supervisory Board appoints other members of the Management Board – Vice Presidents upon the request of the President of the Board of Directors. Authorities of executives are given in Regulations of the Board of Directors. Internal division of the Board of Directors members work is conducted on the basis of the Organizational Regulations of the Company. On this basis, members of the Board of Directors are in charge of direct supervision of performance of dependent areas. Each member of the Management Board has the right and obligation to run Company affairs. Without previous resolution of the Management Board, he/she may run affairs not exceeding the scope of ordinary affairs of the Company assigned to a given member of the Management Board observing provisions of the law, Company's Articles of Association, resolutions and regulations of the Company authorities. While taking decisions on the Company affairs, members of the Management Board operate within the limits of justified economic risk, i.e. based on consideration of any information, analyses and opinions that in reasonable opinion of the Management Board should be taken into account for the benefit of the Company. Neither the Management Board, nor individual members of the Board of Directors may take decisions on issue or redemption of shares. In 2011, meetings of the Management Board of Polimex-Mostostal S.A. were held on: 5.01.2011, 14.01.2011, 27.01.2011, 7.02.2011, 11.02.2011, 22.02.2011, 11.03.2011, 21.03.2011, 23.03.2011, 2.04.2011, 6.04.2011, 12.04.2011, 28.04.2011, 13.05.2011, 25.05.2011, 3.06.2011, 9.06.2011, 14.06.2011, 29.06.2011, 07.07.2011, 22.07.2011, 28.07.2011, 12.08.2011, 23.08.2011,

05.09.2011, 16.09.2011, 23.09.2011r., 28.09.2011, 10.10.2011, 18.10.2011, 26.10.2011, 04.11.2011, 23.11.2011, 09.12.2011, 15.12.2011, 21.12.2011 and on 29.12.2011. At the above-mentioned meetings, the Management Board has taken resolutions on among others: approval of the Group's financial plan, clearance of the combination with the subsidiaries, determination of the uniform wording of the Company's Articles of Association, making commercial representations, granting loans, transfer and disposal of real property, donations.

In the period from 01.01.2011 to 29.02.2012 the composition of **the Supervisory Board of the Company** was as follows:

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

On 29.02.2012 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted resolutions No.4 to No.10 making the following amendments in the composition of the Supervisory Board:

- persons dismissed: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański
- persons appointed: Andrzej Bartos, Paweł Dłużniewski, Dariusz Formeła, Dariusz Krawczyk.

Till the date of preparation of this report the Supervisory Board did not establish its new composition. The Supervisory Board was appointed for the period of common term of office. The mandates of members of the Supervisory Board expire not later than on the date of holding a General Meeting approving the financial statements of the Company for the last complete financial period of the current term of office.

Within the structure of the Supervisory Board there are two committees - the Audit Committee, which is the advisory and opinion-forming body, and the Remuneration Committee, which is the advisory body. In the period from 01.01.2011 to 29.02.2012 the composition of the **Audit Committee** was as follows:

- Jacek Kseń – Chairman of the Committee,
- Mieczysław Puławski – Member of the Committee,
- Jan Woźniak – Member of the Committee.

Till the date of preparation of this report the Audit Committee did not establish in its new composition.

Advising the Supervisory Board on issued regarding proper implementation and supervision over financial reporting processes applied by the Company, effectiveness of internal audit and risk management systems, as well as co-operation with qualified auditors, is the basic objective of the Committee's operation. Particular rights and obligations of the Committee are given in Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

In period from 01.01.2011 to 29.02.2012 the composition of the **Remuneration Committee** was as follows:

- Andrzej Szumański – Chairman of the Committee,
- Kazimierz Klęk – Member of the Committee,
- Artur Jędrzejewski – Member of the Committee,

Till the date of preparation of this report the Remuneration Committee did not establish in its new composition. The main task of the Committee is lending support to the Supervisory Board in terms of execution of its control and supervisory tasks by presenting opinions to the drafts of contracts related to holding the position of a member of the Board and giving opinion on the proposals of remuneration and bonus system for members of the Board. Particular rights and obligations of the Committee are given in Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

The Supervisory Board of Polimex-Mostostal S.A. is operating under obligating provisions of law, in particular provisions of Commercial Companies Code, Company Articles of Association, internal Regulations and the rules given in "Best practices of WSE listed companies".

