POLIMEX MOSTOSTAL CAPITAL GROUP
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH THE OPINION OF AN INDEPENDENT AUDITOR

Polimex Mostostal

GRUPA KAPITAŁOWA

Warsaw, April 12, 2018

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Consolidated profit and loss account

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Sales revenues	7.1	2 421 078	2 668 221
Cost of soles	7.6	(2 260 144)	(2 635 671)
Gross sales profit/(loss) on sales		**160 934**	**32 550**
Cost of sales		(25 537)	(22 347)
General administration costs		(63 261)	(65 615)
Other operating revenues	7.2	48 655	38 417
Other operating costs	7.3	(7 147)	(10 947)
Goodwill impairment	12	(191 474)	-
Profit/(loss) on operating activities		**(77 830)**	**(27 942)**
Financial revenues	7.4	18 419	13 906
Financial costs	7.5	(37 915)	(30 687)
Share in the profit of an associated entity	13	(9 892)	(3 628)
Gross profit/(loss)		**(107 218)**	**(48 351)**
Income tax	8	(29 826)	(12 355)
Net profit (loss)		**(137 044)**	**(60 706)**
Net profit / (loss) attributable to:			
- shareholders of the parent		(137 406)	(61 387)
- non-controlling interest		362	681
Earnings per share (in PLN per one share)			
- basic and diluted earnings per share		(0.600)	(0.266)

The consolidated total income statement

	Year ended December 31, 2017	Year ended December 31, 2016
Net profit (loss)	**(137 044)**	**(60 706)**
Items which will not be allocated in the later periods to the profit and loss account:		
Change in status resulting from revaluation of tangible assets	22 946	-
Actuarial profit / loss	(2 215)	654
Items which can be allocated in later periods to the profit and loss account:		
Foreign exchange differences on the translation of a foreign entity	(3 116)	230
Other total net income	**17 615**	**884**
Total comprehensive income	**(119 429)**	**(59 822)**
Applicable to:		
- shareholders of the parent	(119 791)	(60 503)
- non-controlling interest	362	681

Consolidated balance sheet

	Note	**As at December 31, 2017**	**As at December 31, 2016**
Assets			
Fixed assets			
Tangible fixed assets	11	384 064	321 814
Investment property		4 376	3 867
Goodwill from consolidation	12	91 220	282 694
Intangible Assets		1 212	1 672
Investments in affiliates accounted for for using the equity method	13	5 813	15 705
Financial assets	14	581	795
Long-term receivables		10 162	3 300
Deposits under construction contracts		120 784	55 724
Assets from deferred tax	8.2	169 275	198 608
Other fixed assets		296	1 479
Total non-current assets		**787 783**	**885 658**
Current assets			
Inventories	15	96 900	65 291
Trade receivables	16	550 969	419 319
Deposits under construction contracts		54 594	42 992
Long-term contracts valuation receivables	17	78 007	27 522
Financial assets	14	220 084	218 699
Cash	18	579 140	710 813
Other assets		3 955	3 555
Assets held for sale	20	30 487	123 788
Total current assets		**1 614 135**	**1 611 979**
Total assets		**2 401 918**	**2 497 637**

Consolidated balance sheet

	Note	As at December 31, 2017	As at December 31, 2016
Liabilities and shareholders' equity			
Equity			
Share capital	21.1	473 238	173 238
Reserve capital	21.2	157 746	309 710
Other capital	21.3	127 368	(85 254)
Reserve capital from surplus under bonds convertible into shares	21.4	31 552	29 734
Accumulated other comprehensive income	21.5	94 465	77 288
Retained earnings / Uncovered losses		(220 166)	(22 540)
Non-controlling interests		382	20
Total shareholders' equity		**664 585**	**482 196**
Long-term payables			
Credits and loans	22	226 118	140 272
Long-term bonds	24	169 034	160 336
Provisions	26	190 912	194 783
Liabilities arising from employee benefits	27	17 985	12 706
Other liabilities	25	80 177	60 784
Deposits under construction contracts		35 276	37 432
Total long-term liabilities		**719 502**	**606 313**
Short-term liabilities			
Credits and loans	22	24 383	129 577
Trade payables and other payables	28	743 041	624 081
Deposits under construction contracts		40 932	47 731
Long-term contracts valuation liabilities	17	72 542	400 061
Provisions	26	76 169	115 068
Liabilities arising from employee benefits	27	57 717	52 707
Deferred income		3 047	1 527
Liabilities directly associated with assets held for sale	20	-	38 376
Total short-term liabilities		**1 017 831**	**1 409 128**
Total liabilities		**1 737 333**	**2 015 441**
Total liabilities and shareholders' equity		**2 401 918**	**2 497 637**

Consolidated cash flow statement

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Cash flow from operating activities			
Gross profit / (loss)		**(107 218)**	**(48 351)**
Adjustment items:		**(278 273)**	**153 571**
Share in the result of associates measured using the equity method		9 892	3 627
Amortisation and depreciation	7.7	28 596	32 552
Net interest and dividends		19 220	21 764
Profit / (loss) on investing activities		(15 217)	(24 611)
Increase / (decrease) in receivables	19	(233 643)	215 355
Increase / (decrease) in inventories	19	(12 761)	(28 151)
Increase / (decrease) in liabilities excluding loans and borrowings	19	(223 413)	(72 178)
Change in other assets and deferred income	19	2 494	3 672
Change in provisions	19	(42 801)	10 390
Income tax paid		(3 839)	(24)
Impairment losses on goodwill	12	191 474	-
Others		1 725	(8 825)
Net cash from operating activities		**(385 491)**	**105 220**
Net cash flows from investing activities			
Disposal of intangible and tangible fixed assets		7 152	5 860
Purchase of intangible and tangible fixed assets		(22 496)	(4 328)
Sales of financial assets after deducting cash		-	3 897
- acquisition of financial assets		-	(104)
Interest received		7 181	38
Repayment of long-term loans		-	8
Net cash from investing activities		**(8 163)**	**5 371**
Cash flows from financing activities:			
Repayment of financial lease		(315)	(359)
Proceeds from issuance of shares		300 000	-
Proceeds from borrowings / loans		198	177
Repayment of loans / credits		(21 190)	(18 491)
Interest paid		(16 712)	(7 760)
Other		-	510
Net cash from financing activities		**261 981**	**(25 923)**
Increase / (decrease) in net of cash and cash equivalents		(131 673)	84 668
Net exchange differences		-	(16)
Cash at the period beginning	18	**710 813**	**626 145**
Cash at the end of the period	18	**579 140**	**710 813**
Cash recognized in the consolidated cash flow statement		**579 140**	**710 813**
-including restricted funds		399 855	619 746

(PLN thousand)

Consolidated statement of changes in equity

	Basic equity	Reserve equity	Others capital	Reserve capital of surplus from convertible bonds	Accumulated other comprehensive income from			Retained earnings / Uncovered losses	Total	Shares Non-controlling interests	Total Shareholder's equity
					Equity from revaluation	Actuarial profit / (loss)	Foreign exchange differences on the translation of a foreign entity				
As at January 1, 2017	**173 238**	**309 710**	**(85 254)**	**29 734**	**94 387**	**1 256**	**(18 355)**	**(22 540)**	**482 176**	**20**	**482 196**
Profit /(loss) for the period	-	-	-	-	-	-	-	(137 406)	(137 406)	362	(137 044)
Other total net income	-	-	-	-	22 946	(2 215)	(3 116)		17 615	-	17 615
Total comprehensive income	**-**	**-**	**-**	**-**	**22 946**	**(2 215)**	**(3 116)**	**(137 406)**	**(119 791)**	**362**	**(119 429)**
Increase in share capital	300 000								300 000		300 000
Division of profit	-	-	1 018	-	-	-	-	(1 018)	-	-	-
Allocation to other equity	-	(151 964)	211 604	-	-	-	-	(59 640)	-	-	-
Settlement of the contribution	-	-	-	-	-	(438)	-	438	-	-	-
Equity component of issued convertible bonds	-	-	-	1 818	-	-	-	-	1 818	-	1 818
As at December 31, 2017	**473 238**	**157 746**	**127 368**	**31 552**	**117 333**	**(1 397)**	**(21 471)**	**(220 166)**	**664 203**	**382**	**664 585**

(PLN thousand)

Consolidated statement of changes in equity

	Basic equity	Reserve equity	Other capital	Reserve capital of surplus from convertible bonds	Accumulated other comprehensive income from			Retained earnings / Uncovered losses	Total	Shares Non-controlling interests	Total Shareholders' equity
					Equity from revaluation	Actuarial profit / (loss)	Foreign exchange differences on the translation of a foreign entity				
On January 1, 2016	**173 238**	**306 762**	**(85 254)**	**29 734**	**94 387**	**602**	**(19 752)**	**41 795**	**541 512**	**(661)**	**540 851**
Profit / (loss) for the period	-	-	-	-	-	-	-	(61 387)	(61 387)	681	(60 706)
Other total net income	-	-	-	-	-	654	230		884	-	884
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**654**	**230**	**(61 387)**	**(60 503)**	**681**	**(59 822)**
Division of profit	-	2 948	-	-	-	-	-	(2 948)	-	-	-
Deconsolidation of a subsidiary	-	-	-	-	-	-	1 167	-	1 167	-	1 167
As at December 31, 2016	**173 238**	**309 710**	**(85 254)**	**29 734**	**94 387**	**1 256**	**(18 355)**	**(22 540)**	**482 176**	**20**	**482 196**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

1. General

Polimex-Mostostal Capital Group (the "Group", the "Capital Group ') consists of the parent company Polimex-Mostostal S.A. ("Parent Company", the "Company"', the "Issuer") and its subsidiaries and associates. The Group's consolidated financial statement covers the year ended on December 31, 2017 and includes comparative data for the year ended on December 31, 2016.

"Polimex-Mostostal" SA operates on the basis of the statute established by a notarial deed on May 18, 1993 (Rep. A No. 4056/93), as amended. The registered office of the Company is located in Warsaw at al. Jana Pawła II 12, 00-124 Warszawa, Polska. The company was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under the KRS no. 0000022460: The Company was given a statistical number REGON 710252031.

The duration of the parent and member companies of the Capital Group is unlimited. The financial statements of all consolidated subsidiaries were prepared for the same reporting period as the financial statements of the Parent Entity, using consistent accounting principles. In the case of affiliates and subsidiaries that apply other accounting principles, for the purposes of consolidation, the financial data was transformed to comply with the principles applied by the Capital Group.

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

The primary scope of activities of the Parent Entity is broadly understood construction and also assembly services provided in the general contracting system at home and abroad as well as provision of administrative services to the Group companies. The subject of the Group's activity is the performance of construction and assembly works, assembly of industrial equipment and installations, production as well as development and property management. "Polimex-Mostostal" SA and the Group operate in the following segments: Production, Industrial Construction, Power Engineering and Oil, Gas, and Chemicals.

Shares of the parent company: "Polimex-Mostostal" SA are listed at the Warsaw Stock Exchange.

1.1. The composition of the Group and description of changes in the Group's structure

As at December 31, 2017 and December 31, 2016, the following subsidiaries and associates were subject to consolidation:

No.	Unit	Registered office	Scope of activities	The percentage share of the Group's capital / share in profit in the case of a limited partnership	
				31.12.2017	As at 31.12.2016
Subsidiaries				(%)	(%)
1	Polimex Energetyka Sp. z o. o (limited liability company)	Warsaw	Execution of construction works	100	100
2	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Execution of construction works	100	100
3	Polimex Opole Sp. z o.o. Sp. k	Warsaw	Execution of construction works	99.8	99.8
4	Mostostal Siedlce Sp. z o.o. Sp. k. (limited liability company, partnership)	Siedlce	Production of metal structures	99	99
5	Stalfa Sp. z o. o	Sokołów Podlaski	Production of metal products	100	100
6	Polimex-Mostostal ZUT Sp. z o. o.	Siedlce	Technical services	100	100
7	Polimex-Mostostal Ukraina Spółka z dodatkową odpowiedzialnością (additional liability company)	Żytomierz-Ukraine	Residential construction	100	100
8	Czerwonograd Zakład Konstrukcji Stalowych Spółka z dodatkową odpowiedzialnością (additional liability company)	Chervonohrad Ukraine	Production of metal structures	99.8	99.61
9	Polimex-Mostostal Wschód Sp. z o. o	Moscow, Russia	Specialist and general construction	100	100
10	Polimex Centrum Usług Wspólnych Sp. z o. o	Warsaw	Consulting in the field of business and management, tax, accounting services accounting, administrative	100	100
11	Polimex Budownictwo Sp. z o. o.	Siedlce	Industrial construction	100	100
12	Polimex Budownictwo Sp. z o. o. Sp. k.	Siedlce	Industrial construction	99	98
13	Pracownia Wodno-Chemiczna Ekonomia Sp. z o. o.	Bielsko-Biała	Service activities in the field of water and sewage treatment, technical and economic analyses in the field of new installations modernisation and construction	100	100
14	Polimex Operator Sp. z o.o. Sp. k.	Warsaw	Rental of construction machinery and equipment	99	98
15	Infrastruktura Drogowa Sp. z o. o.	Warsaw	Construction of roads and motorways	100	100
16	Polimex GmbH in liquidation	Ratingen-Germany	Deliveries and technical services on an agency basis	100	100
17	BR Development Sp. z o. o	Cracow	Buying and selling real estate. consulting in the field of running a business	100	100
18	Polimex-Development Inwestycje Sp. z o.o. in liquidation	Cracow	Construction works	100	100
19	Polimex-Development Inwestycje Sp. z o.o. Apartments Tatarska S.K.A. (partnership limited by shares)	Cracow	Construction works	100	100
Associates					
20	Energomontaż-Północ Bełchatów Sp. z o.o. (Capital Group)	Rogowiec	Specialist construction and assembly services	32.82	32.82

On March 28, 2017, Polimex Energetyka Sp. z o.o. disposed of, for the benefit of Polimex-Mostostal S.A, 100% of shares in the following companies: BR Development Sp. z o.o. with its registered office in Cracow, Polimex-Development Inwestycje Sp. z o.o. with its registered office in Cracow, and shares held in the company Polimex-Development Inwestycje Sp. z o.o. Apartamenty Tatarska S.K.A. with its registered office in Cracow constituting 99% of the share capital of this Company.

Starting from August 1, 2017, the following companies were consolidated: Polimex Budownictwo Sp. z o.o. Sp. k., Polimex Operator Sp. z o.o. Sp. k. and Infrastruktura Drogowa Sp. z o. o. In previous periods, these entities were not consolidated due to irrelevance. On August 1, 2017, the organised parts of the enterprise were contributed from "Polimex Mostostal" to the above-mentioned companies.

As at December 31, 2017, the share in the total number of votes held by the Parent Company in its subsidiaries is equal to the Company's share in the capitals of these entities.

The parent company controls the subsidiaries covered by full consolidation; this control results from the fact that the Parent Company holds more than 95% of shares in the subsidiaries and capacity to manage the activities of these entities. Subsidiaries excluded from consolidation are entities in liquidation, restructuring, in which at the same time the Parent Company holds no control or entities irrelevant from the point of view of consolidation in the Group. The materiality threshold for excluding a subsidiary from consolidation is determined by the ratio of assets of the analysed entity to the balance sheet total of the Group and by the share of sales revenues of the analysed entity in the Group's sales revenues. The Company has significant influence in the associated company Energomontaż - Północ Bełchatów Sp. z o. o. due to the shareholding of more than 30% of shares and the possibility to appoint one member of the Supervisory Board.

1.2. Functional and reporting currency

Items included in the financial statements of individual entities of the Group are measured in the currency of the primary economic environment, in which the entity operates. The consolidated financial statements have been prepared in Polish zlotys (PLN), which is the presentation currency of the Group. The data in the consolidated financial statements has been shown in PLN thousand, unless in specific situations they were expressed in greater accuracy.

2. Approval of the financial statements

On April 12, 2018, the Management Board approved the consolidated financial statements of the Polimex-Mostostal Capital Group for the year ended on December 31, 2017 for publication.

The consolidated financial statements of Polimex-Mostostal Capital Group and the financial statements of the Parent Company are subject to audit by the certified auditor, i.e. Deloitte Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa. The report on the audit of financial statements for the year 2017 was issued on April 12, 2018. Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. is an auditor of selected subsidiaries in the Polimex-Mostostal Capital Group, i.e. Polimex Opole spółka z ograniczoną odpowiedzialnością komandytowa, Polimex Energetyka Sp. z o.o., Naftoremont-Naftobudowa Sp. z o. o., Polimex Centrum Usług Wspólnych Sp. z o.o., Mostostal Siedlce Sp. z ograniczoną odpowiedzialnością spółka komandytowa, Polimex Budownictwo Sp. z o. o. Auditing financial data of the above subsidiaries was completed on April 12, 2018; the audit reports on the statutory financial statements of these companies will be issued within the period provided for in the Act of 29 September 1994 on accounting (Journal of Laws of 2013, item 330 as amended).

3. The platform of International Financial Reporting Standards

3.1. Conformity statement

These consolidated financial statements have been prepared on the basis of International Financial Reporting Standards ("IFRS") and related interpretations announced in the form of regulations of the European Commission.

Some of the Group's entities keep their books of account in accordance with the policy (principles) specified in the Act of 29 September 1994 on accounting ("the Act"), as amended, and the regulations issued thereunder. The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group's entities, introduced in order to make their financial statements comply with IFRS.

3.2. Impact of new and changed standards and interpretations

IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following interpretations and standards, which as at April 12, 2018 have not yet been adopted for use:

- IFRS 14 "Deferred Balances from Regulated Activities" (effective for annual periods beginning on or after January 1, 2016) - The European Commission has decided not to start the approval process of this temporary standard for use within the EU until the final version of IFRS 14 is issued,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on January 1, 2021 or after that date),
- Amendments to IFRS 2 "Payments based on shares" - Classification and valuation of payments based on shares (effective for annual periods beginning on January 1, 20018 or after that date),
- Amendments to IFRS 9 "Financial Instruments" - Characteristics of the prepayment option with negative offset (effective for annual periods beginning with January 1, 2019 or after that date),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or transfer of assets between an investor and its affiliate or joint venture and subsequent changes (date of entry into force of amendments has been postponed until the completion of works research on the equity method),
- Amendments to IAS 19 "Employee benefits" - Change, limitation or settlement of the plan (effective for annual periods beginning on January 1, 2019 or after that date),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term shares in associates and joint ventures (effective for annual periods beginning on January 1, 2019 or after that date).
- Amendments to IAS 40 "Investment Property" - Transfer of investment property (effective for annual periods beginning on January 1, 2018 or after that date),
- Changes to various standards "Amendments to IFRS (cycle 2015-2017)" – amendments made as part of the procedure of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (effective for annual periods beginning on January 1, 2019 or after that date),
- Interpretation IFRIC 22 "Transactions in Foreign Currencies and Prepayments" (effective for annual periods beginning on or after January 1, 2018),
- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" (effective for annual periods beginning on January 1, 2019 or after that date).

According to the Group's estimates, the aforementioned new standards and amendments to existing standards would not have materially impacted the consolidated financial statements if they had been applied by the Group as at the balance sheet date.

At the same time, hedge accounting of the portfolio of financial assets and liabilities, the principles of which have not been approved for use in the EU, remains outside the regulations adopted by the EU. According to the Group's estimates, the application of hedge accounting to hedge the portfolio of financial assets or liabilities according to IAS 39 "Financial Instruments: Recording and the valuation" would not have materially impacted the financial statements if they were adopted by the EU for use as at the balance sheet date.