#### **4.5. Agreements concluded among the parent and its executives anticipating compensation for resignation or dismissal from function without any important reason, and if dismissal arises from business combination by acquisition**

In 2010 new contracts were concluded for the management for the next term in office of the Management Board, which did not amend (as compared to the contracts previously in force) the terms and conditions of compensation in case of resignation or dismissal from the position held.

#### **4.6. Value of remuneration for executives and senior employees**

The value of remuneration for executives and senior employees was given in notes and explanation to the financial statements of Polimex-Mostostal Capital Group.

#### **4.7 Description of basis for amending the Issuer's Company statute or articles of association**

Making amendments to the Company Statute lies within the responsibility of the General Meeting. The Supervisory Board shall give opinion on drafts of amendments to the Company Statute and preparation of its uniform contents.

#### **4.8 Mode of operation of the Issuer's general meeting and its principal rights, as well as description of rights of shareholders and manner of their execution**

General Meeting of Shareholders is the supreme authority of the Company adequate for adopting key resolutions on the Company system and operations. The General Meeting of Shareholders of Polimex-Mostostal S.A. operates under provisions of the Commercial Companies Code and the Articles of Association. A General Meeting may take the form of an ordinary or extraordinary meeting. Ordinary General Meeting is called upon by the Management Board annually, until 30 June of the year following the financial year. The Supervisory Board is authorised to call upon the Ordinary General Meeting, if the Management Board did not do that in the period specified above and the Extraordinary Meeting of Shareholders, if necessary, and the Management Board did not do that within 14 days from submission of a request by the Supervisory Board. The Extraordinary General Meeting is called upon by the Management Board, if necessary, on its own initiative or upon request of the Supervisory Board or shareholders representing at least 5% of the share capital, in 30 days from submittal of a written request. Extraordinary General Meetings may also be called by shareholders representing at least a half of share capital or at least half of the total votes. Shareholders representing at least 5% of the share capital may request entering particular issues to the agenda of the next General Meeting. An appropriate request should be submitted to the Management Board not later than 21 days prior to the specified date of the General Meeting. The request should contain a justification or a draft resolution relating to the suggested item of the agenda. The request may be submitted electronically. General Meeting is binding irrespective of the number of shares represented at the meeting. On 29 February 2012 the Extraordinary Meeting of Shareholders introduced amendments to the wording of § 30 relating to the mode of convening General Meetings, which was communicated by the Issuer in the current report No. 16/2012 of 29.02.2012.

Competences of the General Meeting include in particular:

- consideration and approval of the financial statements and statement of the Directors' report for previous financial year,
- granting discharge to members of the Supervisory Board and Management Board on fulfilment of duties,
- adopting resolutions on appropriation of profits and coverage of loss,
- appointment and dismissal of members of the Supervisory Board,
- making amendments to the Company's Articles of Association,
- increase and decrease in share capital,
- creation and annulment of special purpose funds,

- approval of the Regulations of the Supervisory Board,
- definition of rules for remuneration payable to members of the Supervisory Board,
- giving consent upon issue of convertible or preferential bonds,
- giving consent upon sale and lease of a company or its organised part, as well as establishment of limited property security right,
- preparation of regulations of the General Meeting,
- adopting resolutions on redemption of shares upon consent of a shareholder by their acquisition and definition of conditions for such redemption,
- adopting resolutions on integration, termination and liquidation of the Company as well as appointment of receivers,
- consideration of issues presented by the Supervisory Board and the Management Board, as well as shareholders.

## 5. Shareholding

### 5.1. Total number and nominal value of all shares of Polimex-Mostostal S.A. owned by executives and senior employees

As at 31.12.2012 executives/senior employees held the following number of shares of the Issuer:

Position held	Current number of shares held
Member of the Management Board	3,820,350 bearer shares of nominal value of 0.04 PLN each, 3,820,350 voting shares at the Company General Meeting.
Member of the Management Board	1,939,075 bearer shares of nominal value of 0.04 PLN each, 1,939,075 voting shares at the Company General Meeting.
Member of the Supervisory Board	96,548 bearer shares of nominal value of 0.04 PLN each, 96,548 voting shares at the Company General Meeting.
<b>Total</b>	5,855,973 bearer shares of nominal value of 0.04 PLN each, 5,855,973 voting shares at the Company General Meeting.

### 5.2. Shareholders having directly or indirectly by subsidiaries at least 5% of total voting shares at the General Meeting of Polimex-Mostostal S.A.

Shareholding structure of Polimex-Mostostal S.A. prepared under notifications arising from Article 69 item 1 and 4 of Act of 29.07.2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies is as follows:

Item number	Shareholder	No. of shares / votes	% interest in share capital/total votes at GSM*)
1.	ING Nationale-Nederlanden Polska Open Pension Fund	64 586 526	12.39%
2.	Pioneer Pekao Investment Management S.A. – <b>all Clients, of which</b> <i>Pioneer Fundusz Inwestycyjny Otwarty (Open Investment Fund)</i>	51 859 290 48 590 927	9.95% 9.32%
3.	Polimex-Cekop Development Sp. z o.o. **	13 152 500	2.52%
4.	Other shareholders	391 555 760	75.14%
<b>Number of shares of all issues</b>		<b>521 154 076</b>	<b>100.00%</b>

\*) Polimex-Mostostal S.A. does not have any preferential assets in terms of voting rights, so interest in share capital is equal to interest in total voting shares at the General Meeting

\*\*) The Company is 100% subsidiary of Polimex-Mostostal S.A.

### **5.3. Representation on corporate governance**

In 2011, the Issuer applied all rules for corporate governance defined under "Best Practice of WSE listed companies". These rules are available on the Warsaw Stock Exchange website: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

### **5.4. Information on contracts acknowledged by the Issuer (including concluded after the statement of financial position date) and that may change future proportions in shares owned by the current shareholders and bondholders**

The Company is not aware of any contracts that may change future proportions in shares owned by the current shareholders.

### **5.5. List of holders of all securities granting special controlling rights with regards to the parent with description**

The parent does not have any securities granting special controlling rights over the Company.

### **5.6. Acquisition of treasury shares, in particular definition of acquisition purpose, number and nominal value, and part of represented share capital, acquisition prices as well as selling prices in case of disposal**

In 2011 the parent did not acquire any treasury shares.

### **5.7. Limitation in transfer of ownership rights to securities and limitations in the scope of execution of voting rights arising from shares in the parent**

As far as the Issuer's shares are concerned, there are no limitations on transfer of ownership rights arising from securities of the Company, nor limitations in the scope of execution of voting rights arising from securities of the Company. There are no provisions separating equity rights from holding of securities.

### **5.8. Employees shares scheme controlling system**

Based on decisions of the Extraordinary General Meeting of Polimex-Mostostal S.A. of 31.01.2006, option contracts with the President and Members of the Management Board, members of management of Polimex-Mostostal S.A. and chairmen of the boards of subsidiaries were concluded under incentive scheme for the years 2006 – 2008 addressed to key members of the Issuer management. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer no 9/2006 of 31.01.2006.

On 04.07.2008, the Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted Resolution No 26 on adoption of the company incentive scheme for the years 2009 – 2011, and conditional increase in share capital connected with the scheme and amendments to the Polimex-Mostostal S.A. statute as well as issue of the Company subscription warrants. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer no 43/2008 of 04.07.2008.