When approving these financial statements, the following new standards have been issued by the IASB and approved for use in the EU, but have not yet entered into force:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on January 1, 2018 or after that date),

  The Group plans to apply IFRS 9 from the effective date of the standard, without transforming the comparative data. The Group has analysed the impact of the provisions of the new standard on the consolidated financial statements. The Group does not expect significant impact of the new standard on the consolidated financial statements, except for the effects of the application of the standard's provisions in terms of impairment.

  The new standard introduces a change in the method of recognising impairment from financial assets and contractual assets recognised in accordance with IFRS 15. It introduces an approach based on the expected credit loss. The Group analysed its financial instruments and estimated expected credit losses in accordance with the provisions of the standard. The effect of the change in write-offs will be recognised by the Group's capital as at January 1, 2018. The Group estimates that a change in the principles of impairment recognition will reduce the Group's capitals as at January 1, 2018 by PLN 4.8 million.

  The standard introduces one model that provides for three categories of classification of financial assets: measured at fair value through other comprehensive income, measured at fair value through profit or loss and measured at amortised cost. The classification is made at the moment of initial recognition and depends on the models of financial asset management adopted by the entity and on the characteristics of contractual cash flows from these instruments. Financial assets classified by the Group as loans and receivables shall be presented in the category of financial assets measured at amortised cost. The Group does not identify any other amendments in the recognition.

- IFRS 15 "Revenue from contracts with customers" and subsequent amendments (effective for annual periods beginning on January 1, 2018 or after that date),

  This standard defines how and when revenue is recognised and requires the provision of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition. Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard is the recognition of revenue in such a way as to reflect the transfer of goods or services to customers and in the amount that reflects the amount of remuneration (i.e. the payment), to which the entity expects to obtain a right in exchange for goods or services. The standard also provides transaction recognition guidelines that have not been regulated in detail by existing standards (e.g. service revenues or contract modifications) as well as provides more comprehensive explanations on the recognition of multi-item agreements.

  Under the new standard, the Group identifies two main areas that differ from the currently applicable rules, namely: the moment of recognising sales revenues, and the necessity to identify certain elements of contracts (separate obligations to meet the obligation). The principles provided for in the new standard stipulate that the moment of recognition of sales revenues will be the moment when the entity fulfils the obligation to provide to the ordering party. Depending on the circumstances, the recognition of revenues will be spread over time (if the performance is spread over time) or captured at a given moment (if the performance is met at one time). The new standard also imposes an obligation to extract separate obligations to provide performance and recognise revenues separately for each separate liability.

The Group plans to apply IFRS 15 from the effective date of the standard, without transforming the comparative data. The Group executes complex construction contracts, in which the scope of works is wide and covers many tasks. An analysis of the contracts in progress was carried out in view of the provisions of IFRS 15. The impact of amendments introduced by the new standard introduces to the consolidated financial statements is immaterial. The Group will not make any adjustments as at January 1, 2018.

- IFRS 16 "Leasing" - approved in the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019)

  According to IFRS 16, the lessee recognises the right to use the asset and obligations under lease. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of the lease payments payable during the lease term, a discounted rate contained in the lease, if it is not difficult to determine. If the rate cannot be easily determined, the lessee applies the marginal interest rate. Regarding the classification of leasing with the lessors, it is carried out in the same way as in accordance with IAS 17, i.e. as an operating or financial leasing. At the lessor, the leasing is classified as a finance lease, if substantially all of the risks and rewards of ownership of the assets in question are transferred. Otherwise, leasing is classified as an operating lease. In a financial lease, the lessor recognises financial income over the lease term, based on a fixed periodic rate of return on the net investment. Lessor recognises operating lease payments in the income linearly or other systematic way better reflects the pattern if you receive benefits from the use of the assets concerned. The Group is a lessee in such contracts as: car rental, computers and other IT equipment, office real estate. These contracts are currently recognized in accordance with the principles of operating lease. After the entry into force of the new standard, the Group will change the method of recognition in the books and present agreements in accordance with the requirements of the new standard. The effect of the changes will be recognising in the balance sheet assets and liabilities of significant amounts related to these contracts.

- Amendments to IFRS 4 "Insurance Contracts" - Application of IFRS 9 "Financial Instruments" together with IFRS 4 "Insurance Instruments" - approved in the EU on November 3, 2017 (effective for annual periods beginning on January 1, 2018 or after date or at the time of application of IFRS 9 "Financial Instruments" for the first time),
- Amendments to IFRS 15 "Revenue from contracts with customers" - Explanations to IFRS 15 "Revenue from contracts with customers" - approved in the EU on October 31, 2017 (effective for annual periods beginning on January 1, 2018 or after this date)
- Amendments to IFRS 1 and IAS 28 as a result of the "Amendment to IFRS (cycle 2014-2016)" – amendments made as part of the procedure of introducing annual amendments to IFRS (IFRS 1, IFRS 12 and IAS 28) mainly focused on solving incompatibilities and refinement of vocabulary - approved in the EU on February 7, 2018 (amendments to IFRS 1 and IAS 28 apply to periods annual ones beginning on January 1, 2018 or after this date).

The Group decided not to take advantage of the possibility of earlier application of the above-mentioned new standards and amendments to the existing standards. According to the Group's estimates, the above-mentioned new standards and amendments to existing standards would not materially affect the financial statements if they were applied as at the balance sheet date, except IFRS 9 and IFRS 16, the impact of which was described above.

The following standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and approved for use in the EU, enter into force for the first time in the Group in the consolidated financial statements for 2017:

- Amendments to IAS 7 "Statement of cash flows" - Initiative regarding disclosures - approved in the EU on November 6, 2017 (effective for annual periods beginning on January 1, 2017 or after that date),
- Amendments to IAS 12 "Income tax" - Recognition of deferred income tax assets on unrealised losses - approved in the EU on November 6, 2017 (effective for annual periods beginning on January 1, 2017 or after that date),
- Amendments to IFRS 12 as a result of the "Amendment to IFRS (cycle 2014-2016)" - amendments made as part of the procedure of introducing annual amendments to IFRS (IFRS 1, IFRS 12 and IAS 28) mainly focused on solving incompatibilities and clarifying vocabulary - approved in the EU on February 7, 2018 (amendments to IFRS 12 are effective for annual periods beginning on January 1, 2017 or after that date).

The above-mentioned amendments applied by the Group did not materially affect the accounting policy.

4. Adopted accounting principles (policy)

4.1. Continuation of activity

These consolidated financial statements were developed with the assumption of continuing business activity by the Group's companies in the foreseeable future. As of the date of authorisation of these financial statements, there are no reported circumstances indicating any risk to the continuation of activity the Group's companies included in the consolidation. In the case of a subsidiary Polimex-Mostostal Ukraina SAZ, the shareholders' equity of which is negative as at December 31, 2017, the Management Board plans to continue the company's operations in the foreseeable future.

4.2. Basis for the development of the consolidated financial statement

These consolidated financial statements have been prepared in accordance with the historical cost concept, with the exception of certain tangible fixed assets that are measured at revalued amounts or fair value and financial instruments at fair value at the end of each reporting period in accordance with the accounting policy specified below.

The historical cost is determined in principle on the basis of the fair value of the payment made for goods or services.

The consolidated financial statements are presented in zlotys ("PLN") (the currency of the presentation), and all values, unless otherwise indicated, are given in thousand zlotys ("PLN thousand").

The most important accounting principles applied by the Group are presented below

4.3. Consolidation rules

These consolidated financial statements include the financial statements of "Polimex-Mostostal" S.A. and the financial statements of its subsidiaries prepared for the year ended on December 31, 2017. Financial statements of subsidiaries, adjusted for compliance with IFRS, are prepared for the same reporting period as the parent company's report, based on uniform accounting principles applied to transactions and economic events of similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the occurrence of impairment.

Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and cease to be consolidated from the date on which such a control ends. The parent company exercises control when the parent company has power over a given entity when it is subject to exposure to changing financial results due to its involvement, or when it has the right to variable financial results and has the possibility to influence the amount of these financial results by exercising control over a subsidiary.

Changes in the parent company's ownership that do not result in the loss of control of the subsidiary are recognised as equity transactions. In such cases, in order to reflect changes in relative shares in the subsidiary, the Group adjusts the balance value of the controlling and non-controlling shares. Any differences between the amount of the adjustment of non-controlling shares and the fair value of the paid or received amount are recognised in the equity and attributed to owners of the parent company.

4.4. Investments in associates

Investments in associates are recognised with the equity method. The associates are entities, which are influenced directly by the parent company or through its subsidiaries, and which are neither its subsidiaries nor joint ventures. Financial statements of associates are the basis for the valuation of shares held by the parent company using the equity method. The financial year of associates and the parent company is the same. Before calculating the share of associates and joint ventures in net assets, the relevant adjustments to lead the financial data of these entities to the compliance with IFRS applied by the Group.

Investments in associates are recognised in the balance sheet at purchase price increased by subsequent changes in the parent company's share in the net assets of these entities, less any impairment losses. The share in profits or losses of associated entities is reflected in the consolidated profit or loss. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investee arising from changes in the investee’s other comprehensive income. The Group's share in these changes is recognised in other comprehensive income of the Group.

The assessment of investments in associates in terms of impairment occurs when there are indications of impairment or an impairment loss made in previous years is no longer required.

4.4.1. Changes in the Group's share in the share capitals of subsidiaries

Changes in the Group's share in the capital of subsidiaries that do not cause the Group to lose control over these entities are accounted for as equity transactions. The carrying amount of the Group's shares and non-controlling interests are adjusted to reflect changes in the share in the subsidiaries. Differences between the amount of adjustment of non-controlling interests and the fair value of the payment made or received are recognised directly in equity and attributed to the owners of the Company. If the Group loses control over a subsidiary, the profit or loss is included in the profit and loss account, calculated as the difference between the aggregate amount of received payment and the fair value of retained shares and the original carrying amount of assets (including goodwill) and liabilities of this subsidiary and non-controlling interests. All amounts related to this subsidiary, initially recognised in other comprehensive income, are accounted as if the Group directly sold the corresponding assets or liabilities of the subsidiary (i.e. transferred to the financial result or to another category of equity in accordance with the provisions of the relevant IFRS) . The fair value of investments held in the former subsidiary as of the date of loss of control is treated as the fair value at the time of the initial recognition in order to enable a possible settlement of the cost incurred at the time of the initial recognition of the investment in the affiliate or joint venture.

4.5. Participation in a joint venture

The Group's share in joint ventures is accounted for using the equity method.

4.6. Calculation of items denominated in a foreign currency

Transactions denominated in currencies other than PLN are calculated into PLN using the exchange rate applicable on the date of conclusion of the transaction.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than the Polish zloty are translated into Polish zlotys using the average exchange rate set for a given currency by the National Bank of Poland in force at the end of the reporting period.

Foreign exchange differences resulting from the translation and settlement of these items are recognised respectively in the financial income/expenses item or capitalised in the value of assets. Non-cash assets and liabilities recognised at historical cost expressed in a foreign currency are disclosed at the historical exchange rate as at the transaction date. Non-monetary assets and liabilities recognised at fair value expressed in a foreign currency are translated at the exchange rate effective at the date of valuation to the fair value.

The functional currency of foreign subsidiaries is UAH and RUB. At the balance sheet date, assets and liabilities of the branch are calculated into the Group's presentation currency at the exchange rate applicable at the balance sheet date, and their statements of comprehensive income are calculated at the weighted average exchange rate in a given period. The foreign exchange differences arising from this calculation are recognised in other comprehensive income and accumulated in a separate component of the equity. At the moment foreign entity is sold deferred currency differences accumulated in equity referring to the foreign currency concerned are recognised in the profit and loss account.

The weighted average exchange rates for the respective periods were as follows:

	The year ended December 31, 2017	The year ended December 31, 2016
UAH	0.1402	0.1542
RUB	0.0644	0.0680
EUR	4.2447	4.3757

4.7. Tangible fixed assets

Tangible fixed assets are shown at the purchase price/production cost less depreciation and impairment losses, except for the asset class defined as real estate and structures permanently connected with land, i.e. land, production plants and real estate developed with a warehouse, industrial and office building complex. The above asset class is presented in the "Land and buildings" category and is valued according to the revalued value model.

The initial value of fixed assets includes their acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to a condition for its intended use. The cost also includes the cost of replacing the individual components of machinery and equipment when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, encumber the profit or loss when incurred.

Increases in the carrying amount due to revaluation of assets recognised according to the revalued amount method are referred to the items of other comprehensive income and recognised as accumulated other comprehensive income in the shareholders’ equity. Reductions offsetting earlier increases that relate to the same fixed asset are charged to other comprehensive income and reduce the capital arising from the revaluation. All other reductions are recognised in the profit and loss account. The resulting component of equity is transferred to the position of retained earnings when the asset is removed from the balance sheet.

Fixed assets, at the time of their acquisition, are divided into components with a significant value to which a separate period of the economic usability can be attributed.

The redemption is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	Period
Buildings and structures	10-60 years
Machinery and technical equipment	2-40 years
Office equipment	3-10 years
Transport equipment	2-30 years
Computers	2-8 years
Investments in non-current assets	10-25 years

The final value, period of use and method of amortization of assets components is verified annually, at the end of December and if necessary, corrected effective from the beginning next financial year.
Investments in progress relate to fixed assets under construction or assembly and are recognised at acquisition or production cost less any impairment losses. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation.

4.8. Investment property

The initial recognition of the investment property occurs according to the acquisition or production cost, including transaction costs.

After initial recognition, investment properties are carried at fair value. Profits or losses arising from changes in the fair value of investment property are recognised in profit or loss under other income or other operating expenses in the period in which they arose.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement. If the asset used by the owner, the Company, becomes an investment property, the Group applies the principles described in part *Property, plant and equipment* until the day of changing the use of this property. The difference between the carrying amount determined in accordance with the principles presented in part as determined on the day of the transfer *Property, plant and equipment* and its fair value is treated analogically to the approach corresponding to the revalued amount. In the case of disposal of investment property, the difference between the selling price and the book value is recognised in the profit and loss account.

4.9. Intangible Assets

Intangible assets are measured at the initial recognition at the purchase price or production cost, as appropriate. Following the initial recognition, intangible assets are stated at their acquisition or production cost reduced by redemption and impairment write-downs for the loss in value.

Intangible assets with a definite useful life are depreciated during the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The following periods of use have been used:

Type	**Period**
Patents and licenses	For patents and licenses used on the basis of a contract concluded for a definite period, this period is assumed, taking into account the period for which the use may be extended
Development costs	5 years
Computer software	2-15 years

Goodwill

Goodwill on account of the acquisition of an entity is initially recognised at the purchase price constituting the amount of the surplus

- the total of:
  - (i) transferred payment,
  - (ii) the amounts of any non-controlling interest in the entity subject to acquisition and
  - (iii) in case of businesses merger achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the entity subject to acquisition.
- over the net amount determined as at the date of acquisition of the values of identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is reported at cost less any accumulated impairment losses. The value impairment test it is carried out once a year or more often if there are indications to do so. Goodwill is not subject to depreciation.

As at the acquisition date, the goodwill acquired is allocated to each of the cash-generating units that can benefit from the synergy of the combination. Each unit or group of units to which the goodwill is so allocated shall:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- is not larger than one operating segment determined in accordance with IFRS 8 Operating Segments.

An impairment loss is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill was allocated. If the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognised. If goodwill is part of a cash-generating unit and part of the operations within this unit is sold, the goodwill associated with the sold business is included in its carrying amount when determining profits or losses from the sale of such activity. In such circumstances, sold goodwill is determined based on the relative value of the operations sold and the value of the part of the cash-generating unit retained. A cash generating centre is not larger than one operating segment before aggregation.

4.10. Leasing

The Group as a lessee.

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset to the Group, are recognised in the financial statement at the lease commencement date at the lower of two following values: the fair value of the fixed asset constituting a subject of leasing, or the current value of minimal lease payments. Lease payments are allocated between the financial costs and reduction of the balance of the lease liabilities in a way that allows to obtain a constant interest rate on the remaining unpaid liability. Financial costs are recognised in profit or loss, unless the capitalisation requirements are met.

Fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of the fixed asset or the lease term.

The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

Conditional lease payments are recognised as a cost in the period in which they become due.

Group as a lessor

The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Initial operating fees and subsequent lease instalments are recognised as operating income in the income statement on a straight-line basis over the period of the lease.

Conditional lease payments are recognised as a cost in the period in which they become due.

4.11. Impairment of non-financial fixed assets

As at each balance sheet date, the Group evaluates whether there are any prerequisites indicating that loss in value of the component of non-financial fixed assets may have occurred. In the event when there are such prerequisites, or in case of the necessity to conduct an annual impairment test, the Group estimates the recoverable value of a given component of assets or a cash generating unit, which the component of assets belongs to if the element of assets concerned does not individually generate cash inflows.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced of effecting the sale of the given component of assets or respectively the cash generating unit, or its value in use, depending on which one is higher. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs, and the write-down to the determined recoverable value is made.

At each balance sheet date, the Group assesses whether there are any prerequisites indicating that the impairment write-down for the loss in value, which was recognised in previous periods, in relation to a given component of assets, is unnecessary or if it should be reduced.

4.12. Borrowing costs

Borrowing costs are capitalised as part of the cost of producing fixed assets. The borrowing costs are composed of interest calculated using the effective interest rate method, financial charges due to finance lease agreements and exchange differences arisen in connection with borrowing up to the amount corresponding to the adjustment of the interest cost.

4.13. Financial assets

Financial assets are classified into the following categories:
- Financial assets maintained to the maturity date,
- Financial assets evaluated in the fair value by the financial result,
- Loans and receivables,
- Available-for-sale financial assets

Financial assets maintained to the maturity date

Financial assets maintained to the maturity date are the financial assets quoted in the active market, and which are not derivative instruments with definite or possible to define payments as well as with the fixed maturity date, which the Group intends and has the possibility to hold to that time, other than:

- determined at the initial recognition as measured at the fair value by the financial result,
- meeting the definition of loans and receivables.
- determined as available-for-sale,

Financial assets maintained to the maturity date are measured at the depreciated cost using the effective interest rate method. Financial assets held to the maturity date are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets measured at the fair value by the financial result

The component of financial assets measured at the fair value by the financial result is a component that meets one of the following conditions:

(a) It is classified as held for trading.

The components of financial assets are classified as held for trading, if they are:

i. principally acquired for the purpose of selling in a short period of time,
ii. part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
iii. derivatives, except for the derivatives that are part of hedge accounting and financial guarantee contracts,

b) was, in accordance with IAS 39, classified into this category upon the initial recognition.

The financial assets measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets measured at the fair value by the financial result. This does not apply to cases where the embedded derivative does not significantly affect the cash flows from the contract or the separation of embedded derivatives is clearly prohibited. Financial assets at the initial recognition can be classified to the category measured at the fair value by the financial result if the following criteria are met:

(i) such a qualification eliminates or significantly reduces the inconsistency of treatment, when both the valuation and the rules for recognising losses or profits are subject to other regulations; or

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

(iii) financial assets contain embedded derivatives, which should be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in the active market. They are included in current assets, if their maturity date does not exceed 12 months from the balance sheet date. The granted loans and receivables with the maturity date exceeding 12 months from the balance sheet date are classified as fixed assets. After the initial recognition, loans and receivables are measured at amortized cost using the effective interest rate.