As of 31.12.2011 the balance of provision recognised in reserve capital of the Issuer for the both of the above schemes amounts to PLN 32,086 thousand (as at 31.12.2010 – PLN 33,221 thousand).

## **6. Environmental protection**

Emission of pollution to the air, emission of liquid waste (industrial, sanitary and residual), solid waste and noise are the by-products of Polimex-Mostostal S.A. activities. The company runs its operations under requirements on environmental protection binding in Poland. Polimex-Mostostal activity is regulated in particular by Act of 27 April 2001 Environmental protection law (Journal of Laws of 2008 No 25, item 150 as further amended) and Act of 27 April 2001 on wastes (Journal of Laws of 2010 No 185, item 1243 as further amended). The Company has all necessary permits and environmental decisions required from enterprises by the Polish and Community law, including:

- integrated permit regarding metal coating systems with charge exceeding 2 tons of raw steel per hour,
- water-legal permit to dispose of wastes with substances particularly harmful for water environment,
- permit to emissions to the air generated from painting houses and steel structures welding plants, as well as grating production plants,
- permit to produce waste generated from painting houses, welding and grating production plants,
- water-legal permit to intake underground waters.

The issues of natural protection are of great importance for the Company (the Company runs the Integrated Management Systems, implemented ISO 14001 standard: Natural Environment Management System). Natural Environment Protection Department of Polimex-Mostostal S.A. is dealing with co-ordination of actions taken by the Company in scope of environmental protection. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department.

From 27.06 to 01.07.2011 the recertification audit was conducted in the Company in the scope of compliance with ISO 14001:2004 standard. The audit confirmed that the Company is managed in accordance with the highest environmental standards and the applied production process guarantees the protection of the natural environment by reducing the consumption of energy and materials, improvement of waste management and minimization of the emission of pollution. The system shapes the environmental awareness of the staff, guarantees that the environmental regulations are observed, reduces the risk of fines and improves its environmental credibility. In 2011, Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

A by-product of activity conducted by the **Issuer's production subsidiaries** (mostly by SEFAKO, StalFa, Energop, Energomontaż-Północ Gdynia) is emission of air pollution, emission of liquid waste (industrial, sanitary and residual), solid waste and noise. The Companies have all necessary permits and environmental decisions required from enterprises by the Polish and Community law:

- to generate waste other than hazardous one,
- to disposal of rain wastewaters and technological waste,
- to emission of gasses and industrial dusts from emitters situated in the factories to the air,

Certain production companies, in connection with the nature of the conducted activity and location, additionally have the following permits:

- for intake of water from drilled wells for and social and technological needs,
- for disposal of treated industrial waste and rain water as well as melting snow directly to surface water-courses,
- for generation of hazardous waste.

**The subsidiaries of the Issuer** (mostly Torpol, PRInz-1 and Turbud) have plans for the management of waste other than hazardous one in closed areas adopted in accordance with regulations in force.

Coordination of activities in the scope of environment protection in each company is the responsibility of specialist services, whose structure matches the nature of conducted business activity. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the main tasks of these services. Emphasis is placed on management of waste in the scope of storing, securing and transferring to recovery to entities which hold a permit to neutralise waste and keeping a correct quantity and quality register in compliance with the regulation of the Minister of the Environment.

## 7. Information on entity with which the Issuer has concluded a contract for audit of financial statements

On 30.06.2011 the contract was concluded with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2011 and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2011. The remuneration due to Ernst & Young Audit Sp. z o.o. for the above mentioned services was specified at PLN 850,000 (net).

The following (net) amounts were paid to the auditor in 2011:

- audit of the financial statements for the year 2010..... PLN 423,242,
- review of the financial statements for the 1st half of 2011 ..... PLN 353,198,
- audit of the financial statements for the year 2011..... PLN 0,
- tax advisory ..... PLN 5,000,
- other services ..... PLN 2,818.