Available-for-sale financial assets

The available-for-sale financial assets are the financial assets which are not derivatives, and which were classified as available for sale or those that do not belong to any of the three previously mentioned categories. Available-for-sale financial assets are recognised at fair value, without deducting transaction costs, taking into account the market value as at the balance sheet date. In the event of a lack of exchange quotations on the active market and if it is not possible to reliably determine their fair value using alternative methods, the available-for-sale financial assets are measured at the acquisition price adjusted by the impairment writ-down for the loss in value. The positive and negative difference between the fair value of the available-for-sale assets (if there is a market price established on the active market or if their fair value can be determined by some other reliable method), and their acquisition price, after deduction of the deferred tax, are included in other comprehensive income. The decrease in value of the available-for-sale assets caused by the loss in value is recognised as financial cost.

The acquisition and sale of the financial assets are recognised at the transaction date. At the time of the initial recognition, a component of financial assets is measured at the fair value, increased, in case of the component of assets not classified as the measured at the fair value by the financial result, with the transaction costs, which can be directly attributed to the acquisition.

The component of financial assets is removed from the balance sheet when the Group loses control of the contractual rights that comprise a given financial instrument; it usually occurs when the instrument is sold or when all the cash flows attributed to the given instrument are transferred to an independent third party

Interests in unconsolidated subsidiaries

Shares in unconsolidated subsidiaries are measured at cost.

4.14. Impairment of financial assets

As at each balance sheet date, the Group evaluates whether there are objective prerequisites of the loss in value of the component of financial assets or the group of financial assets.

Assets recognised in accordance with the depreciated cost

If there are objective prerequisites that a loss in value of the granted loans and receivables, measured in accordance with the depreciated cost, occurred, then the cost of the impairment write-down for the loss in value equals to the difference between the balance sheet value of the component of financial assets (excluding future credit losses that have not been incurred yet), discounted using the initial (i.e. determined at the initial recognition) effective interest rate method. The carrying amount of an asset is reduced through a revaluation write-down. The amount of the loss shall be recognised in profit or loss.

The Group firstly evaluates whether there are objective prerequisites of the loss in value of the individual financial assets which are individually significant, as well as prerequisites of the loss in value of the financial assets that individually are not significant. If the conducted analysis shows that there are no objective prerequisites of the loss in value, regardless of whether it is significant or not, the Group includes this component to the group of financial assets with similar credit risk characteristics and jointly assesses in terms of the loss in value. The assets that are individually assessed for the loss in value, and for which the impairment write-down for the loss in value was recognised, or it was considered that the current write-down will not change, are not taken into account in the total assessment of the group of assets in terms of the loss in value.

If the impairment write-down for the loss in value decreased in the next period, and the decrease can be objectively associated with an event occurred after the impairment write-down recognition, then the previously recognised impairment write-down is reversed. The subsequent reversal of the impairment write-down for the loss in value is recognised in profit or loss to the extent, in which as of the date of reversal, the balance sheet value of the component of assets does not exceed its depreciated cost.

Financial assets stated at cost

If there are the objective prerequisites that the loss in value of the unquoted equity instrument, which is not stated in accordance with the fair value, because its fair value cannot be reliably determined, of the derivative instrument, which is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment write-down for the loss in value is determined as the difference between the balance sheet value of the component of financial assets and the current value of the estimated future cash flows, which are discounted using the current market rate of return for similar financial assets.

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

4.15. Financial derivative instruments and collaterals

The derivatives used by the Group in order to secure against the risk related to the changes of interest rates and exchange rates are mainly the currency forward contracts and contracts for the interest rates change (interest rate swaps). Such derivatives are measured at the fair value. Derivatives are stated as assets when their fair value is positive, and as liabilities – when their value is negative.

Profits or losses for the fair value changes of derivatives, which do not comply with the hedge accounting principles are directly stated in the net financial result of the financial year.
The fair value of currency forward contracts is determined by the reference to the current forward rates for contracts with a similar maturity date. The fair value of contracts for the interest rate swaps is determined by the reference to the market value of similar instruments.

4.16. Inventories

Inventories are measured at the lower of the two values: the acquisition price/production cost and the net sale price possible to achieve.

Costs are recognised as follows:

Materials	at the purchase price determined using the "first in-first out" method;
Finished products and products in progress	the cost of direct materials and labour as well as an appropriate mark-up of indirect production costs determined assuming the normal use of production capacity, excluding borrowing costs;
Goods	at the purchase price determined using the "first in-first out" method.

When the inventory is released from the warehouse, the Group recognises the cost of sales - in the case of sales, or consumption of materials - in the case of delivery of the inventory for further production or provision of services.

When the inventory is sold, the carrying amount of these inventories is recognised as the cost of the period in which the relevant revenues are recognised.

The net sale price, which is possible to achieve, is an estimated sale price in the ordinary course of business, decreased by the costs of completion as well as the estimated costs necessary to complete the sale.

4.17. Trade and other receivables

Trade receivables are recognised and stated according to initially invoiced amounts, including the write-down against doubtful receivables. The write-down against receivables is estimated when the recovery of the full amount of receivables is no longer probable.

When the impact of the time value of money is significant, the value of receivables is determined by discounting the predicted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method involving discounting was applied, then the increase in liabilities due to the passing time is recognised as financial revenues.

Other receivables include, in particular, advances forwarded for future purchases of property, plant and equipment, intangible assets and inventories. The advance payments are presented according to the nature of the assets, to which they relate, respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount.

The Group presents amounts retained by customers, under the item "Deposits under construction contracts".

4.18. Deposits under construction contracts

The deposits under construction contracts are amounts due to the Company resulting from the amounts paid as part of the construction contracts.

The deposits under construction contracts are recognised and disclosed according to the amounts originally invoiced or paid to the recipient, including the write-down.

When the impact of the time value of money is significant, the deposit value is determined by discounting the predicted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible customer’s credit risk. The write-off for deposits transferred under construction contracts is estimated when it is no longer possible to recover the full amount of the deposit.

If a method involving discounting was applied, then the increase in liabilities due to the passing time is recognised as financial revenues.

4.19. Cash and cash equivalents

Cash shown in the balance sheet includes cash at bank and on hand as well as bank deposits payable on request.

Cash equivalents include investments that meet all of the following criteria: short-term, i.e., generally with a maturity of less than 3 months from the date of acquisition, highly liquid, easily convertible into specified amounts of cash, and exposed to a slight risk of change in value.

Cash and cash equivalents are measured at their nominal value.

The balance of cash and cash equivalents shown in the cash flow statement consists of the cash and cash equivalents specified above.

4.20. Loans, borrowings and debt securities (bonds)

At the time of the initial recognition, all bank credits, loans and debt securities are recognised in the fair value, decreased by the costs associated with obtaining a credit or loan.

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

4.21. Assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, and sales are considered highly probable. They are recognised in the lower of the following two amounts: their carrying amount and fair value less costs of sales.

4.22. Other assets

Prepayments are recognised in the amount of expenses already incurred, which relate to the next reporting periods after the balance sheet date. These costs are shown at face value after having made sure that these costs will benefit the entity in the future. Prepayments include mainly:

- insurance
- subscriptions,
- rents paid in advance.

4.23. Deferred income

Deferred income is recognised taking into account the principle of prudent valuation. These include primarily the equivalent of received or due funds for benefits that will be performed in the next reporting periods. The amounts recognised as deferred income gradually increase the operating revenues.

4.24. Trade and other payables

Short-term trade liabilities are stated in the payable amount. Other financial liabilities, which are not financial instruments measured at the fair value by the financial result, are measured in accordance with the depreciated cost using the effective interest rate method.

Other non-financial liabilities include, in particular, liabilities related to the purchase of fixed assets and accruals. Other non-financial liabilities are recognised in the amount that requires payment.

Liabilities due to guarantee deposits whose maturity date is shorter than 12 months are recognised as current liabilities. Long-term liabilities due to guarantee deposits are discounted to the present value according to effective interest rates. Short-term deposits under the construction contracts as at the day of their creation are disclosed in the current value of the expected payment and recognised in subsequent periods at amortised cost.

Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as termination of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as termination of the original one and recognition of a new financial liability. The differences in respective balance sheet values arising from the conversion are shown in the profit and loss account.

4.25. Deposits under construction contracts

The deposits received under construction contracts are the amounts resulting from the amounts received as part of the construction contracts.

The deposits under the construction contracts are recognised and reported according to the amounts originally invoiced or paid by the suppliers.

When the impact of the time value of money is significant, the value of the provision size is determined by discounting the predicted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the Group's possible credit risk. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

4.26. Liabilities under employee benefits

Short-term employee benefits paid by the Group include:

- wages, salaries and social security contributions;
- short-term compensated absences, if absences are expected to occur within 12 months of the end of the period in which employees performed their related work,
- profit-sharing and bonuses payable within 12 months after the end of the period in which the employees were performing work related to them;
- non-cash benefits for currently employed employees.

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period in which the entity received the benefit from the employee, and in the case of distributions from profit and bonus, if the following conditions are met:

- the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

The Group recognises the expected costs of short-term employee benefits in the form of paid absences in the case of accumulated paid absences (i.e. those for which allowances are transferred for future periods and can be used in the future if they have not been fully utilised in the current period) and in the case of non-accumulated paid absences (which give rise to obligations on the part of the Company as of their occurrence).

In accordance with the Company remuneration systems, employees of the Group companies have the right to jubilee awards and retirement benefits. The jubilee bonuses are paid to employees after having worked a certain number of years. Retirement bonuses are paid once at the time of retirement. The amount of retirement benefits and jubilee bonuses depends on the length of service and the average remuneration of the employee. The Group creates a provision for future liabilities related to retirement benefits and jubilee bonuses in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee bonuses are other long-term employee benefits, while retirement benefits are programs of specified post-employment benefits. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data.

Liabilities under retirement benefits and jubilee bonuses are presented in the item of liabilities due to employee benefits.

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

Actuarial gains and losses related to defined post-employment benefit plans are presented in other comprehensive income. However, profits and losses related to other long-term employee benefits are recognised in the current income statement of the reporting period.

4.27. Provisions

Provisions are created when the Group is burdened with the existing liability (legal or customary expected one) resulting from past events, and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated.

If the Group expects that costs that the costs covered by the provision are reimbursed, for example under the insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is virtually certain that the reimbursement of this will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any reimbursement.

When the impact of the time value of money is significant, the value of the provision is determined by discounting the forecast future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

4.28. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, the stockholders/shareholders of entities can distribute the profits for employee purposes in the form of making a contribution to a social fund or other special funds. In the financial statements compliant with IFRS, this part of the profit distribution is included in the operating costs of the period to which the profit distribution relates.

4.29. Revenues

Revenues are recognised to the extent that it is probable that the Group will obtain the economic benefits associated with the transaction, and the amount of revenues can be reliably measured. Revenues are recognised net of value added tax (VAT) and excise tax as well as rebates. Revenues are also recognised according to the below criteria.

Construction contracts

Revenues from completion of an unfinished construction service covered by the contract, made as at the balance sheet date to a significant extent, is determined as at the balance sheet date proportionally to the stage of completion of the service, if the revenue amount can be determined reliably. The degree of advancement is measured by the share of costs incurred from the date of conclusion of the contract to the date of determining the revenue in the estimated total costs of the service or share of the work done in relation to the total workload.

If the stage of completion of the unfinished service cannot be reliably established as at the balance sheet date, the revenue is determined in the amount incurred in the given reporting period, but not higher than the costs that the ordering party is likely to cover in the future.

In the event that it is probable that the total costs of performing the contract will exceed the total revenues from the contract, the expected loss is recognised as the cost of the period in which it was disclosed.

The costs of production of an unfinished service include costs incurred from the date of conclusion of the relevant contract until the balance sheet date. The production costs incurred before the conclusion of the contract related to the implementation of its subject are counted into assets if it is probable that these costs will be covered in the future with revenues obtained from the ordering party. Then they are included in the costs of producing the unfinished construction service.

If the incurred costs decreased by expected losses increased by profits included in the profit and loss account exceed percentage advancement percentage of invoiced sales, resulting from the above difference the amount of invoiced sales is presented in the balance sheet assets in receivables from the valuation of long-term contracts in correspondence with revenues from services.

If the percentage of invoiced sales exceeds the percentage advancement of incurred costs minus expected losses and increased by profits included in the profit and loss account, the future revenues resulting from the above difference are presented in liabilities due to the valuation of long-term contracts in correspondence with revenues from these services.

Revenues from sales of goods and products

Revenues are recognised if the significant risk and benefits of the equity related to goods and products were transferred to the buyer and the amount of revenues can be reliably measured.

Rental income

Revenues from renting investment property are recognised using the straight-line method over the rental period in relation to open contracts.

Interest

Interest income is recognised successively as it accrues (taking into account the effective interest rate method, which is the rate that exactly discounts future cash flows over the estimated life of financial instruments) in relation to the net carrying amount of a given financial asset.

Dividends

Dividends are recognised at the time of establishment of the shareholders' rights to these dividends.

4.30. Taxes

Current tax

The liabilities and receivables for the current tax for the current period and previous periods are evaluated in the amount of expected payment for tax authorities (subject to return from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.

Assets / Provisions for deferred tax are recognised in relation to all negative / positive temporary differences:

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.

The balance sheet value of the assets' component due to the deferred income tax is verified on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component due to the deferred income tax will be achieved. An unrecognised deferred tax asset is re-assessed as at each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allowing to recover this component of assets.

The deferred tax assets and provisions for the deferred tax are evaluated with the use of the tax rates that are expected to be applicable in the period, in which the assets' component is realised or the provision is released, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective as at the balance sheet date in the future.

The income tax on items recognised outside the profit or loss is recognised outside the profit or loss: in other in other comprehensive income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The Group companies offset deferred tax assets and deferred tax liabilities if and only if they have an enforceable legal title to compensate for receivables with current tax liabilities and deferred income tax is connected with the same taxpayer and the same tax authority.

5. Significant values based on professional judgement and estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring on a balance sheet date, to which vital risk of the significant adjustment of balance value of assets and liabilities in the next financial year are related, are discussed below.

Useful lives of property, plant and equipment

As described in note 4.4, the Group verifies the expected useful lives of the items of property, plant and equipment at the end of each annual reporting period.

Fair value measurement and procedures related to the valuation

Investment properties are valued by the Company at fair value for the purposes of financial reporting. The valuation is carried out by external qualified property appraisers. Valuations are prepared using income methods or comparative methods. The Group applies a revalued value model for the asset class: real estate and structures. When revaluations are carried out, the Group acquires valuations at fair value for individual locations of real estate and structures. Revaluation is carried out for the entire asset class when the fair value differs significantly from the carrying amount. Valuations are prepared using income methods or comparative methods. Details of the valuations carried out are described in note 11.

Impairment of Assets

The Group performs tests for impairment of fixed assets and shares in a situation where there are factors that indicate the impairment of assets. This requires estimating the value in use of the cash-generating unit to which these fixed assets belong. The estimation of value in use consists in determining future cash flows generated by the cash-generating unit and requires determining the discount rate to be used in order to calculate the current value of these cash flows.

Impairment losses on goodwill

In accordance with IAS 36, the Management Board of the Parent Company performs annual impairment tests of cash generating units to which goodwill has been allocated as at the balance sheet date. Assumptions and relevant information regarding the tests carried out are provided in note 12 of Additional information and explanations. As a result of the test, in the financial year ended December 31, 2017, the Management Board of the Parent Entity recorded in the Group's financial statements a permanent impairment of goodwill in the amount of PLN 191 474 thousand.

Asset component due to deferred tax, note No. 8.2

The Group recognises the component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deteriorations of the achieved tax results in the future, could lead to a situation, in which this assumption would become unjustified.

Recognition of revenues, note No. 17

The gross margins of the contracts are determined based on the formalised process of the Project Review, as the difference between the sales price and the estimated total contract costs (the sum of costs incurred and estimated costs until completion of the contract). Verification of estimated costs to complete the project takes place during the Project Review carried out monthly, quarterly, semi-annual, or with a different frequency depending on the type of contract. Costs to complete the project are determined by competent teams, substantively responsible for the implementation of the area based on knowledge and experience.

The Group uses the percentage of work completion method at settlement of long-term contracts. Use of this method requires from the Group estimation of proportions of completed works to all services to be performed. Based on the updated budgets of contracts and the progress of construction contracts, the Group recognises the effects of changes in estimates as a result of the next period.

Valuation of liabilities under employee benefits - retirement and pension severance pays

Provisions due to employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in the note 27.

Provision for warranty repairs, note No. 26

Provisions for liabilities for warranty repairs are created during the contract in proportion to sales revenues. The amount of the created reserves depends on the type of construction services performed and constitutes a certain percentage of the value of revenues from the sale of a given contract. The value of reserves for the costs of warranty repairs may, however, be subject to individual analysis (including the opinion of the manager responsible for a given construction site) and may be increased or decreased in justified cases. The release of provisions takes place within the first 3-5 years after completing the investment in proportions corresponding to the actually incurred costs of repairs.

Restructuring provision, note No. 26

The Group creates a restructuring provision when it has a detailed, formal plan specifying the business or part of the business that this plan applies to, the main locations to be covered, the number of employees who are to receive compensation in exchange for termination of employment and the date by which the plan has been implemented; in addition, the plan was announced or its implementation started.

Provisions for litigations, note No. 26

Provisions related to the effects of pending court proceedings are established when a claim is filed against the entity and the probability of a judgment unfavourable to the entity is greater than the probability of a favourable judgment. The basis for the assessment of this probability is the course of court proceedings and the opinions of lawyers. The created provisions are charged to other operating costs.

Provision for penalties, note No. 26

Estimates of contractual penalties are made by the technical services involved in the construction contract, together with the legal department that interprets the provisions of the contract. Provisions for penalties are created when the probability of imposing a penalty by the contracting authority due to improper performance of the contract is high.

Provision for contract settlement costs, note No. 26

Provisions for contract costs relate to the final settlement of road contracts. Detailed information on this subject is included in note 7.1.

Provision for expected losses on construction contracts, note No. 26

On every balance sheet date, the Group revaluates budgeted estimates of total revenues and costs of realised projects. The projected contract-related loss is recognised as costs of the period, when it was recognised in accordance with IAS 11.

Provision for sureties, note No. 26

A surety granted is recognised in the books as a provision if, as at the balance sheet date, there is a high probability that the borrower is not be able to pay their debts.

Write-off revaluating unnecessary materials (note No. 15) and receivables (note No. 16)

At each balance sheet date, the Group analyses individual indications of impairment of trade receivables such as disputable receivables, receivables pursued at court, receivables from companies in bankruptcy or liquidation, and others. On this basis, it makes individual write-offs for the value of receivables, and the remaining receivables comprise the statistical write-off according to the age structure.

At each balance sheet date, the Group updates the revaluation write-off of the redundant materials taking into account the remaining time in the warehouse and potential future uses.

6. REPORTABLE SEGMENTS

For the purpose of management, the Group was divided into parts on the basis of manufactured products and provided services.

Production	production and delivery of steel structures, platform grates, shelving systems, pallets, road barriers. Services in the field of anticorrosive protection of steel constructions by hot dip galvanizing, Duplex system, painting by hydraulic method.
Industrial construction	construction and assembly services. General contracting of buildings in the construction industry (including property development). Realisation of large industrial and general construction buildings. Installation of steel constructions, specialist equipment, halls and special constructions.
Power industry	services related to the energy industry. General contracting of facilities in the energy sector, design, production and sale of power boilers, maintenance services for the permanent and comprehensive service of power plants, combined heat and power plants and industrial plants.
Oil, gas, chemicals	general contracting of facilities in the chemical industry. Assembly of process equipment for the chemical and petrochemical industry, prefabrication and assembly of steel structures, technological pipelines, storage tanks and pipelines, prefabrication and assembly of furnaces for the refining industry. Implementation of proecological projects. Recipients of services are chemical plants, refineries, petrochemical and gas industry.

For reporting purposes, the Group presents two additional segments, due to historical conditions and a better understanding of the report:

Infrastructural construction	general contracting of buildings in the road and railway construction industry. In the segment, the Group presents the effects of settlements of road contracts, where the main recipient of services was the General Directorate of National Roads and Motorways.
Other Operations	hardware and transport services, rental services, laboratory tests, equipment service, other services not included in other segments

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. To assess operating results of segments, the Management Board uses the segment's result achieved on operating activities and the segment's gross result. Income tax is monitored at the Group level and is not allocated to segments.

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with non-related entities. The tables below present data on revenues and profits of individual operating segments of the Company for the year ended on December 31, 2017 and on December 31, 2016. The Management Board of the Company regularly monitors the results of segments; however, from January 1, 2014, due to the change in the organisational structure of the Company, no current assessment of segment assets and liabilities is made. Consequently, in accordance with IFRS 8.23, the tables below do not include the breakdown of assets and liabilities by segment.

Data regarding segments are presented according to identical rules that serve to prepare financial statements.

Year ended on December 31, 2017	Production	Industrial construction	Power industry */	Oil, gas, chemicals	Infrastructural construction	Other operations	Exceptions	Activities overall
Revenues								
Sales to external customers	657 304	23 470	1 517 222	205 905	8	17 169		2 421 078
Sales between segments	20 021	33 601	8 926	970	-	44 566	(108 084)	-
Total segment revenues	677 325	57 071	1 526 148	206 875	8	61 735	(108 084)	2 421 078
Results								
Depreciation; including:	20 290	71	1 895	79	37	6 224		28 596
- depreciation of tangible fixed assets	20 224	58	1 805	79	37	5 686	-	27 889
- depreciation of intangible assets	65	13	90	-	1	539	-	708
Profit (loss) from operating activities*	53 764	33 466	(157 994)	8 702	(2 370)	(23 290)	-	(87 722)
Balance of financial income and expenses	(11 500)	1 156	132	(2 177)	6 238	(13 345)	-	(19 496)
Gross profit (loss) of the segment	42 264	34 622	(157 862)	6 525	3 868	(36 635)	-	(107 218)

Revenues from transactions between segments are eliminated.

* / The loss from the operating activity of the energy sector includes the share in the loss of an associate in the amount of PLN 9 892 thousand and a write-off revaluating goodwill in the amount of PLN 191 474 thousand Investment expenditures correspond to the increase in property, plant and equipment, intangible assets and investment property.

Year ended December 31, 2017	Production	Industrial construction	Power industry	Oil, gas, chemicals	Infrastructural construction	Other operations	Activities overall
Other information about the segment							
Capital Expenditures:	23 242	-	402	737	-	1 003	25 384
- for tangible fixed assets	23 128	-	379	737	-	948	25 192
- for intangible assets	114	-	23	-	-	54	192
Revaluation of property, plant and equipment	(1 919)	-	-	-	-	(408)	(2 327)
Revaluation of investment property	-	-	-	-	-	132	132

Year ended December 31, 2016	Production	Industrial construction	Power industry	Oil, gas, chemicals	Industrial construction	Other operations	Exceptions	Activities overall
Revenue								
Sales to external customers	434 601	13 216	1 904 341	274 720	536	40 807	-	2 668 221
Sales between segments	96 503	30 300	906	657	441	53 697	(182 504)	-
Total segment revenues	531 104	43 516	1 905 247	275 377	977	94 504	(182 504)	2 668 221
Results								
Depreciation; including:	18 716	240	3 584	98	30	9 914	-	32 582
- depreciation of tangible fixed assets	18 540	141	3 330	96	26	7 861	-	29 994
- depreciation of intangible assets	176	99	254	2	4	2 053	-	2 588
Profit (loss) from operating activities	46 845	(222)	(64 132)	(18 199)	16 556	(12 418)	-	(31 570)
Balance of financial income and expenses	(5 367)	(548)	1 588	(2)	(344)	(12 108)	-	(16 781)
Gross profit (loss) of the segment	41 478	(770)	(62 544)	(18 201)	16 212	(24 526)	-	(48 351)

Revenues from transactions between segments are eliminated.

* / The loss on operating activities includes the share in the loss of an associate in the amount of PLN 3 678 thousand.

Capital expenditures correspond to an increase in property, plant and equipment, intangible assets and investment property.

Year ended on December 2016	Production	Construction industry	Power industry	Oil, gas, chemicals	Infrastructural construction	Other operations	Activities overall
Other information about the segment							
Capital Expenditures:	4 056	2	244	84	-	98	4 484
- for tangible fixed assets	4 053	2	221	84	-	90	4 450
- for intangible assets	3	-	23	-	-	8	34
Revaluation of property, plant and equipment	-	-	(13)	-	-	-	(13)
Revaluation of real property						10 441	10 441

(PLN thousand)

6.1. The key recipients of the Group

In 2017, the Group had two recipients, for whom sales exceeded 10% of sales revenues. Sales for these recipients amounted to PLN 1 379 million and are presented in the Power sector.

6.2. Geographical Information

The tables below present data on revenues for individual geographical areas of the Group for the year ended on December 31, 2017 and December 31, 2016.

Year ended on December 31, 2017	**Country**	**Abroad**	**TOTAL**
Revenues			
Sales to external customers	1 874 945	546 133	2 421 078

Year ended on December 31, 2016	**Country**	**Abroad**	**TOTAL**
Revenues			
Sales to external customers	2 179 352	488 869	2 668 221

The Group classifies sales as domestic or foreign sales based on the place of the service or delivery.

7. Revenues and expenses

7.1. Sales revenues

	Year ended December 31, 2017	**Year ended December 31, 2016**
Revenues from the sales of services	1 815 076	2 134 324
Revenues from sales of goods, materials and products	600 059	529 213
Rental income	5 943	4 684
Total net revenues from sales	2 421 078	2 668 221

Significant events regarding contracts performed

As a result of actions undertaken related to the implementation of the Kozienice Project, which partially limited the previously diagnosed technical risks, optimised purchasing processes and improved verification and billing processes with subcontractors and suppliers, and in connection with the signing of the Block acquisition for operation protocol on December 19, 2017, the Management Board of the Company adopted on February 21, 2018 a resolution to update the budget of the Kozienice Project by reducing the total cost budget by PLN 42.3 million as part of the process of closing the Company's accounting books for 2017. The impact of the budget adjustment has been fully included in the financial result for 2017. As a result of consultations within the consortium of the Company and Mostostal Warszawa SA and Rafako SA (the "Consortium") and GE Power, which is a general designer and acts as the leader of the consortium managing contract performance and carried out analyses, new deadlines for commissioning blocks No. 5 and 6 at the Opole Power Plant were determined. Declared changed dates of commissioning for use are May 31, 2019 for unit No. 5 and September 30, 2019 for unit No. 6. Approval of new dates of investment transfer is the subject of negotiations between the Consortium and the ordering party. The change of the block transfer dates has been included in the updated contract implementation budget. The updated budget does not include potential reserves for contractual penalties for untimely performance of the task, the risk of the occurrence of which the parent company assesses as minimal.

(PLN thousand)

7.2. Other operating revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Profit on disposal of assets		
Profit from the sales of fixed assets	1 464	1 604
Profit from the sales of current assets	1 250	-
Solved write-downs and reserves		
Release of the reserve for lawsuits	16 310	807
Release of the cost reserve	-	-
Release of provisions for non-trading receivables	-	1 390
Release of provisions for assets available for sale	2 025	1 812
Other operating revenues		
Profit from revaluation of fixed assets to fair value	8 398	
Profit from revaluation of investment properties to fair value		9 020
Result on the exclusion from consolidation of a subsidiary	-	12 188
Obtained damages and penalties	2 068	5 744
Court settlement	12 535	-
Deletion of trade liabilities	1 633	2 348
Other	2 972	3 504
Total other operating revenues	**48 655**	**38 417**

7.3. Other operating cost

	Year ended December 31, 2017	Year ended December 31, 2016
Write-downs and provisions created		
Creation of a provision for litigations and labour case	2 232	1 260
Creation of impairment losses on non-financial non-current assets		613
Other operating costs		
Result on the exclusion from consolidation of a subsidiary	-	3 466
Loss due to revaluation of investment properties to fair value	(579)	-
Compensation and penalties	1 891	2 174
Court Costs	1 256	1 544
Other	2 347	1 890
Total other operating costs	**7 147**	**10 947**

7.4. Financial revenues

	Year ended December 31, 2017	Year ended December 31, 2016
Bank interest revenue	3 084	1 158
Interest income for delay in payment of receivables	7 311	452
Revaluation of financial assets	-	1 477
Revenues from sales of financial assets	-	1 653
Profit from the liquidation of Companies	-	2 364
Release of provisions for financial costs	2 105	-
Return of suretyship	-	5 850
Valuation of financial liabilities at amortised cost	5 803	-
Other	116	952
Total financial revenues	**18 419**	**13 906**

(PLN thousand)

7.5. Financial costs

	The year ended December 31, 2017	The year ended December 31, 2016
Interest on bank loans and borrowings	9 826	9 522
Interest and commissions on bonds	15 648	12 984
Interest on other liabilities	3 092	2 208
Negative exchange differences	5 933	2 308
Bank commissions on guarantees and loans	2 612	2 270
Other	804	1 395
Total financial costs	**37 915**	**30 687**

7.6. Costs by type

	The year ended December 31, 2017	The year ended December 31, 2016
Amortisation and depreciation	28 596	32 552
Consumption of materials and energy	497 746	393 494
External services, including the construction ones	1 423 916	1 866 577
Taxes and charges	14 086	17 666
Costs of employee benefits	352 411	401 138
Other costs by type	23 038	17 494
Costs by type	**2 339 793**	**2 728 921**
Items included in sales costs	(25 537)	(22 347)
Items included in general administrative expenses	(63 261)	(65 615)
Value of goods and materials sold	29 341	17 906
Change in the goods status	(15 516)	(27 878)
Charges for trade receivables, inventories	26	4 635
Discount settlement	(1 270)	1 218
Costs for the provision of benefits for the entity's own needs	(3 432)	(1 169)
Cost of goods sold	**2 260 144**	**2 635 671**

7.7. Depreciation costs recognised in the profit and loss account

	The year ended December 31, 2017	The year ended December 31, 2016
Items included in the cost of sales	27 039	31 136
Fixed assets depreciation	26 359	28 594
Amortization of intangible assets	680	2 542
Items included in sales costs	594	611
Fixed assets depreciation	593	589
Amortisation of intangible assets	1	22
Items included in general administrative expenses	963	805
Fixed assets depreciation	936	782
Amortisation of intangible assets	27	23
Depreciation and revaluation write-offs together	**28 596**	**32 552**

(PLN thousand)

7.8. Costs of employee benefits

	The year ended December 31, 2017	The year ended December 31, 2016
Salaries and wages	277 100	319 887
Social insurance costs	53 102	58 600
Pension costs	753	1 185
Jubilee awards	124	47
Other post-employment benefits	4 009	1 956
Write-offs for the Social Benefits Fund	4 913	4 830
Other (including: work clothes, cleaning products)	12 410	14 633
Total employee costs	**352 411**	**401 138**

8. Income tax

8.1. Income tax

The main components of the tax burden for the year ended on December 31, 2017 and for the year ended December 31, 2016 are as follows:

	The year ended December 31, 2017	The year ended December 31, 2016
Consolidated cash flow statement		
Current income tax charge	2 806	2 810
Adjustments regarding current tax from previous years	1 031	274
Deferred income tax	25 989	9 271
Tax burden on continuing operations disclosed in the consolidated income statement	**29 826**	**12 355**
The consolidated total income statement		
Deferred income tax due to revaluation of land and buildings	5 382	-
Deferred income tax related to post-employment benefits related to the measurement of liabilities	(522)	150
Tax burden on continuing operations disclosed in the consolidated statement of comprehensive income	**4 860**	**150**

The income tax on the pre-tax profit of the Group varies as follows from the theoretical amount that would have been obtained by using the weighted average tax rate (applicable to the profits of the consolidated companies):

	Year ended on December 31, 2017	Year ended on December 31, 2016
Profit (loss) before income tax	**(107 218)**	**(48 351)**
Tax according to the statutory tax rate applicable in Poland, amounting to 19% in 2017 (2016: 19%)	(20 371)	(9 187)
Tax impact on the following items:		
- Income not subject to tax	(9 017)	(3 554)
- Non-deductible expenses	6 802	4 409
- Adjustments to current income tax from previous years	(988)	(424)
- Recognition of deferred tax assets not included in previous years	-	(936)
- Tax losses and negative temporary differences due to which no deferred income tax assets were recognised	15 199	8 111
- Costs that are tax deductible costs and not recognized as a result	(599)	(580)
- Differences in the tax rate of foreign entities	(30)	(48)
- Tax losses lost due to the settlement deadline	-	285
- Impairment losses on goodwill	36 380	-
- Others	2 450	12 117
- Exclusion from consolidation of subsidiaries	-	2 162
Charges on the financial result relating to income tax	**29 826**	**12 355**

(PLN thousand)

8.2. Deferred income tax

The change in deferred income tax assets and liabilities during the year (before offsetting them under one tax jurisdiction) is presented as follows:

Provisions due to deferred tax assets	Accelerated depreciation Tax	Profits from changes in fair value	Valuation of long-term contracts	Differences in exchange rates	Leasing	Others	Total
As at January 1, 2016	**9 455**	**9 704**	**21 197**	**1 507**	**32**	**961**	**42 856**
Debiting / (crediting) of the financial result	457	-	(12 392)	(1 247)	(23)	97	(13 108)
As at December 31, 2016	**9 912**	**9 704**	**8 805**	**260**	**9**	**1 058**	**29 748**
Debiting / (crediting) of the financial result	(2 622)	-	5 658	(260)	6	772	3 554
Debiting / (crediting) of other comprehensive income	-	5 382	-	-	-	-	5 382
As at December 31, 2017	**7 290**	**15 086**	**14 463**	**0**	**15**	**1 830**	**38 684**
Net presentation of deferred tax assets and deferred tax allowances with recognition of the offsetting within one tax jurisdiction							(38 684)
Provisions due to deferred tax assets in the balance sheet							-

Deferred tax assets	Liabilities arising from employee benefits	Foreign exchange rate differences	Write-offs updating inventory value	Write-offs updating receivables value	Long-term contracts valuation	Provisions	Overdue liabilities	Tax losses	Others	Total
As at January 1, 2016	**10 654**	**44**	**1 565**	**21 761**	**91 760**	**46 896**	**3 986**	**42 395**	**33 305**	**252 366**
Crediting / (debiting) of the financial result	(1 873)	(23)	(60)	(2 160)	(16 494)	22 208	(3 423)	(6 981)	(15 354)	(24 160)
Crediting / (debiting) of other comprehensive income	150	-	-	-	-	-	-	-	-	150
As at December 31, 2016	**8 931**	**21**	**1 505**	**19 601**	**75 266**	**69 104**	**563**	**35 414**	**17 951**	**228 356**
Assets presented as intended for sale	534		**399**			387	117		79	1 516
Crediting / (debiting) the financial result	302	212	(803)	1 168	(51 016)	17 144	(395)	10 414	539	(22 435)
Crediting / (debiting) of other comprehensive income	522	-	-	-	-	-	-	-	-	522
As at December 31, 2017	**10 289**	**233**	**1 101**	**20 769**	**24 250**	**86 635**	**285**	**45 828**	**18 569**	**207 959**
Net Presentation of Deferred Tax Assets and Provisions including Netting Compensation in One Tax Jurisdiction										(38 684)
Deferred tax assets in the balance shee t										**169 275**

Deferred income tax assets and liabilities are as follows

Deferred tax assets before compensation	As at December 31, 2017	As at December 31, 2016
- falling to be completed after 12 months	96 606	51 596
- falling to be completed within 12 months	111 353	176 760
	207 959	**228 356**
Provision for deferred income tax before compensation	17 501	19 608
- to be completed after 12 months	21 183	10 140
- to be completed within 12 months	**38 684**	**29 748**

Unrecognized deferred tax assets and unused tax credits:

	As at December 31, 2017	**As at December 31, 2016**
- Unused tax losses	19 094	13 045
- Temporary differences		
Receivable impairment write-downs	22 381	21 949
Provisions for costs	19 149	24 831
Others	607	-
	61 231	**59 825**

The Group did not recognise deferred tax assets from write-downs updating part of trade receivables. There is a high risk that temporary differences related to these settlements will not be realised.
As at December 31, 2017, tax losses to be settled in subsequent periods amounted to PLN 341 695 thousand. The table below presents the periods of expiration of unsettled tax losses for which the deferred tax asset was not recognised:

The year of limitation for loss settlement	**Amount of losses to be deducted in future periods**	**The amount of unrecognised assets from tax losses**
2019	77 794	14 781
2018	22 701	4 313
Total	**100 495**	**19 094**

9. Earnings per share

Basic earnings per share is calculated with division of net profit for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period.

The Group has financial liabilities under convertible bonds. These bonds, when calculating earnings per share, have anti-diluting effect. Therefore, they are not included in the diluted profit calculation. Basic profit per share is convergent with diluted profit per share.

The data referring to profit and shares that were used to calculate earnings per share are presented below:

	The year ended December 31, 2017	The year ended December 31, 2016
Net profit (loss)	**(137 044)**	**(60 706)**
Basic and diluted earnings per share		
(in PLN)		
number of shares registered as at the balance sheet date	236 618 802	236 618 802
weighted average number of ordinary shares used to calculate the ordinary loss per share	228 399 624	228 399 624
profit / (loss) per share	(0,600)	(0,266)

In the calculation of earnings per share for the comparative period, the number of shares and weighted average number of shares updated with events that took place in 2017: the issue of new shares (described in Note 21) and the issue of new convertible bonds (described in note 24),

10. Dividends paid and proposed for payment

In 2017, the parent company did not declare and pay dividends.

The parent company does not provide for the payment of dividend in 2018 for the financial year ended December 31, 2017.