The following (net) amounts were paid to the auditor in 2010:

- audit of the financial statements for the year 2009..... PLN 412,803,
- review of the financial statements for the 1st half of 2010 ..... PLN 284,260,
- audit of the financial statements for the year 2010..... PLN 0,
- tax advisory ..... PLN 9,000,
- other services ..... PLN 227,377.

In 2012 until the report publication date, the following (net) amounts were paid to the auditor:

- audit of the financial statements for the year 2011..... PLN 0,
- other services ..... PLN 0.

## 8. Other significant events of the reporting period having impact on operations of the Issuer's Group

As a supplement to the information given above, the significant events which occurred in 2011 include:

- In the reporting period, the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) adopted resolutions, which resulted in admitting to listing the following quantities of the Issuer's shares:
  - 7,500 series A shares (conversion of nominative shares to bearer shares)
  - 235,873 series G shares (covering shares in exchange for subscription warrants)
  - 38,733,090 series K shares (issued in connection with the combination of Polimex-Mostostal S.A. with Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o. and ECeRemont Sp. z o.o.)
  - 17,829,488 series L shares (issued in connection with the combination of Polimex-Mostostal S.A. with Naftobudowa S.A.)
- On 27.01.2011 the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) adopted the resolutions on elimination as of 02.02.2011 the shares of Naftobudowa S.A. and the shares of Energomontaż-Północ S.A. from trading on the WSE Primary Market due to the completed combination of these companies with the Polimex-Mostostal S.A. Company.

- In the reporting period the holding of Issuer's shares by the clients of Pioneer Pekao Investment Management S.A. (PPIM) changed. As at 28.01.2011 all the clients of PPIM held in total 52,490,792 shares, which constituted 10.07% of share capital of Polimex-Mostostal S.A. On 17.03.2011 Pioneer Open Investment Fund, the client of PPIM, held 52,139,059 shares, which constituted 10.005% of the Issuer's share capital. As at 22.11.2011 the holding of shares was as follows:
  - all clients of PPIM held in total 51,859,290 shares, which constituted 9.95% of the share capital, of which:
    - all clients of Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (the client of PPIM) held 50,337,318 shares, which constituted 9.66% of share capital, of which:
      - Pioneer Open Investment Fund (the client of Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A.) held 48,590,927 shares, which constituted 9.32% of share capital.

Details concerning the above mentioned changes are presented in the Issuer's current reports No. 15/2011 of 04.02.2011, No. 22/2011 of 24.03.2011 and No. 67/2011 of 22.11.2011.

- In the reporting period the holding of Issuer's shares at Aviva Open Pension Fund Aviva BZ WBK (Aviva OPF) changed several times and was:
  - on 07.02.2011 Aviva OPF held 52,224,329 shares, which constituted 10.03% of share capital,
  - on 27.04.2011 Aviva OPF held 51,872,954 shares, which constituted 9.95% of share capital,
  - on 16.11.2011 Aviva OPF held 24,245,518 shares, which constituted 4.65% of share capital.

Details concerning the above mentioned transactions are presented in the Issuer's current reports No. 16/2011 of 07.04.2011, No. 28/2011 of 05.05.2011 and No. 66/2011 of 22.11.2011.

- In the reporting period the holding of Issuer's shares at ING Open Pension Fund (ING OPF) changed and was:
  - on 02.02.2011 ING OPF held 52,655,519 shares, which constituted 10.10% of share capital,
  - on 28.12.2011 ING OPF held 64,586,526 shares, which constituted 12.39% of share capital,

Details of the above mentioned transaction are included in the Issuer's current reports: No. 71/2011 of 05.12.2011 and No. 75/2011 of 29.12.2011.