(PLN thousand)

11. Property, plant and equipment

	Lands and buildings	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Advance payments for fixed assets under construction	In total
Net value as at January 1, 2017	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**
Purchase of fixed assets	368	1 863	884	287	8 763	11 913	**24 078**
Decrease / increase due to settlement of a fixed asset under construction	358	3 526	144	-	(4 028)	-	**-**
Decrease / increase due to advance payment	-	-	-		4 063	4 063	**-**
Sale and liquidation of fixed assets	(84)	(350)	(77)	(54)	(250)	-	**(815)**
Increase / decrease due to changes in the sales plan	6 545	(4 273)	(198)	(77)	-	-	**1 997**
Reclassification from assets available for sale	14 243	13 240	887	717	642	-	**29 729**
Reclassification to assets available for sale	(144).	(360)	-	(2)	-	-	**(506)**
Valuation to the fair value	35 606	-	-	-	-	-	**35 606**
Differences in exchange rates	8	27	5	11	-	-	**51**
Depreciation charge for the financial period	(9 546)	(14 115)	(1 752)	(2 477)			**(27 890)**
Net value as at December 31, 2017	**264 496**	**84 496**	**12 460**	**2 501**	**11 342**	**8 769**	**384 064**
As of January 1, 2017							
Gross value	**286 675**	**274 518**	**46 984**	**32 247**	**3 543**	**919**	**644 886**
Write-off and write-off due to permanent loss of value	**(69 533)**	**(189 580)**	**(34 417)**	**(28 151)**	**(1 391)**	**-**	**(323 072)**
Net value	**217 142**	**84 938**	**12 567**	**4 096**	**2 152**	**919**	**321 814**
As of December 31, 2017							
Gross value	**272 257**	**302 366**	**42 550**	**31 691**	**25 813**	**8 769**	**683 446**
Write-off and write-off due to permanent loss of value	**(7 760)**	**(217 870)**	**(30 091)**	**(29 190)**	**(14 471)**	**-**	**(299 382)**
Net value	**264 497**	**84 496**	**12 459**	**2 501**	**11 342**	**8 769**	**384 064**

Revaluation of land and buildings at fair value, recognized in other comprehensive income (in the amount of PLN 28 501 thousand) and other operating income (in the amount of PLN 7 105 thousand).

(PLN thousand)

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

(PLN thousand)

Tangible fixed assets are shown at purchase price / production cost less amortisation and impairment write-downs, except for the asset class specified as real estate and structures permanently connected with land, i.e. real estate developed with a warehouse, industrial and office buildings' complex ("Land and buildings"). The above asset class is measured at fair value starting from October 2013.
The last valuation of fixed assets was carried out in part as at August 31, 2017 and in the remaining part as at September 30, 2017.

The valuations were prepared by independent property appraisers. The income approach, the investment method and the simple capitalisation technique were applied. The techniques used for the valuation were based on unobservable input data. In the case of land, there was a change in the valuation technique, a change from the comparative approach to the income approach. The property appraiser stated that after considering the purpose and scope of the valuation, the assignment of the property, its legal status and the state of development and market information on similar properties, the appropriate procedure to determine the market value of the property will be the income approach, investment method, simple capitalisation technique.

The fair value measurement was categorised in the fair value hierarchy at level 3.

As at December 31, 2017, the property was not updated to fair value determined based on the independent appraisers' surveys. The Group monitors the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, structures).

As at December 31, 2017, the value of fixed assets recognised in accordance with the revalued model does not differ materially from their fair value.

The table below presents non-financial assets that were subject to valuation at fair value as at August 31, 2017 and September 30, 2017. The individual levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Input data other than quotations falling within the scope of level 1 observable for an asset or liability component, directly (i.e. in the form of prices) or indirectly (i.e. on the basis of price-based calculations) (level 2).
- Input data for the valuation of an asset or liability that is not based on observable market data (i.e., unobservable data) (level 3).

	Level 3	**Fair value per day August 31, 2017**
Real estate built-up with the complex of storage, industrial and office buildings	53 271	53 271
Total	**53 271**	**53 271**

	Level 3	**Fair value per day September 30, 2017**
Real estate built-up with the complex of storage, industrial and office buildings	202 721	202 721
Total	**202 721**	**202 721**

(PLN thousand)

Information on fair value measurement carried out in 2017 using significant unobservable input data (Level 3)

Description	Fair value as at August 31, 2017	Valuation technique	Unobservable data	Range of data that cannot be observed (average weighted by probabilities)	Relations between unobservable data and fair value
Built-up properties with a complex of storage, industrial and office buildings	53 271	Income approach investment method, simple capitalisation technique	Capitalisation rate	The capitalisation rate was applied taking into account capitalisation of the income potential, real estate type and prevailing market conditions: 9-12%	A slight increase in the capitalisation rate applied would cause a significant decline in the fair value of the property (and vice versa).
			Rent rate	A monthly market rent was applied taking into account the purpose of the real estate (administrative and office, warehouse purposes) differences in the location, as well as individual factors, such as the size of the property, comparison to other properties - at an average value:	A significant increase in the market rent would cause a significant increase fair value (and vice versa).
				- PLN 10 - 18 per square meter for real estate for industrial and warehouse (district of Kozienice);	
				- PLN 13 - 21 per square meter per month for real estate intended for office and industry (Płock district)	
				- PLN 11-19 per square meter for real estate for production, office and warehouse purposes (Jasło district)	
				- PLN 8.5 to 20.5 per square meter per month for real estate for administrative purposes office and warehouse and production (Jasło district);	
				- PLN 18 - 26 per square meter for a property for administrative, office, warehouse and production purposes (Płock district);	
				- PLN 11 - 19 per square meter for real estate for administrative purposes office and warehouse and production (district of Stalowa Wola).	

(PLN thousand)

Description	Fair value as of September 30, 2017	Valuation technique	Unobservable data	Range of data that cannot be observed (average weighted by probabilities)	Relations between unobservable data and fair value
Real property enclosed complex buildings for production and office and warehousing	132 439	Income approach, investment method, simple capitalisation technique	Capitalization rate	The capitalisation rate was applied taking into account capitalization of income potential, type of real estate and prevailing market conditions: 8.6-9,1%	A slight increase in the capitalisation rate applied would cause a significant decline in the fair value of the property (and vice versa).
			Rent rate	- PLN 16 - 19 per square meter for real estate for production purposes, PLN 18- 23 per square meter for real estate intended for office purposes; PLN 14 per square meter of real estate for storage purposes and PLN 25 per square meter for real estate for social purpose (Siedlce district)	A significant increase in the market rent would cause a significant increase in fair value (and vice versa).
	7 729	Income approach, investment method, technique of discounting income streams and cost approach, indicator technique	Discount rate	The discount rate in the following years was set at 11.7-13.07%	A slight increase in the applied discount rate would cause a significant decrease in the fair value of the property (and vice versa).
			Rent rate, cost approach indicator technique	- PLN 6 - 15 per square meter for real estate for production, storage and office purposes (Nisko district); growth rates in the prices of construction and assembly production published by the Central Statistical Office	A significant increase in the market rent would cause a significant increase in fair value (and vice versa). The increase in the prices of construction and assembly output published by the Central Statistical Office would cause a significant increase in prices (and vice versa)
	22 482	Cost approach, replacement method of the indicator technique, a comparative approach pairwise comparison method	Unit price from integrated price lists, regional coefficient, outlays for project works and investor's supervision; average price per square meter of real estate compared	- average price per square meter of comparable built-up properties PLN 1846.99 (Sokołów district), - R (regional coefficient for Sokołów) = 0.90; P (expenditures for design works and investor's supervision) = 4%, I (coefficient for connections) = 5%	An increase in prices from integrated price lists would cause a significant increase in fair value (and vice versa); an increase in the average price per square meter affects the increase in the value of real estate (and vice versa)
Durable included in the composition real estate developed with a complex of buildings of a production, office and warehouse nature	40 071	Approach comparative, pairwise comparison method	The average price per square meter of comparable land depending on the destination	- average price per square meter of comparable properties PLN 36.49 (Nisko district);	An increase in the average price per square meter affects the increase in the value of real estate (and vice versa)
				- average price per square meter of comparable properties PLN 79.41 (Sokołów district), a correction factor of 0.90;	
				- average price per square meter of comparable real estate 114.46 PLN (Siedlce district), average price per square meter of perpetual usufruct right to land 103.88 PLN (Siedlce poviat).	

(PLN thousand)

12. Goodwill from consolidation

	December 31, 2017	December 31, 2016
Grupa Energomontaż-Północ S.A. (The company incorporated in 2010)	91 220	282 694
Total	**91 220**	**282 694**

In accordance with the principles of IAS 36, the Management Board of "Polimex-Mostostal" S.A. conducted as at 31 December 2017 tests for permanent impairment of goodwill on consolidation created on the purchase of the Energomontaż-Północ Group. The level of the operating segment before aggregation is the lowest level at which the Group's Management monitors the goodwill. The company's value for 2017 was fully allocated to the power sector.

Due to the decision on the public procurement procedure "Construction of Ostrołęka C Power Plant with a capacity of approx. 1000 MW ", the Management Board adjusted the expected cash inflow and financial results of the operating segment of the power industry. As a result of the test, the Group recognised impairment of goodwill in the amount of PLN 191 474 thousand.

The table below presents the main financial data, assumptions used in the test and the results of the test:

Financial data and test results

Segment	The value tested	Estimated use value	Loss of value	Adjusted value of the Company
Power industry	303 376	111 902	191 474	91 220

Main principles

Segment	Weighted average cost of capital (WACC)	Average profitability operational during the forecast period	Annual averages expected revenues from sales	Fixed rate of growth after the forecast period
Power industry	10.96%	3.62%	444 440	1.00 %

The tested value included goodwill before write-down and net assets attributed to the energy segment. The adjusted value of discounted cash flows of the energy sector (use value) was estimated at PLN 111 902 thousand. The valuation was made with the following assumptions: weighted average cost of capital (WACC): 10.96%, growth rate after the forecast period: 1.0%, average operating profitability in the forecast period: 3.62%, average annual expected revenues from the energy sector's sales: PLN 444 440 thousand.

Sensitivity analysis

Change in the growth rate after the forecast period	-2.50%	-1.00%	0.00%	1.00 %	2.50%
The growth rate after the forecast period	-1.50%	0.00%	1.00 %	2.00%	3.50%
Book value	111 902	111 902	111 902	111 902	111 902
Value in use	89 136	101 550	111 902	124 565	149 923
Surplus of utility value over the book value of the segment (+) / Impairment (-)	**(22 766)**	**(10 352)**	**-**	**12 663**	**38 021**

Change in the discount rate	2.50%	1.00 %	0.00%	-1.00%	-2.50%
Discount rate	13,46%	11.96%	10.96%	9.96%	8.46%
Book value	111 902	111 902	111 902	111 902	111 902
Value in use	76 255	95 649	111 902	131 852	171 962
Surplus of utility value over the book value of the segment (+) / Impairment (-)	**(35 647)**	**(16 253)**	**-**	**19 950**	**60 060**

(PLN thousand)

13. Investments in affiliates accounted for using the equity method

The Group holds 32.82% shares in Energomontaż-Północ Bełchatów Sp. z o.o. with headquarters in Bełchatów, whose main scope of activity is specialised construction and assembly services. Spółka Energomontaż-Północ Bełchatów Sp. z o.o. is the parent company in the Energomontaż-Północ Bełchatów Capital Group. The consolidated financial data for this group is presented below

	December 31, 2017	December 31, 2016
Current assets	66 125	58 869
Fixed assets	23 474	18 569
Short-term liabilities	48 531	22 394
Long term liabilities and reserves	18 795	5 524
Minority equity	2 524	2 423
Net assets	19 749	47 097
Revenues from sales	109 286	122 229
Net profit from continuing operations	(30 140)	(11 053)
Total comprehensive income	(30 140)	(11 053)
Share in the result of an associate	(9 892)	(3 628)

Spółka Energomontaż-Północ Bełchatów Sp. z o.o. is a private company, therefore there are no quoted market prices for its shares. The above information reflects the amounts presented in the financial statements of the capital group of the associated undertaking (and not the participation of the Capital Group in these amounts).

14. Financial assets

Long-term financial assets	**As at December 31, 2017**	**As at December 31, 2016**
Shares and shares in unconsolidated subsidiaries	581	604
Bank guarantee deposit	-	191
Total	**581**	**795**

Short-term financial assets	**As at December 31, 2017**	**As at December 31, 2016**
Bank guarantee deposit	219 616	218 699
Loans	468	-
Total	**220 084**	**218 699**

(PLN thousand)

15. Provisions

	As at December 31, 2017	As at December 31, 2016
Materials	28 635	18 946
Advances on materials	1 035	2 776
Goods	173	35
Production in progress	38 770	29 062
Finished products	28 287	14 472
Total inventories	**96 900**	**65 291**

	As at December 31, 2017	As at December 31, 2016
Change in inventory write-downs		
Status at the beginning of the period	10 362	10 388
a) increase	524	1 458
b) decreases	(5 131)	(1 485)
Status of impairment losses on inventories	**5 755**	**10 362**

16. Trade and other receivables

Trade and other receivables do not bear interest and usually have a payment term from 30 to 180 days.

Terms of transactions with affiliates are presented in the note 30.

	December 31, 2017	December 31, 2016
Trade receivables including:	447 674	280 972
- from related entities	84 425	3 867
- from other units	363 249	277 105
Budget receivables, including:	44 865	34 532
- for VAT	44 721	34 495
- other	144	37
Other receivables	58 430	103 815
Total receivables (net)	**550 969**	**419 319**
Impairment write-downs	199 232	194 838
Total receivables (gross)	**750 201**	**614 157**

Changes in the write-down revaluating trade receivables were as follows:

	As at December 31, 2017	As at December 31, 2016
The revaluation write-off at the beginning of the period	194 838	207 182
Increase, including:	**13 012**	**15 455**
- creation of a write-down for receivables	6 013	15 455
- reclassification from assets held for sale	6 999	-
Reductions, including:	**12 987**	**27 799**
- use	1 394	329
- payment of receivables	11 358	26 082
- changes in the structure of the Capital Group	235	-
- exclusion of subsidiaries from consolidation due to the loss of control	-	(1 034)
- reclassification to assets held for sale	-	2 422
An impairment loss at the end of the period	**194 863**	**194 838**

(PLN thousand)

As at December 31, 2017, trade receivables in the amount of PLN 168 321 thousand (PLN 165 353 thousand in 2016) were overdue, but no impairment was recorded and was not written off. These receivables are mostly the result of the performance of contracts under the Infrastructure segment. In addition to receivables, provisions related to the settlement have been included in the books infrastructure segment contracts, more information in note 26 - Provisions and note 38 Proceedings regarding claims and liabilities pending before the court. Other receivables from this group relate to independent customers with whom the Group has not had any significant non-repayment cases recently. The age analysis of these receivables is as follows:

	As at December 31, 2017	**As at December 31, 2016**
Not later than one month;	31 865	28 252
over 1 month to 3 months	14 971	12 701
Over 3 months to 6 months	3 579	12 440
Over 6 months to 1 year	7 118	7 023
Overdue more than 1 year	110 788	104 937
Total	**168 321**	**165 353**

The table below presents an analysis of financial assets in case of which impairment at the end of the reporting period was individually indicated:

	As at December 31, 2017		**As at December 31, 2016**	
	Value dues	**Value of the allowance updating**	**Value dues**	**Value of the write-down**
Pre-litigation receivables	65 836	50 640	71 164	58 449
A disputable claim pursued in court	49 515	44 814	51 191	48 621
Receivables from a company in liquidation / bankruptcy	23 368	22 973	25 675	24 505
Others *	98 463	91 404	110 693	87 724
Total	**237 182**	**209 831**	**258 723**	**219 299**

* The main reasons for including receivables with an individual revaluation write-off are: arrangement proceedings, charging with penalties, complaints, failure to realize an assignment to a subcontractor.

17. Long-term construction contracts

Contracts in progress at the end of the reporting period:

Contracts in progress at the end of the reporting period:	**As at December 31, 2017**	**As at December 31, 2016**
Costs incurred plus recognised profits less losses incurred until the balance sheet date	5 879 880	5 328 731
Minus: invoices issued in accordance with the progress of work	**(5 874 415)**	**(5 701 269)**
Recognised in the consolidated financial statements as amounts due:	5 465	(372 538)
From customers under construction contracts (receivable)	78 007	27 522
For customers under construction contracts (liability) *	(72 542)	(400 061)
	5 465	**(372 538)**

(PLN thousand)

As at December 31, 2017, the amounts retained by customers for construction work total PLN 86.5 million (PLN 102.5 million in 2016). Advances received from customers for construction work amounted to PLN 118.3 million (PLN 144.7 million in 2016).

18. Cash and cash equivalents

	As at: December 31, 2017	**As at: December 31, 2016**
Cash at bank and in hand	449 421	702 333
Short-term deposits	129 719	8 480
Total	**579 140**	**710 813**
Cash with limited disposability	399 855	619 747

Cash at bank is subject to interest at volatile interest rates, the amount of which depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates.

Monetary means with limited disposal concern funds related to the implementation of strategic contracts, mainly construction of blocks 5 and 6 in the Opole Power Plant and the construction of a new unit at Kozienice Power Plant. These funds will be released upon completion of contracts.

19. Cashflow statement

The reconciliation of the change in balance sheet items in the reporting period to the changes presented in the cash flow statement is presented in the tables below:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Change in inventories in the balance sheet	**(31 609)**	**(22 810)**
Adjustment due to reclassification of inventories from assets to sale	25 183	**-**
Adjustment due to the sale of developer’s inventories (recognised in investment activities)	(6 335)	-
Adjustment due to change in inventory of assets held for sale	-	(3 552)
Adjustment due to exclusion from consolidation of companies classified as assets held for sale	**-**	(1 789)
Change in the condition of provisions in the cash flows statement	**(12 761)**	**(28 151)**
Change in receivables in the balance sheet	**(265 659)**	**238 047**
Adjustment due to reclassification of receivables from assets for sale	33 214	-
Adjustment for receivables due to guarantee deposits	(1 198)	(785)
Adjustment for receivables of assets held for sale	-	20 399
Adjustment due to the exclusion from consolidation of companies classified as assets held for sale	-	(41 322)
Adjustment for receivables from the sale of Grande Meccanica	-	35
Exclusion from consolidation of the subsidiary Polimex-Engineering	-	(1 019)
Change in the condition of provisions in the cash flows statement	**(233 643)**	**215 355**
Change in the balance of other assets	**2 302**	**3 686**
Adjustment due to reclassification of other assets from assets to sale	192	**-**

(PLN thousand)

Adjustment for other assets held for sale	-	74
Adjustment due to exclusion from consolidation of companies classified as assets held for sale	-	(88)
Adjustment in other assets in the cash flow statement	**2 494**	**3 672**
Change in liabilities in the balance sheet	(187 832)	(95 763)
Adjustment due to reclassification of liabilities from assets to sale	(31 332)	
Adjustment for liabilities due to investment purchases	(1 829)	804
Adjustment for leasing liabilities	314	359
Adjustment for liabilities due to the actuarial reserve valuation recognised by comprehensive income	(2 735)	-
Adjustment for liabilities of the deconsolidated company Polimex Engineering	-	3 252
Adjustment for liabilities of the liquidated company NAFIndustriemontage	-	606
Adjustment for liabilities of assets held for sale	-	(77 074)
Adjustment due to exclusion from consolidation of companies classified as assets held for sale	-	95 638
Change in the condition of liabilities in the cash flows statement	**(223 413)**	**(72 178)**
Change in provisions in the balance sheet	(42 770)	6 513
Adjustment under reclassification of reserves held for sale	(31)	-
Adjustment with the reserves of the deconsolidated company, Polimex Engineering	-	773
Adjustment of reserve assets held for sale	-	(2 494)
Adjustment under exclusion from consolidation of companies classified as assets held for sale		5 598
Change in provisions in the cash flows statement	**(42 801)**	**10 390**

20. Assets and liabilities held for sale

	As at December 31, 2017	As at December 31, 2016
Property, plant and equipment	4 991	39 332
Investment property	25 496	21 320
Intangible assets	-	80
Deferred tax assets	-	1 439
Other assets	-	192
Inventories	-	25 183
Trade and other receivables	-	33 214
Cash	-	3 028
Assets held for sale	**30 487**	**123 788**
Loans and borrowings	-	7 013
Other liabilities	-	31 363
Liabilities directly related to assets held for sale	**-**	**38 376**

(PLN thousand)

In accordance with the provisions of the Agreement on Principles of Debt Service signed on December 21, 2012, the Issuer undertook to sell certain assets. Disposed of the assets are presented as assets held for sale. The above table presents the assets that are held for sale at December 31, 2017. The decrease in the balance of assets held for sale (and liabilities related to them) results from contributing ZCP Rudnik to Mostostal Siedlce Sp. z o.o. Sp. k. (which took place on June 30, 2017) and discontinuation of the presentation of certain subsidiaries to be sold: Stalfa, Polimex-Mostostal Ukraina, and Czerwonogradzki Zakład Konstrukcji Stalowych. These companies will not be transferred outside the group. The production and commercial activities carried out by these companies will remain activities carried out and developed within the Group. Cessation of classification as intended for sale did not have a significant impact on the consolidated financial statements for the current and previous period.

Investment properties were valued as at August 31, 2017. The Group employs external, independent experts, to determine the fair value of land, buildings and structures belonging to Group companies. As at August 31, 2017, the fair values of the real estate have been determined by the company ICF Corporate Finance sp. z o. o.

In estimating the fair value of real estate, the most favourable and best use of real estate approach was applied (which is the current application of these properties). The external valuation of land, buildings and structures within level 3 was carried out using the income approach. In the case of land, there was a change in the valuation technique, a change from the comparative approach to the income approach. The property appraiser stated that after considering the purpose and scope of the valuation, the assignment of the property, its legal status and the state of development and market information on similar properties, the appropriate procedure to determine the market value of the property will be the income approach, investment method, simple capitalisation technique.

As at December 31, 2017, no valuation for the value of investment property was carried out. The Group monitors the real estate market on an ongoing basis in relation to its fixed assets (land, buildings, structures). Not there have been no indications that would indicate that the fair value of investment property has changed significantly since the previous valuation. In the case of two properties, the Group is in the process of advanced disposal, preliminary sales agreements have been concluded. The fair value of these properties has been included in the amount consistent with the signed contracts. Their valuation corresponds to level 1 of the fair value hierarchy.

	Level 1	**Level 3**	**Fair value per day December 31, 2017**
Real estate built-up complex of storage, industrial and office buildings	7 182	18 314	25 496
Total	**7 182**	**18 314**	**25 496**

(PLN thousand)

Investment property for sale in level 3 of the fair value hierarchy, the following information is relevant:

The fair value as at December 31, 2017	Valuation technique	Unobservable data	Range of data that cannot be observed (average weighted by probabilities)	Relations between unobservable data and fair value
18 314	Income approach, investment method, simple capitalisation technique	Capitalisation rate	Capitalisation rate is applied taking into account the capitalisation of income potential, property type and prevailing market conditions: 9.5-11.5%	A slight increase in the capitalisation rate applied would cause a significant decline in the fair value of the property (and vice versa).
		Rent rate	The monthly market rent was used use real estate (office administration and storage purposes) differences in location, as well as individual factors such as the size of the property, comparison to other real estate-at an average value:	A significant increase in the market rent would cause a significant increase in fair value (and vice versa).
			- PLN 17-25 per square meter for the purpose of real estate production and office-warehouse; PLN 2-4 per square meter of the storage square; PLN 7-11 per square meter of the shed (Cracow district);	
			- PLN 25-33 per square meter for the purpose of real estate office and administration storage and workshop (Warsaw district);	
			- PLN 15-22 per square meter for the purpose of real estate office and administration storage and workshop; 0.9-1.7 per square meter unit square (Gdańsk district).	

21. Equity

21.1. Share capital

As of 31 December 2017 year equity of the parent is PLN 473 237 604 and is divided into 236 618 802 shares with a nominal value of PLN 2 each. The shares have been fully paid up.

Share capital (data in thousands of shares)	As at December 31, 2017	As at December 31, 2016
Series A ordinary shares	86 619	86 619
Series T ordinary shares	150 000	-
Total	**236 619**	**86 619**

On January 18, 2017, between the Company and ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with its registered office in Warsaw and PGNiG Technologie Spółka Akcyjna with its registered office in Krosno, an Investment Agreement was concluded specifying the parameters of investors' capital commitment and the mutual rights and obligations of the parties. The investors undertook to invest in the Company, consisting in taking up the series T shares of the Company at the issue price equal to PLN 2 each, in the number of 37 500 thousand shares attributable to each of the Investors. On January 18, 2017, the Company's Supervisory Board adopted resolutions in which: (i) agreed to the issue price of the Company's T shares set by the Management Board; and (ii) agreed to offer shares of the T-series to subscribers designated by the Management Board, including the number of T series shares offered to each of them. On January 20, 2017, due to the fulfilment of the conditions precedent reserved in the Investment Agreement and as a result of accepting by all Investors the offer to subscribe for shares of the T-series, submitted by the Company to each Investor, a subscription agreement was concluded between the Company and the Investors, according to which the Investors took all shares offered to them, i.e. a total of 150 000 thousand shares with a total value of PLN 300 000 thousand. The shares were fully paid by the Investors on January 25, 2017 and the Company was provided with cash in the amount of PLN 300 000 thousand.

Shareholders rights

Each share entitles to one vote at the General Meeting of Shareholders. The shares of all series are equally preferred in terms of dividend and return on capital. According to information obtained on the basis of stock exchange announcements, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at December 31, 2017 presents as follows:

Shareholder	Number of shares/votes	% share in the share capital / in the total number of votes at the General Meeting of Shareholders
ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Energy Group Poland joint stock company with its registered office in Warsaw, PGNiG Technologies joint stock company based in Krosno-as Investors acting jointly and in agreement *	156 000 097	65.93%
Bank Polska Kasa Opieki SA	15 076 137	6.37%
Others - less than 5% of the share capital	65 542 568	27.70%
Number of shares of all issues	**236 618 802**	**100.00%**

* each investor holds 16.48%

(PLN thousand)

21.2. Reserve capital

Pursuant to Art. 396 § 1 of the code of commercial companies and partnerships to cover the loss, a reserve fund must be established, to which at least 8% of the profit for the financial year shall be assigned, as long as this capital does not reach at least one-third of the share capital. The reserve capital created in this way shall not be divided. As at December 31, 2016, supplementary capital amounted to PLN 309 710 thousand. In accordance with Resolution No. 9 of the Ordinary General Meeting of the Company of June 27, 2017, a part of supplementary capital in the amount of PLN 151 964 thousand was allocated to cover the negative value of other capitals. As at December 31, 2017, the supplementary capital amounted to PLN 157 746 thousand.

21.3. Other reserves

Other Groups' equity refers to the effect of the settlement of merger with subsidiaries in 2010 year. Energomontaż-Północ S.A. with registered office in Warsaw, Naftoremont Sp. z o.o. based in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with its seat in Cracow, Zakłady Remontowe Energetyki Lublin S.A. with its registered office in Lublin, EPE-Rybnik Sp. z o.o. with its registered office in Rybnik, ECeRemont Sp. z o.o. with its registered office in Zielona Góra (the company being acquired) made pursuant to art. 492 § 1 paragraph 1 of the code of commercial companies and partnerships through the transfer of all assets of these companies to "Polimex-Mostostal" S.A. On December 31, 2016 year other reserves amounted to PLN (85 254) thousand. According to the resolution number 8 and number 9 of the Extraordinary Annual General Meeting of the Company of June 27, 2017 year negative value of the remaining capital was covered with retained earnings in the amount of PLN 59 640 thousand and spare capital amounting to PLN 151 964 thousand. In addition, according to the resolution number 7 the Extraordinary Annual General Meeting of the Company on June 27, 2017 year contributed the company's profit for the year 2016 at the rate of PLN 1 018 thousand to cover the negative value of the remaining capital. As at December 31, 2017 other reserves amounted to PLN 127 368 thousand.

21.4. Equity component of issued convertible bonds

The equity component of issued convertible bonds as at December 31, 2017 amounts to PLN 31 552 thousand, as at December 31, 2016 amounted to PLN 29 734 thousand. Bonds are described further in the Note 24.

21.5. Accumulated other comprehensive income

The accumulated other comprehensive income consists of revaluation, actuarial gains/losses and foreign exchange differences on translation of foreign units.

22. Loans and borrowings

	As at December 31, 2017	As at December 31, 2016
Short-term, including:	**24 383**	**129 577**
Bank loans	24 383	129 126
Borrowings	-	451
Long-term, including:	**226 118**	**140 272**
Bank loans	226 118	140 272
Total loans and borrowings together	**250 501**	**269 849**

Comparison of interest rates in periods	**Year ended December 31, 2017**	**Year ended December 31, 2016**
Weighted average for loans in PLN	WIBOR 1M + 2.50% WIBOR 3M + 1.33%	WIBOR 1M + 2.43 p.p. WIBOR 3M + 1.25 p.p.

(PLN thousand)

	As at December 31, 2017
The value of liabilities in respect of loans and advances at the beginning of the period	**269 849**
Transfer of liabilities held for sale	7 013
The accrued interest calculated according to the effective interest rate	10 038
Interest repayment	(9 576)
Repayment of principal	(21 020)
Recognition of obligations to amortised cost	(5 803)
The value of the obligations in respect of loans and advances at the end of the period	**250 501**

23. Assets provided for collateral

	As at December 31, 2017	As at December 31, 2016
Tangible fixed assets	359 027	320 118
Inventories	89 378	61 050
Investment property	4 376	3 813
Other	23 300	1 644
Assets held for sale	30 487	85 832
Total	**506 568**	**472 456**

The position of Assets held for sale consists of tangible assets in the amount of PLN 25 496 thousand and investment property in the amount of PLN 4 991 thousand (in 2016 consists of tangible fixed assets of PLN 60 650 thousand and inventories of PLN 25 182 thousand).

24. Bonds

	As of December 31, 2017	As at December 31, 2016
Liabilities under the issue of series E, F bonds	25 682	25 679
Liabilities under the issue of series A, B bonds	130 425	134 657
Liabilities under the issue of series C bonds	12 927	-
Total	**169 034**	**160 336**

Series A, B bonds were issued on October 1, 2014, are bonds that have the option of converting into shares of the Company. The total value of inflows from the issue was 140 000 thousand. At the moment of initial recognition of these bonds, the capital element in the amount of PLN 29 747 thousand was included in the capital of the Company, the liability was included in the value of PLN 108 292 thousand, commission under the underwriting guarantee amounted to PLN 1 960 thousand.

A bond conversion can be made at any time up to the bond redemption date (i.e. July 31, 2020, July 31, 2021 and July 31, 2022). If it is not made, the bonds will be redeemed on certain redemption dates of the year at a unit price of PLN 2. The interest rate at WIBOR 3M rate increased by 3 percentage points per year will be paid quarterly until conversion or purchase of bonds.

(PLN thousand)

On September 27, 2017, the Management Board of the Company addressed Bankowe Towarzystwo Kapitałowe SA and Towarzystwo Finansowe Silesia Sp. z o. o the. proposals to purchase series C bonds convertible into U series bearer shares. The proposal to acquire the Bonds was accepted and the Bonds were issued and paid for. The subject of the issue is 29 Bonds with no form of a document with a total nominal value of up to PLN 14 500 thousand. The nominal value and the issue price of one bond is PLN 500 thousand. The interest rate is variable based on WIBOR 3M plus a margin, which may be increased in the case in which the Company fails to make payment under the Bonds at maturity. The bonds will be redeemable on July 31, 2022 or on the first business day after this date. Proceeds from issuance of Bonds were intended to cover the obligations of the Issuer in relation to the Towarzystwo Bankowe Silesia and Bankowe Towarzystwo Kapitałowe for the commissions for a change in the conditions of the Issue of bonds convertible to bearer series A shares, as amended on January 20, 2017 and uniformed on June 20, 2017, and the Issuer advised on it in the statutory announcement respectively number 11/2017 (in conjunction with number 5/2017) and number 55/2017.

The table below presents the valuation of series A, B and C bonds at amortised cost:

	As at December 31, 2017	As at December 31, 2016
Value at the beginning of the period	**134 657**	**122 337**
Issue of series C bonds	14 500	-
Recognition of the capital element of the issue of series C bonds	(1 818)	-
The accrued interest calculated according to the effective interest rate	14 707	12 320
at the rate of 11% (10.1% for 2016) for series A and B and 7.7% for C series bonds		
Payment of commissions regarding changes in the terms of series A and B bonds	(14 500)	-
Interest repayment	(4 194)	-
The value of the liability at the end of the period	**143 352**	**134 657**

25. Other long-term liabilities

	As at: December 31, 2017	As at: December 31, 2016
Leasing	153	-
Long-term financial guarantees	2 577	3 178
Long-term liabilities due to guarantees and sureties	26 754	7 851
Advances received on the implementation of the energy contracts	49 181	39 769
Other	1 512	9 986
Total	**80 177**	**60 784**

Long-term commitments for guarantees of obligations apply to the Group in connection with the use of guarantees of by contractors.

(PLN thousand)

26. Provisions

	Provisions for warranty repairs	Restructuring provision	Provision for litigation	Provision for penalties	Provision for the cost of contracts	Provision for losses	Provision for sureties	Other provisions	Total
As of January 1, 2017	**83 371**	**7 723**	**19 855**	**24 450**	**150 749**	**23 611**	**18**	**74**	**309 851**
Changes to the sales plan	820	-	-	512	-	-	-	243	**1 575**
Created during the financial year	14 546	-	2 232	2 463	-	11 437	360	620	**31 658**
Used	(6 990)	(3 317)	(659)	(3 012)	(834)	(10 618)	-	(398)	**(25 828)**
Released	(9 498)	(4 406)	(14 759)	(813)	(26)	(20 617)	(18)	(39)	**(50 176)**
Differences in exchange rates	-	-	-	-	-	-	-	1	**1**
as at December 31, 2017	**82 249**	**0**	**6 669**	**23 600**	**149 889**	**3 813**	**360**	**501**	**267 081**
Short-term as at December 31, 2017	19 105	0	6 112	16 102	30 177	3 813	360	500	**76 169**
Long-term as at December 31, 2017	63 144	-	557	7 498	119 712	-	-	1	**190 912**
As at January 1, 2016	**71 296**	**3 073**	**19 972**	**42 328**	**164 146**	**1 995**	**494**	**34**	**303 338**
Exclusion from consolidation of a subsidiary	846	3 577	(289)	-	-	838	-	-	**4 972**
Created during the financial year	18 969	10 553	918	300	-	42 799	-	60	**73 599**
Used	(7 264)	(9 087)	(495)	(9 722)	(13 397)	(21 618)	(334)	-	**(61 917)**
Released	(476)	(393)	(251)	(8 456)	-	(403)	(142)	(21)	**(10 142)**
Differences in exchange rates	-	-	-	-	-	-	-	1	**1**
As at December 31, 2016	**83 371**	**7 723**	**19 855**	**24 450**	**150 749**	**23 611**	**18**	**74**	**309 851**
Short-term as at December 31, 2016	22 722	7 723	19 255	10 672	31 011	23 611	-	74	**115 068**
Long-term as at December 31, 2016	60 649	-	600	13 778	119 738	-	18	-	**194 783**

(PLN thousand)

27. Liabilities under employee benefits

	December 31 2017	December 31, 2016
Payroll liabilities	16 560	17 076
Social insurance liabilities	9 621	8 996
Bonuses and prizes	15 636	13 704
Unused leaves	14 395	11 853
Jubilee awards	0	0
Retirement and pension benefits.	1 505	1.078
Short-term liabilities under employee benefits	**57 717**	**52 707**
Retirement and pension benefits	17 985	12 706
Long-term liabilities under employee benefits	**17 985**	**12 706**

The Group pays its retiring workers the amount of pension checks in the amount specified by the Company's collective agreement. In relation to this, the Group, on the basis on the evaluation made by a professional pensions actuarial company, creates a provision for the current value of the liability under retirement severances, jubilee awards and other post-employment benefits.

27.1. The main actuarial assumptions

	December 31, 2017	December 31, 2016
Discount rate %	3.2%	3.5%
Expected inflation rate%	2.5%	2.5%
Predicted increase in salaries rate %	3.5%	3.5%

Expenses included in the profit and actuarial gains and losses relating to the check-in pension schemes are presented the following table:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Benefit costs:		
Current service cost	1 266	1 701
Past service costs and profit/(loss) from the settlement of	524	(1 861)
Net interest costs	607	467
The components of the costs of a defined benefit plan are recognized in profit or loss	**2 397**	**307**
Revaluation of the net liability for certain benefits:		
Actuarial gains and losses arising from changes in assumptions Demographic	160	1 525
Actuarial gains and losses arising from changes in assumptions Institutions	2 577	(2 331)
The components of the benefits program cost recognised in other comprehensive income	**2 737**	**(804)**
Total	**5 134**	**(497)**

The amount of the provision for employee benefits and a reconciliation showing the status changes during the accounting period are given below.

(PLN thousand)

	December 31, 2017	December 31, 2016
Liabilities due to defined benefits, OB	**13 784**	**14 773**
Reclassification of liabilities associated with assets for sale	1 740	-
The cost of the current benefits	1 266	1 701
Interest cost	607	467
Revaluation (profits) / losses:	**2 737**	**(806)**
Actuarial gains and losses arising from changes in assumptions Demographic	160	1 525
Actuarial gains and losses arising from changes in assumptions Financial	2 577	(2 331)
Past service cost, including (loss)/profit under title restrictions	524	(1 861)
Benefits paid out	(1 168)	(490)
Liabilities due to defined benefits, CB	**19 490**	**13 784**

27.2. Sensitivity analysis

In accordance with IAS 19 below the sensitivity (-/+ 0.5 p. p) of liabilities to changes in the discount rate and the assumptions about the growth of salaries have been shown. The methods and assumptions used in conducting the sensitivity analysis have not changed compared to the previous reporting period.

	Liability for severance pay and pensions after change of the assumptions
Change of assumption	
Discount rate-a decrease of 0.5 percentage points	19 688
Discount rate-an increase of 0.5 percentage points	18 392
Growth rate of wages-a decrease of 0.5 percentage points	18 133
Wage growth-an increase of 0.5 percentage points	19 938

28. Liabilities for deliveries and services and other liabilities

	December 31, 2017	December 31, 2016
Trade liabilities		
To related entities	70 826	2 603
To other entities:	309 467	410 362
	380 293	**412 965**
Liability for taxes, duties, social insurance and other		
VAT	25 282	606
The flat-rate tax at source	3	4
Personal income tax	4 353	4 573
PFRON (State Fund for Rehabilitation of Disabled Persons)	292	344
Obligations under social insurance contributions	7 763	5 173
Others	269	42
	37 962	**10 742**
Financial liabilities		
Lease liabilities	335	25
Financial guarantee costs	3.650	27 601
	3 985	**27 626**
Other liabilities		
Liabilities for fixed assets	1 305	625
Social Fund	-	1 409
Accruals	311 909	166 133
Others	7 587	4 581
	320 801	**172 748**
Total current liabilities	**743 041**	**624 081**

(PLN thousand)

The amount of accruals covers mainly the value of construction contract costs incurred, not settled in invoices.

The terms and conditions for the payment of the above financial liabilities:

Transactions with related entities are concluded on market terms (typical commercial transactions).

Liabilities for deliveries and services are interest-free and usually settled within 30 to 180 days.