- Receiving the report of the audit of the activity conducted by the Issuer in the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone dated 22.06.2011, which stated that Polimex-Mostostal S.A. fulfils correctly the terms and conditions included in Permit No. 171/ARP S.A./2008 to conduct business activity in the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone.
- Due to the outbreak of a military conflict in the territory of Libya, the Issuer withdrew its employees from this country. Machinery and construction materials have been secured and will be used again after the political situation in this country has stabilized. The Issuer is planning to restart the performance of contracts in the second half of 2012.
- On 19 August 2011 the National Court Register registered the amendments to the Company's Articles of Association made under the resolutions No. 67, 68 and 69 of the Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. and adopted its uniform text.
- Receiving on 8<sup>th</sup> February 2011 by Energomontaż-Północ Gdynia Sp. z o.o. the permission to conduct business activity in Pomorska Special Economic Zone. In the same year the implementation of the investment programme was started in accordance with the conditions specified in the permission.

## 9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after the end of financial year and to the approval of the financial statements

Apart from the facts discussed above, in the period till the end of the year 2011 the following events significant for the operations of the Capital Group occurred:

- Signing on 15.02.2012 by the consortium of the following companies: RAFAKO S.A. (the consortium leader) and Polimex-Mostostal S.A. and Mostostal Warszawa S.A. the contract to perform the investment task of "Construction of No. 5 and 6 power blocks at PGE Elektrownia Opole S.A." The value of contracted works is PLN 9,397.0 million net, of which approx. 42% is attributable to Polimex-Mostostal S.A.
- Signing on 08.02.2012 the contract with the Office of the Marshal of Lublin Voivodship to construct two buildings i.e. the Lublin Conference Centre and the principal office of the Office of the Marshal in Lublin in the total amount of PLN 117.8 million (gross).
- Signing on 24.02.2012 the contract with E.ON Energie Odnawialne to construct a wind farm in the amount of PLN 75.0 million (gross).
- On 29 February 2012 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. was held upon demand of the ING Open Pension Fund, the Company's shareholder. The Meeting adopted resolutions on the following:
  - As far as the Supervisory Board is concerned
    - (i) the following persons were dismissed: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański
    - (ii) the following persons were appointed: Andrzej Bartos, Paweł Dłużniewski, Dariusz Formela, Dariusz Krawczyk
    - (iii) The above mentioned persons were appointed for the period of common term of office
    - (iv) Till the end of term of office the Supervisory Board shall be composed of 7 members.
  - Amendments to the wording of the Company's Articles of Association
    - (i) in the scope of provisions relating to the procedures of convening General Meetings (§ 30 of the Articles of Association)
    - (ii) in the scope of amending the procedure of appointing the Board of Directors by the Supervisory Board (§ 42 of the Articles of Association)
    - (iii) in the scope of the authorization to represent the Company (§ 46 of the Articles of Association).
  - Determination of the uniform text of the Articles of Association of the Company.

The new wording of § 42 projects the following mode of appointing the Board of Directors of the Company: „In case of appointing a one-person Board of Directors, the Supervisory Board appoints the President of the Board, and in case of a collective Board of Directors it appoints the President of the Board, Vice Presidents and other members of the Board. The appointment of Vice Presidents and members of the Board is made by the Supervisory Board after having consultation with the President of the Board.” In the same article the procedure of sharing competence was specified as follows: „The structure and competence of the Board of Directors and its members is approved by the Supervisory Board by means of a resolution”.

The new wording of § 46 specifies the representation of the Company in the following way: „In case of a collective Board of Directors, to make statements and sign documents on behalf of the company are authorized: two members of the Board (the President, Vice presidents or members of the Board) acting jointly or one member of the Board (the President, Vice President or a member of the Board) acting jointly with a commercial proxy.”

Details are included in the current report No. 16/2012 of 29.02.2012.

The amendments to the Articles of Association of the Company mentioned above were registered in the National Court Register on 13.03.2012.

## **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