Other liabilities are interest-free, with an average 1 month payment period.

The amount resulting from the difference between the obligations and liabilities in respect of goods and services tax is paid to the competent tax authorities for periods under tax rules.

Liabilities due to interest are usually settled on the basis of accepted interest notes.

29. Contingent liabilities

	December 31, 2017	December 31, 2016
Contingent liabilities	**1 259 557**	**1 601 526**
- granted guarantees and sureties	832 027	1 116 185
- promissory notes	1 613	5 550
- litigation	425 917	452 892
- others	-	26 899

In connection with the contracts of loans and guarantees (both banking and insurance), as well as in terms of bond obligations (including the A and B series bonds issued in the year 2014 of EUR 140 million and bonds (C) issued in 2017 of PLN 14.5 million) and, in particular, in connection with the agreement of July 24, 2012 prohibiting the enforcement of liabilities, the agreement of December 21, 2012 on debt service policy as amended, the agreement of December 21, 2012 as amended on a new Line of the guarantee and the related open-end credit as amended, the terms of the ordinary and convertible bonds issue of September 12, 2014 as amended, the loan agreement on the warranty line and related open-end and non-open-end credits of May 31, 2017 as amended, the conditions of convertible series C bonds issue of September 27, 2017, the Company and its selected subsidiaries have established mortgages, pledges, chattel mortgages, assignments, notes, adopted the sureties of certain subsidiaries and provided guarantees the selected subsidiaries to secure claims arising from these instruments. The total exposure of the Group to these loan facilities was PLN 1 345 million as at December 31, 2017 (as at December 31, 2016: PLN 1 357 million).

The total commitment of the parent entity in respect of the instruments in question was on December 31, 2017 around PLN 1 198 million (at 31 December 2017: PLN 1 167 million)

30. Information on transactions with related entities

Transactions with related entities are concluded on market terms (typical commercial transactions).

The Group does not apply collaterals in relation to the receivables from related entities.

The following table shows the total amount of transactions entered into with related parties for the year ended December 31, 2017 and on this day, and December 31, 2016 and on this day.

(PLN thousand)

Group of entities		For a period of 12 months: Sales to related entities	Purchases from related entities	As at: Receivables from related entities	Liabilities towards related entities
Other related entities by shareholders	2017	2 419 865	16 526	169 524	147 236
Unconsolidated subsidiaries	2017	53	10 202	1 491	4 906
Associates	2017	-	4 786	2	1 251
Total		**2 419 918**	**31 514**	**171 017**	**153 393**
Unconsolidated subsidiaries	2016	3 052	10 050	2 596	3 494
Associates	2016	33	5 877	7	373
Total		**3 085**	**15 927**	**2 603**	**3 867**

31. Transactions with entities related to the State Treasury

Polimex-Mostostal group is a party to the transactions with related parties with the public Treasury. These transactions, which are simultaneously carried out transactions with shareholders and related parties by the shareholders, have been presented in the Note 30 as transactions with related parties by the shareholders. Transactions with other related parties from the State Treasury are transactions carried out under market conditions - these transactions are not material.

In previous periods, the Group has carried out important transactions with the General Directorate for National Roads and Motorways. In terms of these transactions are legal proceedings described in the Note No. 38.

32. Remuneration of the Management Board and the Supervisory Board of the parent company

MANAGEMENT BOARD	**Year ended December 31, 2017**	**Year ended December 31, 2016**
Short-term employee benefits (remuneration and surcharges)	2 641	3 371
Supervisory Board		
Short-term employee benefits (remuneration and surcharges)	599	818
Total	**3 240**	**4 189**

As at December 31, 2017, members of the Management Board and the Supervisory Board did not subscribe for the Company's shares. From December 31, 2017 until the day the report was made public, there were no changes in the number of shares and the structure of ownership of the Company's shares or rights to them by the supervising and managing persons.

33. Objectives and principles of managing the risk

33.1. Interest rate risk

The financial results of the parent company and capital group Polimex-Mostostal may be subject to fluctuations due to changes in market factors, in particular quotes materials, exchange rates and interest rates. Group by managing risk, which is exposed, tends to limit the volatility of future cash flows and minimise the potential economic loss arising as a result of events which may have a negative impact on the outcome.

(PLN thousand)

Capital Group companies – like the parent, have cash in bank accounts and bank loan obligations based on a variable interest rate. Companies monitor the situation on the financial market, analyse trends and forecasts in terms of the development of the reference market rates to the optimal time to make, in the situation of having open Government limits, a decision to conclude the hedging agreements against adverse increase in the cost of interest on debt. On December 31, 2017 and December 31, 2016, the Group did not conclude any security transactions. During the reporting period the company's cash balance has been credited with funds from the issue of shares of T series in amount of 300 million and remained relatively high.

Analysis of sensitivity to changes in interest rates

	Value-at-risk	Increase/decrease	
For the year ended December 31, 2017		0.50%	-0,50%
Cash at bank	579 140	2 896	(2 896)
Bank guarantee deposit	219 616	1 098	(1 098)
Loans and loans received	250 501	(1 253)	1 253
Liabilities under finance leases	335	(2)	2
Bonds	169 034	(845)	845
Effect on gross financial profit/(loss)		**1 894**	**(1 894)**
Deferred tax		(360)	360
Total		**1 534**	**(1 534)**

	Value-at-risk	Increase/decrease	
For the year ended December 31, 2016		0.50%	-0.50%
Cash at bank	710 813	3 554	(3 554)
Bank guarantee deposit	218 234	1 091	(1 091)
Loans and loans received	269 849	(1 349)	1 349
Liabilities under finance leases	472	(2)	2
Bonds	160 336	(802)	802
Effect on gross financial profit/(loss)		**2 492**	**(2 492)**
Deferred tax		(473)	473
Total		**2 019**	**(2 019)**

33.2. Currency exchange risk

Group’s exposure to currency risk is low. Financial flows of companies from Polimex-Mostostal capital group are characterised by relatively high sensitivity to fluctuations in the exchange rate relations, due to the revenue in foreign currencies, mainly in EUR.

The preferred method of protection against foreign exchange risk to be used by companies of the Group remains natural hedging. securing the currency risk through transactions that generate costs in the same currency as the currency of the revenue.

(PLN thousand)

The agreement on the principles of the financial debt service does not provide for the possibility of applying, by the Company, foreign exchange derivatives, as available credit products. On 31 December 2017, the Capital Group companies did not have any exchange derivatives. In those circumstances, it is important to apply natural hedging by the segmented companies, as the only currently exchange rate risk mitigation tools arising from the business activities of the company.

Fluctuations in the average exchange rate of EUR have a significant impact on the size of the revenue expressed in PLN from contracts concluded in a foreign currency. Capital Group on the basis of signed and highly likely to the conclude contracts, estimated the exposure to foreign exchange risk in the period January-December 2018 year as follows:

Description of	**I-IV. 2018**
Forecasted receipts in foreign currency - equivalent in ths. EUR	36 645
Expected expenses in foreign currency - equivalent in ths. EUR	10 544
Business exposure to exchange rate risk in ths. EUR	**26 101**

Current impact of the fluctuations of the market will be focussed on the parameter of this part of the companies' foreign exchange turnover (net receipts), which is not covered by the hedging transactions.

Exposure to currency risk *

	31st December 2017			31st December 2016		
	EUR	*USD*	*CZK*	*EUR*	*USD*	*CZK*
Cash	*3 913*	*111*	*24*	*4 462*	*16*	-
Commercial receivables	32 945	385	42	14 399	130	279
Secured bank loans	—	-	-	195	-	-
Commercial commitments	3 719	14	1	3 167	-	522
Gross carrying amount	**33 139**	**482**	**65**	**15 499**	**146**	**(243)**
Estimated sales forecast	36 645	50	-	62 704	233	-
The estimated forecast of purchases	10 544	1	-	8 752	233	-
Gross exposure	**26 101**	**49**	**–**	**53 952**	**–**	**–**
Foreign exchange forward contracts	—	-	-	-	-	-
Foreign exchange option contracts	-	-	-	-	-	-
Net exposure	**59 240**	**531**	**65**	**69 451**	**146**	**(243)**

*data in the above table presents amounts in the relevant currency

Sensitivity analysis of the currency risk as at December 31, 2017

	Carrying amount	*EUR / PLN*		*USD/PLN*	
		Rate (change 10%)	*Rate (change -10%)*	*Rate (change 10%)*	*Rate (change -10%)*
Cash	16 711	236	(236)	39	(39)
Trade and other receivables	138 757	13 741	(13 741)	134	(134)
Derivative financial instruments	-	-	-	-	
Trade payables and other payables	(15 560)	(1 551)	1 551	(5)	5
Loans, borrowings and other sources of financing	-	-	-	-	-
Effect on financial profit/(loss)		**12 426**	**(12 426)**	**168**	**(168)**
Deferred tax		(2 361)	2 361	(32)	32
Effect on financial profit/(loss)		**10 065**	**(10 065)**	**136**	**(136)**

(PLN thousand)

The sensitivity associated with credit risk financial instruments accounted for in non-euro currencies is irrelevant.

Sensitivity analysis of the currency risk as at December 31, 2016

	Carrying amount	*EUR / PLN*		*USD/PLN*		*CZK/PLN*	
		Rate (change 10%)	*Rate (change -10%)*	*Rate (change 10%)*	*Rate (change -10%)*	*Rate (change 10%)*	*Rate (change -10%)*
Cash	19 808	56	(56)	-	-	-	-
Trade and other receivables	64 290	6 370	(6 370)	54	(54)	5	(5)
Trade account payables and other payables	(14 096)	(1 401)	1 401	-	-	(9)	9
Loans, borrowings and other sources of financing	(863)	(86)	86	-	-	-	-
Effect on gross financial profit/(loss)		**4 939**	**(4 939)**	**54**	**(54)**	**(4)**	**4**
Deferred tax		(938)	938	(10)	10	1	(1)
Effect on gross financial profit/(loss)		**4 001**	**(4 001)**	**44**	**(44)**	**(3)**	**3**

33.3. Credit risk

At the level of the Capital Group, the credit risk is minimised by co-operation with reliable commercial partners, the application of instruments available on the market that enable the insurance of trade receivables from foreign recipients and acquisition of collaterals for payments from contractors. In relation to domestic recipients, the collateral in the form of sureties, transfer of ownership as a collateral for a registered pledge or bills of exchange are applied when the recipients have restrictions on the availability of bank or insurance guarantees. Despite monitoring this risk and ongoing negotiations with contractors in order to optimise payment deadlines, this risk remains at a moderate level, including but not limited to, due to the following circumstances:

- pressure of suppliers of materials and raw materials for the maximum reduction of payment terms, including prepayments or securing payments by expensive financial instruments (bank guarantees, letters of credit);
- insufficient credit risk insurance limits and limited access to bank guarantees as well as no limits on insurance guarantees;
- no agreements regarding the settlement of additional works and increase in prices of materials in significant contracts;

Credit risk management of financial transaction partners consists in controlling the financial credibility of current and potential partners of these transactions and in monitoring credit exposure in relation to the limits granted. Transaction partners should have an appropriate rating assigned by leading rating agencies, or have guarantees from institutions that meet the minimum rating requirement. The Group concludes financial transactions with reputable companies with good credit ratings and the diversification of the institutions with which it co-operates. In the field of credit risk management, the Group shall submit all customers who apply for credit limits to the procedures to verify their creditworthiness and depending on its ratings, the correct internal limits are awarded. The Group specifies the guidelines for credit risk management process trading partners in order to maintain appropriate standards of credit analysis and operational safety of the process in the section throughout the entire Company. The maximum risk exposure for particular classes of financial assets is the measure of credit risk. The book values of financial assets represent the maximum credit exposure. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making write-downs of their value. The aging analysis of the trade receivables overdue for which no impairment occurred as at December 31, 2017 and as at December 2016 was presented in the Note number 17.

The Group has a concentration of credit risk in connection with significant receivables from domestic energy companies. Taking into account the fact that these companies are controlled by the State Treasury and play a critical function in the national energy system, the Group believes that it is not significantly exposed to the credit risk in the case of those recipients. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties of the Group are banks with a high credit rating assigned by international rating agencies

The Group's claims to parts of the contracts shall be the subject of collaterals for credit instruments and bank guarantees.

33.4. Liquidity risk

In the assessment of the Group, this risk is moderate. Maintaining financial liquidity in the medium and long term perspective requires involvement in projects and contracts ensuring neutral and positive financial flows. This risk is constantly monitored and analysed in both short and long term.

In January, 2017, the parent company finalised the recapitalisation process, under which its liquidity was funded with the amount of PLN 300 000 thousand. in connection with the taking of the newly issued shares of series T by a group of investors from the power industry. In the second quarter of 2017, due to the process of renegotiation of contracts, debt financing, including credit and bond ones the financial records linking the Parent company and its selected subsidiaries with the financial institutions were adapted to the new realities of ownership and strategic objectives. As part of this process, the Group of the Issuer obtained also wider access to guarantee instruments that are an essential component of the investment processes carried out by design companies of the Group such as Naftoremont Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o. and Polimex Budownictwo Sp. z o.o. Sp. k.

The current financial situation of the Issuer's Group is stable - the Group has significant resources of cash and significant guarantee limits in both banking and insurance institutions. The structure, level and dates of repayment of the financial debt are adjusted to the current and forecasted capacity of their timely service. The Group conducts a number of activities aimed at further improvement of operating conditions, including but not limited to:

- further optimisation of operating activities in order to improve the processes related to the implementation, management and monitoring of the construction and assembly contracts, and to reduce operating costs by, including but not limited to the reduction of the costs of general management, centralise purchasing, optimisation of organisational structures, optimisation of the portfolio of contracts and the concentration of activities on the Group's core business;

- continuation of the process of selling assets, in particular properties belonging to the Group and other assets that are not necessary for the continuation of the Group's core business.

Financial records linking the parent company with the financial creditors, in particular the agreement on the principles of the financial debt service and the conditions for the issuance of bonds series A, B and C impose on the Company a number of commitments, in particular, such as the obligation to:

- make timely payments for the benefit of Creditors and Bondholders;

(PLN thousand)

• not to undertake a number of activities without the prior consent of the creditors and Bondholders.

Failure by the parent company to perform the obligations arising from the agreement on terms and conditions of the debt service the bond issue could result in immediate maturity of the financial debt of the Parent company against Financing banks and Bondholders.

Relatively high level of indebtedness of the Company and the Group may have significant consequences, including in particular the effect on:

- limited ability to group companies to raise additional financing from financial institutions, including, in particular, bank and insurance guarantees;
- slower dynamics of the development of the activities of the Group companies due to a significant reduction in the availability of credit and reduction of the payment terms or prepayment requests by contractors;
- the need to devote a certain portion of the cash flows from operating activities of the Group to the repayment of the debt, which means that these flows will not always be used to finance activities of the Group or investment expenditure;
- limitation of Group's flexibility when planning or responding to changes in its business, competitive environment and in markets in which it operates;
- less advantageous market position of the Group in relation to its competitors, who have less credit exposure.

Current Group's orders' portfolio minus the sales per consortium members is ok. PLN 1.9 billion and in its entirety applies to the concluded contracts. The current order portfolio in individual years is as follows: 2018 – PLN 1.4 billion, 2019 - PLN 0.46 billion, 2020 and the subsequent years PLN 0.04 billion.

The table below shows the financial liabilities of the Group as at December 31, 2017, and December 31, 2016 according to the maturity date on the basis of the undiscounted contractual payments.

December 31, 2017	*On request*	*Less than 3 months*	*From 3 to 12 months*	*Over 1 year and up to 5 years*	*From 5 years*	*Total*
Loans and borrowings	-	5 586	18 797	230 527	-	254 910
Bonds	-	-	-	198 120	-	198 120
Other long-term liabilities, including:	_	-	-	113 462	6 189	119 651
- Leasing	-	-	-	153	-	153
Trade and other payables;	91 015	315 609	62 153	-	-	468 777
- Leasing	-	66	269	-	-	335
	91 015	**321 195**	**80 950**	**542 109**	**6 189**	**1 041 458**

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

(PLN thousand)

34. Financial instruments

34.1. Classification of financial instruments

	December 31, 2017	December 31, 2016
	Granted loans and receivables	Granted loans and receivables
Financial assets		
Other financial assets	220 084	218 890
-long-term (bank guarantee deposits)	-	218 699
-short term (bank guarantee deposits and borrowings)	220 084	191
Trade receivables	447 674	280 972
Deposits under the construction contracts	175 378	98 716
Cash and cash equivalents	579 140	710 813

	December 31, 2017	December 31, 2016
	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost
Financial liabilities		
Bonds	169 034	160 336
Loans and borrowings, including:		
- long-term variable rate interest bearing	226 118	140 272
- short-term variable rate interest bearing	24 383	129 577
Other (long-term) liabilities, including:	80 177	60,784
- Liabilities due to financial lease agreements and lease agreements with purchase option		0
- Deposits	2 577	3 178
- Others	77 600	57 606
Trade liabilities	380 293	412 965
Deposits under construction contracts	76 208	85 163
Short-term leasing	335	33

(PLN thousand)

34.2. Items of revenue, costs, profits and losses included in the income statement, divided into categories of financial instruments

Year ended on December 31, 2017

Financial assets	Interest income/(expenses)	Profit(loss) from exchange rate differences	Impairment write-offs release/(recognition)	Profit/(loss) from valuation	Others	Total
Loans and receivables	13 789	(3 956)	10 896	(15)	892	**21 606**
Financial liabilities						
Financial liabilities measured at amortised cost	(23 255)	(1 824)	-	3	(9 218)	**(34 294)**
Total	**(9 466)**	**(5 780)**	**10 896**	**(12)**	**(8 326)**	**(12 688)**

Year ended on December 31, 2016

Financial assets	Interest income/(expenses)	Profit(loss) from exchange differences	Impairment write-offs release/(recognition)	Profit/(loss) from valuation	Others	Total
Available-for-sale financial assets	-	-	(16)	-	-	**(16)**
Loans and receivables	4 758	7 455	1 059	(1)	187	**13 458**
Financial liabilities						
Financial liabilities measured at amortised cost	(18 849)	(2 590)	-	(93)	(6 385)	**(27 917)**
Total	**(14 091)**	**4 865**	**1 043**	**(94)**	**(6 198)**	**(14 475)**

35. Fair values of individual categories of financial instruments

For the purposes of financial reporting, fair value is categorised according to three levels depending on the extent to which the batch data for the measurement of fair value are observable and the importance of input data to measure at fair value as a whole. These levels are shaped as follows:

• Level 1: batch data is quoted prices (unadjusted) from active markets for identical assets or liabilities to which the entity has access on the valuation day.

(PLN thousand)

• Level 2: batch data is data other than quoted prices included in Level 1 that are observable for an asset or liability element, either directly or indirectly.

• Level 3: batch data is unobservable data for the valuation of an asset or liability.

The fair values of financial assets and liabilities not measured at fair value do not differ materially from book values.

The Group is a party to the Investment Certificates Purchase Option Agreement with PKO BP S.A. dated November 7, 2013 as amended that depending on the scenario for real estate prices it covers will determine the amount of the acquisition/clearance between the Contracting Parties in the future. The Group, in the case of the failure to achieve the minimum return on investment required by the investor will be obliged to compensate the relevant part of the losses. In the case of a reported increase in the value of the property portfolio the Group is guaranteed participation in a part of the profit exceeding the interest rate of the profit guaranteed to the investor.

During the reporting period, there were changes in the valuation method of this instrument, in the form of discounting the predicted growth in the property portfolio's value in the horizon for the duration of the transaction. The value of the instrument included in the books on December 31, 2017 amounted to PLN 0 (December 31, 2016: PLN 0).

36. Capital management

The main goal of the management of the Group's capital is to maintain good credit rating and safe equity ratios, which would support the Group's operating activities and increased the values for its shareholders.

The externally imposed capital requirements for the value of the equity have been imposed on the Parent Company.

In accordance with the provisions of the Financial Indebtedness Service Principles (ZOZF) Agreement, the parent is required to have positive equity on the last day of each calendar month. Failure to meet the positive equity condition constitutes a violation of the ZOZF Agreement. The effect of the occurrence and duration of the violation may be the termination of the ZOZF Agreement.

As at December 31, 2017 and December 31, 2016 the parent had positive equity.

The group monitors capital using a leverage ratio, which is calculated as the ratio of net debt to total capital plus net debt. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt.

	December 31, 2017	**December 31, 2016**
Loans, borrowings and bonds	419 535	430 185
Trade payables and other payables	743 041	624 081
Less: cash and cash equivalents	579 140	710 813
Net indebtedness	583 436	343 453
Equity	664 585	482 196
Net capital and debt	**1 248 021**	**825 649**
Leverage ratio (net debt/equity and net debt)	47%	42%

(PLN thousand)

37. Employment structure

Employment in the Group as at December 31, 2017 and December 31, 2016 year was as follows:

	December 31, 2017	December 31, 2016
Management Board of the parent	3	3
The boards of units of the Group	17	13
Support division	254	220
Operations division	3 933	4 376
Total	**4 207**	**4 612**

38. Proceedings regarding claims and liabilities pending before a court

In 2013, the portfolio of contracts carried out by the Group included contracts carried out for the General Directorate for National roads and Motorways ("GDDKiA") concluded under the act the Public Procurement Law. Due to significant breaches of contracts by the contracting authority (i.e. GDDKiA), including rejecting legitimate claims from consortia contractors and falling in arrears with the payment of amounts due to contractors for work done in the 2013 and the preceding years and, above all, as a result of GDDKiA's failure within the required by law time limit of 45 days to present the legitimate collateral security of payment for the construction works in total amount of more than PLN 2 billion, the Consortia comprising companies from the Group withdrew from the agreements. Due to the significant value of the scope of work to be carried out in the amount exceeding PLN 2 billion, this meant that there was a real risk that the amount of claims would continue to grow and the consortia would not have a collateral for their payment. Additionally, financial claims submitted to GDDKiA and prolonged procedures for GDDKiA's acceptance of additional costs incurred by the Consortium did not guarantee the payment of the above-mentioned amounts without lengthy lawsuits. Due to the lack of effects aimed at securing the receivables on January 14, 2014, the consortia submitted to GDDKiA, pursuant to art. 649^3 of the Civil Code, the statements on the withdrawal from the concluded construction contracts, i.e. the A1 motorway on the section Stryków - Tuszyn, the A4 motorway on the section Rzeszów - Jarosław and the S-69 expressway on the section Bielsko-Biała - Żywiec. The consortia, having in mind the possibility of an amicable solution to the existing situation, repeatedly applied to GDDKiA for the rectification of deficiencies in order to enable construction completion. Proposals for an amicable solution were the subject of extensive correspondence between contractors and the contracting authority.
As at December 31, 2017, the value of claims filed by the Consortium against GDDKiA amounted to PLN 678.6 million.

The Group is in the process of mutual reconciliation with GDDKiA and the consortium members, the final settlement with respect to completed road contracts, carried out upon the order of GDDKiA. The Management Board of the parent company indicates that due to ongoing disputes with the GDDKiA and in connection with the pending insolvency process of the consortium members, mutual financial settlements could not be completed still. As a consequence, the assumptions adopted for the valuation, and thus the final result of the contracts implemented for GDDKiA, may change.

On May 26, 2017, the Issuer signed a contract with GDDKiA on maintaining the confidentiality of sensitive information that can be transferred in the course of the discussions concerning the conclusion of a possible settlement on the claims asserted by the parties in the judicial proceedings or other possible claims which may arise from contracts, the subject of which was:

(i) Design and construction of the A1 motorway Stryków – “Tuszyn” note in the section from km 295 + 850 (from Stryków 1 node without a node to km 335 +937.65, (ii) the construction of the express road S-69 Bielsko-Biała – Żywiec-Zwardoń, section “Mikuszowice” node ("Żywiecka/Bystrzańska")-Żywiec, and (iii) the construction of A-4 motorway, section Rzeszów (Rzeszów node East)-Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450.

The most important legal proceedings which are pending as at December 31, 2017, the total value of which amounts to at least 2% of the consolidated sales revenues of the Capital Group for the last four quarters, or PLN 48.4 million, as well as court proceedings against or brought by GDDKiA.

Cases from the actions of the Parent company

- Defendant: State Treasury - General Directorate for National Roads and Motorways Value of the dispute: PLN 36 961 661. The company's share in the consortium is 49%. The subject of the dispute: a request to increase the remuneration for the construction of the Stryków-Konotopa section of the A2 motorway in connection with the increase in the prices of liquid fuels and asphalt. On September 3, 2015, a judgment dismissing the claim of the consortium in its entirety was issued. The consortium's appeal was submitted on October 8, 2015. The date of the appellate hearing was set for March 16, 2017. The second instance court referred the case for reconsideration. On October 20, 2017 - a pleading explaining the motions for the evidence. January 4, 2018 - delivery to the plaintiffs of the GDDKiA's pleasing regarding motions for evidence. At the hearing on February 22, 2018, GDDKiA upheld its current position and requested that the claim be dismissed in its entirety. The court set a deadline of 21 days to respond to submitted evidence and to indicate candidates for experts. The hearing was postponed without setting another date.

- Defendant: State Treasury - General Directorate for National Roads and Motorways Value of the dispute: PLN 219 592 409. The company's share in the consortium is 51%. The subject of the dispute: payment of contractual penalties for the withdrawal from the contract for the construction of the A-4 motorway section Rzeszów-Jarosław, due to the fault of the ordering authority. On May 13, 2014, the Court issued a payment order in the proceedings and ordered the defendant to pay to the company the amount of PLN 111 992 128 with statutory interest on that amount from February 4, 2014 to the date of payment; reimburse the amount of the costs of proceedings of PLN 32 217 to Doprastav. On June 4, 2014, ST (the “State Treasury”) - GDDKiA successfully appealed against the abovementioned order for payment. The case was referred to ordinary proceedings, and on June 10, 2015, SP - GDDKiA filed a counter-claim against the Consortium for PLN 249 476 370 (indicated in cases conducted against the Company). On December 1, 2015, the Court rejected the counter-claim in relation to Doprastav. On December 21, 2015, GDDKiA filed a complaint against the decision to reject a counter-claim against Doprastav. Doprastav responded to GDDKiA's complaint. By virtue of a decision of June 23, 2016, the Court of Appeal in Warsaw suspended the complaint proceedings until the SP - GDDKiA cassation appeal filed against the decision of the Court of Appeals in Warsaw of September 29, 2015 was examined. By virtue of a decision of March 24, 2017, the Supreme Court quashed the appealed ruling of the Court of Appeals in Warsaw and remitted the case. By virtue of a decision of June 6, 2017, the Warsaw Court of Appeal resumed the proceedings. By virtue of a decision of July 5, 2017, the Court of Appeal quashed the contested decision rejecting the counter-claim to Doprastav and remitted the case to the Regional Court. On January 10, 2018, Doprastav filed a supplementary request for evidence in the case for rejection of counter-claim. At present, the Court is taking steps to establish an expert in the field of Slovak law.

- Defendant: State Treasury - General Directorate for National Roads and Motorways Value of the dispute: PLN 176 954 030. The company's share in the consortium is 37%. The subject of the dispute: payment of contractual penalties for withdrawal from the contract for the construction of the A-1 section of the stretch between Stryków and Tuszyn through the fault of the ordering authority. By order of May 5, 2015, the Court rejected the counter claim against Doprastav a.s. on May 29, 2015, GDDKiA filed a complaint against the order of the Court to reject the counter claim against Doprastav a.s. On June 5, 2015, Doprastav a.s. filed a pleading as a follow up to the pleading of the plaintiffs MSF Engenharia and MSF Poland of April 2, 2015 and on June 8, 2015 filed a response to the above mentioned complaint of GDDKiA. On September 29, 2015, the Court of Appeals in Warsaw dismissed the complaint of GDDKiA. On April 8, 2016, ST-GDDKiA filed a cassation complaint against the decision of the Court of Appeals. On June 17, 2016, Doprastav responded to the cassation complaint. By virtue of a decision of March 24, 2017, the Supreme Court quashed the appealed ruling of the Court of Appeals in Warsaw and remitted the case. On August 3, 2017, the Warsaw Court of Appeal quashed the challenged decision rejecting the counter-claim to Doprastav a.s. and remanded the case to the Regional Court in Warsaw. On January 10, 2018, Doprastav a.s. filed a supplementary request for evidence in the case for rejection of counter-claim. Until February 20, 2018, the Court also did not take any steps after it was remanded to re-examine the case from Doprastav's application for rejection of the counter-claim against that entity.

- Defendant: State Treasury - General Directorate for National Roads and Motorways Value of the dispute: PLN 78 810 045. The company's share in the consortium is 50.5%. The subject of the dispute: payment of contractual penalties for the withdrawal from the contract for the construction of the S-69 expressway, section Mikuszowice - Żywiec due to the fault of the contracting authority. The court commissioned an opinion of an expert in the field of construction. On June 26, 2017, the file received an expert opinion, which confirmed that on December 31, 2013 the contractor was entitled to a significant extension of the Completion Time. GDDKiA did not provide full and complete project documentation of the contractor, and the works specified in the call for improvement of December 16, 2013 were not possible to be completed within the restricted period of 14 days. All parties submitted pleadings, in which they responded to the content and conclusions of the opinion. Plaintiffs do not question the opinion, while GDDKiA questions its merit and usefulness for resolving the case. The court obliged the Supreme Technical Organization to respond to objections presented by GDDKiA. A supplementary opinion of the scientific institute was received in the file.

- Defendant: State Treasury - General Directorate for National Roads and Motorways. Value of the dispute: PLN 62 624 332. The company's share in the consortium is 50.5%. The claim for payment of the debts arising from invoices related to the execution of the contract for the construction work re. the construction of the expressway S-69 Bielsko-Biała – Żywiec-Zwardoń, and contracts for construction works re. the construction of the section of A-1 motorway from “Sośnica” node along with the A-1 "Sośnica-Maciejów" section. By the pleading of June 23, 2016, GDDKiA extended the counterclaim to the amount of PLN 62 624 332.15. ST-GDDKiA withdrew the claim in part - in the amount of PLN 1 151.49 as a refund of funds paid to Peri Polska Sp. z o. o. and extended the counterclaim by PLN 833 442.96 as a refund of funds paid to entrepreneurs on the basis of Special Act of Parliament. The Court at the hearing on March 27, 2018, gave the 3-month deadline for lodging by ST-GDDKiA response to the extension of the action, 2-month deadline to respond by the company and Doprastav a.s. to the response lodged by the ST-GDDKiA and 1- month period to respond by ST-GDDKiA to that pleading. The court set the date of the hearing on October 10, 2018.

- Defendant: State Treasury - General Directorate for National Roads and Motorways The value of the subject of the dispute: PLN 103 644 247. The Company's share in the consortium is 21%. The subject of the dispute: the claim concerns repairing the damage suffered by the Contractor as a result of an inappropriate description of the Ordering authority's requirements regarding the performance of the contract for the construction of the A-2 section of the Stryków-Konotopa motorway. The case is currently being analysed by a court expert. The court handed over the file to the Poznan University of Technology. We are waiting for an opinion from the University of Technology.
- Defendant: Europa Centralna Sp. z o.o. (formerly Helical Sośnica Sp. z o.o.). Value of the dispute: PLN 79 325 935. The matter to examine the absence of the right of Helical Sośnica to demand the payment of contractual penalties and awarding PLN 52 109 916 as remuneration for performance of the contract, for additional work, and also for the costs of the contract incurred by the Company after October 15, 2012. On December 29, 2015 - extension of action again, instead of fixing the lack of Helical Sośnica's right to demand payment of contractual penalties and next to the claim for payment of the amount of PLN 52 109 916 (extension of action from August 21, 2014), the Company calls for an award from Europa Centralna Sp. z o.o. an amount of PLN 25 938 604 constituting the equivalent to the funds from the bank guarantee paid to the defendant, in addition to the amount of PLN 1 277 414 constituting remuneration for remaining on the construction site of the shopping centre after October 18, 2012. On December 29, 2017 the Parties entered into a court settlement under which Europa Centralna undertook to pay to the company the amount of EUR 3 000 000.00 and the company confirmed the right of Europa Centralna to retain the amount of PLN 25 938 604.23 under the implementation adequate No 2324/11/WAR contract performance bank guarantee. Both court proceedings have been validly discontinued. The settlement was made.

Cases filed against the Company

- A case brought by the State Treasury - General Directorate for National Roads and Motorways. The subject of the proceedings is to demand the payment of part of the contractual penalty for cancellation by the Contracting Authority due to the fault of the Contractor of the construction works contract re. the construction of the expressway S-69 Bielsko-Biała – Żywiec-Zwardoń and the construction works contract re. the construction of the section of A-1 motorway from "Sośnica" node at the intersection of A-1 and A-4 motorways, along with the A-1 motorway "Sośnica-Maciejów" section and contractual penalty for exceeding the time for completion. This is a counter-claim. The value of the subject of the dispute is PLN 61 792 041. By the pleading of June 23, 2016 GDDKiA made the extension of the counterclaim to the amount of PLN 62 624 332. ST-GDDKiA withdrew the claim in part - in the amount of PLN 1 151 as a refund of funds paid to Peri Polska Sp. z o. o. and extended the counterclaim for the amount of PLN 833 442 as a refund of funds paid to entrepreneurs on the basis of Special Act. The Court at the hearing on March 27, 2018, gave the 3-month deadline for lodging by ST-GDDKiA a response to the extension of the action, 2-month deadline to respond to by the company and Doprastav a.s. to the response lodged by the ST-GDDKiA and 1- month period to respond to by ST-GDDKiA to that pleading. The court set the date of the hearing on October 10, 2018.

- A case brought by the State Treasury - General Directorate for National Roads and Motorways. The subject of the proceedings is the demand for payment of a part of the contractual penalty for the Contractor's waiver of the construction works for the construction of the A-4 motorway, Rzeszów - Jarosław section. This is a counter-claim. The value of the dispute is PLN 249 476 370. By virtue of a decision of 23 June 2016, the complaint proceedings were suspended until the cassation complaint was examined. By virtue of a decision of June 6, 2017, the Warsaw Court of Appeal resumed the proceedings. By virtue of a decision of 5 July 2017, the Court of Appeal quashed the contested decision rejecting the counter-claim to Doprastav and remitted the case to the Regional Court.

- A case brought by the State Treasury - General Directorate for National Roads and Motorways. The subject of the proceedings is to demand the payment of part of the contractual penalty for withdrawal due to the fault of the contractor of construction contracts re. design and construction of the A-1 Stryków-"Tuszyn" node. This is a counter-claim. The value of the subject of the dispute is PLN 199 001 077. By virtue of a decision of March 24, 2017, the Supreme Court quashed the appealed ruling of the Court of Appeals in Warsaw and remitted the case. On August 3, 2017, the Warsaw Court of Appeal quashed the challenged decision rejecting the counter-claim to Doprastav as and remanded the case to the Regional Court in Warsaw.

39. Events after the balance sheet date

- On 8 January 2018 the Supervisory Board passed a resolution to appoint to the composition of the Management Board of the Issuer Mr. Maciej Korniluk and entrusted to him the function of the Vice-President of the Board (statutory announcement No 2/2018).

- On March 12, 2018, the Management Board of the parent company announced the conclusion of the agreement between the consortium of AGAT S.A. with its registered office in Koluszki and Nafrtoremont-Naftobudowa Sp. z. o.o. with its registered office in Płock, as the general contractor and the PERN S.A. with its registered office in Płock, as a Contracting party. Subject matter of the Agreement is: "The construction of storage tanks of the capacity of 2 x 32000 m3 with infrastructure in the Fuel Station No 2 in Nowa Wieś Wielka" and "The construction of the storage tanks of the capacity of 2 x 32000 m3 with infrastructure in the Fuel Station No 1 in Koluszki" (the "Task"). Compensation for execution of the task is PLN 130 000 000, while consideration for implementation of Tasks of Naftoremont-Naftobudowa Sp. z o.o. shall amount to PLN 65 000 000. The remuneration is paid in a lump sum. The remuneration shall be paid after the completion of the task phases determined in the contract. (regulatory announcement No. 10/2018).

- On February 21, 2018, the Management Board of the parent company reported that as a result of actions related to the implementation of the construction of the energy block in Kozienice power plant, under which previously diagnosed technical risks were diagnosed, procurement processes were optimised and review and settlement processes were improved with subcontractors and suppliers, as well as in connection with signing the handover protocol of the acquisition of the block to the operation on December 19, 2017, the Management Board of the Company, after an analysis in the process of closure of the accounts of the company for the year 2017, adopted a resolution to reduce the total cost of Kozienice project in the amount of PLN 42.3 million, which will lead to improvement in the net result of the Company in the same amount (regulatory announcement No 7/2018).

- On February 23, 2018, the Management Board of the parent company reported that as a result of consultation within the framework of the Consortium of the Company, Mostostal Warszawa S.A., Rafako S.A. and GE Power, which is the General Designer and acts as the leader of the Consortium managing the execution of the contract and performed analyses, new deadlines for commissioning units 5 and 6 in Opole power plant were determined. Declared changed dates of commissioning for use are May 31, 2019 for block 5 and September 30, 2019 for block 6 (regulatory announcement No 8/2018).

- On April 3, 2018, Mr. Antoni Józwowicz resigned from the position of President of the Management Board of "Polimex-Mostostal" SA (regulatory announcement No 18/2018).

- On April 4, 2018, the Supervisory Board adopted a resolution according to which it temporarily entrusted Mr. Przemysław Janiszewski with performing the duties of the President of the Management Board (regulatory announcement No 19/2018).

- On April 9, 2018 year the Management Board of the Issuer reported that, in the context of the regulatory announcement No. 14/2018 of April 4, 2018 of ENERGA S.A. and the regulatory announcement No. 17/2018 of April 4, 2018 of ENEA S.A. in relation to the settlement of the award of a public contract under the name of "The construction of Ostrołęka C Power Plant with a capacity of approx. 1000 MW", was completed further analysis related to the disclosed in the consolidated financial statements level of goodwill from consolidation allocated to operating segment energy ("Goodwill"). The results of the additional tests carried out by the Issuer indicate a loss of Goodwill in the amount of about PLN 191.5 million. In view of the above, the appropriate write-down of goodwill is included in the consolidated financial statements for the year 2017.

(Signatures of all members of the Management Board)			
Date	Name and surname	Position / Function	Signature
12.04.2018	Przemysław Janiszewski	acting President of the Board	
12.04.2018	Maciej Korniluk	Vice-chairman of the Management Board	

SIGNATURE OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS			
Date	Name and surname	Position / Function	Signature
12.04.2018	Sławomir Czech	Chief Financial Officer / Chief Accountant	